

Public Focus

May 2024



The Governance Institute

NASA and SpaceX: Observations for Public Hospitals

By Chris Benson, Executive Director, and Rex Burgdorfer, Partner,
Juniper Advisory

NASA has been a pioneer in space exploration since its founding in 1958.

As a government agency, NASA led America's race to space by conducting groundbreaking missions such as the Apollo moon landings and the Mars rover expeditions. Backed by government funding, NASA has a tradition of thorough oversight, rigorous planning, and extensive testing.

In contrast, SpaceX, a private company founded by Elon Musk in 2002, represents a more agile and commercially oriented approach to space exploration. SpaceX operates with a focus on efficiency, innovation, risk management, and cost-effectiveness. With a culture closer to a Silicon Valley startup, SpaceX embraces rapid iteration, disruptive technologies, and ambitious goals. SpaceX's achievements have reshaped space exploration including through the development of reusable rocket technology.

There are valuable lessons that can be gleaned from SpaceX's approach and applied to the nearly 25 percent of U.S. hospitals that are government-owned. These hospitals, serving communities big and small across the nation, face a unique set of challenges and opportunities. This article examines the strategies and philosophies driving SpaceX's success and uncovers insights for senior leaders and boards navigating the complex environment ahead.

Governmental Hospitals

Of the nations' approximately 4,000 acute care hospitals, nearly 1,000 are government controlled. The range of state, city, county, district, hospital authority, and political subdivision hospitals is wide with an equally diverse range of governance models. These span from direct control by appointed or elected directors with decisions overseen by government entities to more decentralized approaches with minimal involvement. Additionally, some hospitals operate under lease arrangements with community 501(c)(3) organizations, while others are wholly owned and managed by single government entities.

Scale Matters

In the 10 years following its first launch in 2006, SpaceX made a total of 25 launch attempts. Fast forward to 2023 and they launched an incredible 98 times in one year alone. From the start, SpaceX focused on developing a platform to allow for dramatic gains in launch frequency and lower costs by spreading fixed costs. Musk is reported to have a maniacal focus on cost and will often bring key component manufacturing in-house when on-the-market options are deemed too expensive. This kind of approach only works at scale.

Scale plays a crucial role in healthcare given its impact on efficiency, resources available for quality care, and financial sustainability. Large operations enable hospitals to benefit from economies of scale and spread fixed costs across a higher volume of patients and services. This often translates into lower costs per patient, increased purchasing power for supplies and equipment, and greater negotiating leverage. Moreover, scale can facilitate the implementation of advanced technologies, specialized medical services, and comprehensive care programs, enhancing the overall patient experience and outcomes.

Unfortunately, public hospitals may encounter challenges in achieving and maintaining scale. Most public hospitals, as a reflection of the geography of their ownership, operate independently and without integration into larger healthcare systems. Consequently, these hospitals often struggle to compete with system-affiliated institutions in terms of operational efficiency, breadth of services, and financial stability. Gradually these more isolated hospitals run the risk of falling behind in key areas including information technology, patient experience, and advanced clinical care. These deficiencies can produce a difficult spiral as patients exercise choice and migrate out for care, further enhancing the local resource challenges.

Structure Matters

NASA and SpaceX represent contrasting organizational types and approaches to decision making. As a government agency, NASA operates under a hierarchical organizational structure with multiple layers of management and bureaucracy. This can sometimes result in slower decision making and a more risk-averse culture, as projects must navigate through various levels of approval and oversight. In contrast, SpaceX operates with a flat organizational structure and a focus on agility and innovation.

Fragmented public hospitals can face difficulty based on their structure and the nature of their relationship with their government owners. In the most extreme examples, the hospital may be susceptible to political interference, with decisions regarding resource allocation and management influenced by political considerations rather than clinical priorities and long-term financial stewardship. This can undermine the hospital's ability to operate efficiently and effectively serve its patients. Elected board members may have competing interests. A strong example of this recently occurred in California when a district hospital created and engaged a non-profit management services organization solely to provide distance between a historically challenging board dynamic and the executive team.

Identity Matters

NASA was born out of the nation's desire to win the space race at all costs and was purpose-built for the complex tasks and challenges it would take to succeed. SpaceX's identity is both a strong reflection of its visionary founder and his stated goal to colonize Mars. To achieve this vision requires a relentless focus on scaled operations and taking calculated risks.

Public hospitals have clear identities and missions naturally defined by the geography of the government division involved be it a district, municipality, county, or otherwise. This identity may unintentionally limit strategic innovation and undertaking ventures that require expanded partnerships and combinations. Taking risk with taxpayer funds to potentially benefit your own community is a natural part of business. Endeavors requiring cooperation and investment with the next town or city over may be questioned by the taxpayers given the expanded risk.

One area where this may become evident in the near future relates to value-based care. CMS has set a goal of having 100 percent of traditional Medicare beneficiaries and the vast majority of Medicaid beneficiaries in accountable care relationships by 2030. In order to operationalize this vision, most organizations will need to evolve to successfully

CMS has set a goal of having 100% of traditional Medicare beneficiaries and the vast majority of Medicaid beneficiaries in accountable care relationships by 2030. In order to operationalize this vision, most organizations will need to evolve to successfully participate and thrive.

participate and thrive. Accepting financial risk under the model may prove difficult as the pandemic showed some governmental sponsors were not ready to cover potential financial losses.

Conclusion

Governmental ownership represents a significant segment of U.S. hospitals, and many of the facilities face a unique set of operating and governance challenges. Boards, senior leaders, and government sponsors should proactively assess their structures, decision-making processes, and risk assumptions to ensure they are not compromising long-term aspirations.

Key Board Takeaways

Boards and leaders of governmental hospitals are wise to consider the unique organizational challenges inherent to their ownership and take steps to mitigate these factors. Specific areas for focus include:

- Seek out opportunities to partner and collaborate to help achieve the benefits of scale.
- Attempt to reduce political influences that favor short-term wins over long-term sustainability and success.
- Proactively streamline decision-making processes to allow for operational and governance flexibility.
- Regularly ensure the governmental owner is aware of the macroeconomic forces at play in the healthcare industry.
- Change before it is necessary. Understand and confront financial and operational challenges in order to retain flexibility.

TGI thanks Chris Benson, Executive Director, and Rex Burgdorfer, Partner, Juniper Advisory, for contributing this article. They can be reached at cbenson@juniperadvisory.com and rburgdorfer@juniperadvisory.com.

