

THE RISK JOURNAL

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RISKS IN MEDICAL CARE, PART 4

Strategic and Financial Risks in Healthcare Organizations

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WHILE IT IS CERTAINLY important to recognize operational and clinical risks in healthcare settings, they are not the only risk management considerations these facilities face. Those managing medical care operations must also be mindful of and address strategic and financial risks.

Strategic risks include the reputational risk of the organization as well as its ability to adapt to change. Reputational harm, for example, can occur when a mistake in the delivery of health services influences whether consumers will use that provider in the future.

As noted on *The Patient Safety Company* website, "Patient safety errors can profoundly impact an organization's financial viability. At its core, a healthcare organization is a business that...needs revenue to survive. When a healthcare organization loses money due to lawsuits or patient leakage, it jeopardizes its ability to stay profitable."¹



Strategic risks include the reputational risk of an organization as well as its ability to adapt to change.

Managing the unexpected COVID-19 affected millions worldwide. More than three million Michiganders have contracted the virus and over 41,000 have died from it.

Many healthcare organizations struggled to adapt to meet challenges in treating people with a previously unknown virus that spread rapidly and was resistant to treatment.

In the early days of the pandemic, due to its unanticipated nature and the speed with which it developed, many healthcare providers ran short of beds and basic medical supplies like N95 respiratory masks.

Patient safety errors can profoundly affect an organization's financial viability.

The pandemic increased costs to many healthcare providers, negatively impacting their bottom line. It also disrupted supply chains worldwide, with impacts still being felt nearly three years after the first case of COVID-19 was detected in the United States.

Challenges spur innovation Many healthcare organizations facing challenges in providing non-COVID-19 health services have shifted to offering medical care through

telehealth, a practice that appears likely to become commonplace in the future.

While solutions such as telehealth present themselves out of necessity, it is wise to develop a strategic approach for longer term planning.

Strategic management in healthcare "is the process of defining the future of your organization, setting goals that will move you toward that future and determining major projects you'll take on to meet those goals." It also includes sustaining that strategy...over a period of three to five years."²

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¹ <https://www.patientsafety.com/en/blog/financial-impact-of-patient-safety-errors>

² <https://www.clearpointstrategy.com/strategic-management-in-healthcare/>

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A strategic planning tool

One method for developing an effective strategic plan is a SWOT analysis. According to *Forbes*, this helps identify:

Strengths. Strengths are internal positives about your organization that you can control and that often provide a competitive advantage. Examples are the quality of your product, the effectiveness of processes, and access to physical or team assets.

Weaknesses. A weakness is an adverse internal attribute that negatively takes away from your strengths. Examples include knowledge gaps on your team, low-quality product, lack of money or other tangible assets, or obsolete facilities and locations.

Opportunities. An opportunity is an external factor that is promising or likely to contribute to your potential success. Examples include the growth rate in your industry, specific laws or policies that will increase the need for your service, technology advancements, and positive customer feedback.

Threats. Threats are external factors over which you have no control. Examples include potential future competitors,



One survey found that up to 47 percent of U.S. healthcare workers plan to leave their positions by 2025.

supply costs, future market trends, negative technology changes, and upcoming regulations or laws.³ Typically, threats are acknowledged and a plan developed to overcome each one.

Addressing financial risks

A practical, cost-effective, and achievable strategic plan may also help minimize financial risks. These include the costs of malpractice claims, compliance and facility improvement costs, and equipment purchases.

Investmentpedia states that "Financial management includes managing routine financial operations like contracts negotiation... payroll [expenses], and [accessible] cash for costs that are unanticipated."⁴

Malpractice Research.com reports that in 2020, there were 244 medical malpractice payments made in Michigan,

Conducting a SWOT analysis can reveal ways to improve staffing, patient care, clinical operations, facilities, and capital purchases.

with an average payment of \$230,395.⁵

Malpractice payments not only impact an entity's reputation, but can also wreak havoc on an organization's financial health.

Another financial risk for entities that provide medical care in jails is that of deliberate indifference—claims that a jail failed to provide appropriate medical care to inmates. R. Davis of Barkan Research states: "Prisoners are entitled to medical care because the Eighth Amendment of the United States Constitution prohibits cruel and unusual punishment for prisoners."⁶

Serious staffing challenges

Several MMRMA members are community mental health (CMH) organizations. The Community Mental Health Association of Michigan—which represents 46 CMH boards, 10 prepaid inpatient health plans, and over 90 providers of services for mental health, substance use, and developmental disabilities—estimates that in 2018, over 350,000 persons received services from Michigan's community-based mental health and substance use disorder system.⁷

Many healthcare organizations, especially those that are smaller or located in rural areas, struggle to attract and retain talent. According to *Forbes*, one survey revealed that up to "47% of U.S. healthcare workers plan to leave their current role" by 2025.

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³ <https://www.forbes.com/advisor/business/what-is-swot-analysis/>

⁴ <https://www.investmentpedia.org/financial-challenges-in-healthcare/>

⁵ <https://malpracticeresearch.com/states/Michigan>

⁶ <https://barkanresearch.com/deliberate-indifference-prison-medical-care/>

⁷ https://www.house.mi.gov/hfa/PDF/HealthandHumanServices/DHHS_Subcmte_Testimony_CMHABehavioralHealth_PresentationA_Bolter_2-27-19.pdf

Growing Popularity of Electric Vehicles Poses New Risks

by Phil Kamm, ARM
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AS TECHNOLOGY CONTINUES to bring changes in our everyday lives, even more emerging risks are related to these advancements. In the case of electric vehicles (EV), providing a safe and effective response to accidents or a fire is an accelerating area of risk.

EVs are big business

Investopedia reports that General Motors, Ford Motor Company, and Toyota plan to invest a combined \$79 billion in electric and autonomous vehicle development.¹ This investment will include improving battery technology, upgrading facilities, and manufacturing electric vehicle components.

Drivers everywhere can anticipate sharing the roadways with many more EVs in the future. As of July 2022, more than two million electric vehicles had been sold in the United States. Michigan has registered over ten thousand EVs, representing 0.13 percent of all registered vehicles.

According to stacker.com, Michigan's 834 EV charging stations rank 19th among U.S. states.²

Emergency response

Several organizations focused on emergency response are paying close attention to the



Electric vehicles pose new risks such as thermal runaway and stranded energy.

proliferation of EVs, including the Federal Emergency Management Agency (FEMA), the National Fire Protection Association (NFPA), and the International Association of Fire Chiefs (IAFC). All recognize the potential risks in EVs, and say minimizing injury is a top priority.

FEMA reports that the risks lithium-ion batteries pose to responders include electric shock, thermal runaway, battery ignition and re-ignition, and stranded energy. As FEMA states: "Electric vehicle design is different for various makes and models. For safe and effective vehicle extrication, rescue and fire suppression, responders need practical and accurate emergency response

guidance specific to the unique features of each electric vehicle."³

Thermal runaway explained

United Laboratories (UL) explains that "Thermal runaway is one of the primary risks related to lithium-ion batteries. It [occurs] when a lithium-ion cell enters an uncontrollable, self-heating state. Once underway, thermal runaway cannot be stopped until all fuel in the battery cell is consumed."⁴

Thermal runaway can result in:

- > Ejection of gas, shrapnel and/or particulates (violent cell venting)
- > Extreme high temperatures
- > Toxic smoke
- > Intense fire

UL adds: "When its temperature rises at a rate greater than 20° Celsius [68° Fahrenheit]

Michigan ranks 19th among U.S. states for availability of vehicle charging stations. California and Hawaii lead the nation in the total number of electric vehicles.

per minute, the cell has reached thermal runaway."

Stranded energy defined

The National Fire Protection Association defines stranded energy as "the energy remaining in a cell after efforts to safely discharge the stored energy in damaged lithium-ion cells," which it flags as an unresolved issue. "Residual, stranded DC [direct current] energy in damaged lithium-ion batteries presents a significant fire and shock hazard—particularly to emergency responders."⁵

Because of the serious risks posed by electric vehicles' lithium-ion batteries, the NFPA maintains a collection of Emergency Response Guides from more than 35 alternative fuel vehicle manufacturers.

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¹ <https://www.investopedia.com/investing-in-electric-vehicles-and-green-transportation-5220604>

² <https://stacker.com/michigan/see-how-many-electric-vehicles-are-registered-michigan>

³ <https://www.usfa.fema.gov/blog/ig-062322.html>

⁴ <https://ul.org/research/electrochemical-safety/getting-started-electrochemical-safety/what-thermal-runaway>

⁵ <https://www.nfpa.org/Training-and-Events/By-topic/Alternative-Fuel-Vehicle-Safety-Training/Emergency-Response-Guides>

Electric Vehicle Risks, continued from page 3



In February, the Michigan International Auto Show, now held in Grand Rapids, showcases the latest models from over 35 manufacturers, along with futuristic concept vehicles. The Million Dollar Motorway features exotic cars priced at more than \$100,000; cars from the Gilmore Car Museum, located north of Kalamazoo, are also on display.

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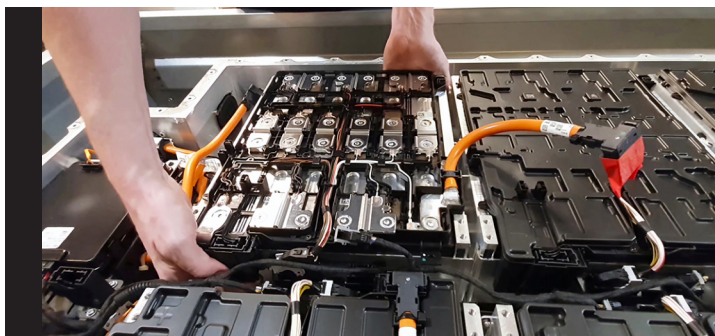
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Member experts weigh in

Recently, MMRMA's Fire & EMS Risk Control Advisory Committee began developing model risk guidelines for EVs. Committee members are gathering detailed information about EVs, including:

- > Designs of EVs and lithium-ion batteries
- > Where batteries are located in different models of EVs
- > A national color reference for high-voltage cables
- > Industrywide energy disconnect adjuncts
- > Cell block technology.

The committee views an EV incident as one that requires an extended period of time on scene. EV incidents generally require 1–3 hours to safely abate any associated hazards. If water is needed to extinguish a fire or avoid thermal runoff, 2,000 to 10,000 gallons may be required to mitigate the threat. First responders must wear full personal protective equipment and avoid EV-produced vapor clouds for the entire callout.



MMRMA is working to better understand electric vehicle risks and share best practices with members.

The committee is researching the tools responders need to extinguish lithium-ion battery fires, particularly when auto accidents occur, and methods to extricate passengers quickly and safely.

Other considerations include:

- > Developing standardized practices for EVs
- > How to recover EVs that are submerged
- > Factory fires in EV manufacturing facilities

- > Safe storage of battery power backup systems in residential homes
- > Visual indicators that alert first responders when EVs are energized and must be powered off to avoid sudden acceleration or movement.

Electric vehicles may one day surpass gasoline-powered vehicles to become the majority of vehicles on Michigan roadways. MMRMA seeks to better understand EV risks and share knowledge and best practices related to this emerging area of exposure. Watch for these resources in the MMRMA member portal of mmrma.org in the coming months.

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Methods of controlling risk

Providers can address financial risk by identifying cost-effective ways to deliver sound medical treatment services in order to avoid malpractice claims.

Bringing in financial advisors to evaluate budgets and review purchasing decisions may also promote financial soundness.

Other options include financial risk sharing between payers and providers, between payers and patients, or between providers and patients. To address supply challenges, facilities can increase inventories or conserve resources.

As they address these complex risks, providers are also seeking relief from unfunded mandates, an increase in Medicaid rates to reflect the true cost of services, and changes to financial structures that allow them to hold sufficient reserves.