

# Standalone Hospitals: Making the Most of Alliances

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Hospitals large and small are embroiled in conversations about alliances. Larger systems are looking for opportunities to expand, and smaller, standalone hospitals are considering relationships with systems, medical groups, or other hospitals. The reasons vary: access to capital, sharing infrastructure costs, assistance with new payment models, and filling specialty or other medical resource needs are among the most common. Too many times, though, the lofty potential identified in initial discussions between parties ends up either going nowhere or worse, ends in disappointment or unfruitful relationships. Consider the following as your organization thinks about whether an alliance or other type of relationship with another provider makes sense, and if so, how to make the most of the relationship to ensure that your goals are fulfilled successfully.

## Know Thyself

As with any new initiative, it is critical that your organization be clear about its vision and current situation. As a smaller hospital or critical access hospital (CAH), resources are especially precious—including management's time and attention. Evaluating either potential or current alliances through a screen of what your organization's needs are is crucial. Having a clear sense of the financial, strategic, clinical, and operational gaps that could be filled through an alliance with another provider is a question that management, and ultimately the board, must answer. For example, if physician recruitment is the primary concern, that will drive the evaluation of potential partners, which could include larger medical groups, a system in a neighboring community, or even a health plan. A focus on evolving to new payment models such as shared savings/accountable care may yield a different set of possible partners.

Don't forget about the strengths your organization could bring to the relationship. This could include community reputation/relationship with the medical community and community services, strong primary care network, funding as a CAH or rural health provider, as well as others that the board identifies. A sound footing of clarity on the organization's strengths

and weaknesses, as well as strategic aims will help guide decision making throughout the process.

## Clarify Expectations

Once you have articulated what the organization *needs*, it is important to determine expectations from both parties. For example, what degree of control do you/your partner want on certain decisions? What degree of integration is desired/expected of both parties? This could include integration of clinical and/or operational processes, management structures, information sharing (financial, clinical, operational), and even facility use. Determining the financial terms is often a focus of discussion (e.g., capital commitment, management fees, funds flow in the case of gains/losses), and is fundamental, but don't forget about the cultural fit and communication required to make the relationship work. In other words, the board should expect that a complete business plan that includes financial projections as well as operational, strategic, and clinical implications be prepared and accepted by both parties.

## Consider the Type of Affiliation

The range of affiliation options can include forging a relationship for clinical service coverage up to a full merger or acquisition. The form that the affiliation takes must fit the goals as well as the mutual expectations and needs of both organizations. Many rural facilities require the backup of full-service hospitals to provide coverage for trauma or other specialty services. There may be additional opportunities to broaden these relationships through participation in bundled payment initiatives or other clinical service line strategies. When considering the next step in an affiliation (e.g., support for population health management or administrative infrastructure support), be sure that the partnership you are forging is supported by your medical staff and reinforces or enhances your organization's brand and reputation. Many organizations today are establishing "clinically integrated" relationships with accountable care organizations (ACOs) or health systems to enable participation in new payment models. When considering the expansion of outpatient or diagnostic services, think about the options of joint venturing with either specialty companies (e.g., for outpatient

## Key Board Takeaways

In this age of consolidation across the health-care industry, most boards consider one form of affiliation or another with increasing frequency. These affiliations can be extremely beneficial or sidetrack the organization's progress, depending on the strategic, clinical, operational, and cultural fit as well as the level of commitment to a defined set of goals. Key takeaways for consideration include:

- Ensure that your organization has a clear sense of its strategic, clinical, and management priorities and needs, and how an affiliation would help meet them.
- Be clear about both your organization's and your prospective partner's expectations about a relationship—is there alignment?
- Consider a range of possible structures for the affiliation—determine whether you want to "grow into" a broader, more integrated relationship, or jump right in.
- In addition to financial and strategic considerations, ensure that your discussions include the implications to patient care and the patients you serve—how will the relationship enhance patient care and how will it affect the patient experience?
- Once a relationship is forged, review progress on achieving the goals you set out to accomplish—is it achieving what you expected, and if not, what actions need to be taken to rectify that?

surgery centers or urgent care centers) or a larger health system to provide capital and/or management expertise. The bottom line is, there are many "flavors" of affiliation options that can be considered that don't have to include a full merger.

## What About the Patients?

Many affiliation discussions become consumed with issues such as governance, control, financial obligations, and operational considerations. The most successful alliances in the long-run, though, also pay close attention to the impact on patients. How will clinical information be shared among providers so that patients receive consistent advice and follow-up care? Will there be cultural or geographic barriers to patients receiving care at an affiliated provider? In some regions, weather, long distances, or frequent road closures mean that more creative solutions, such as

telemedicine, may be necessary to facilitate access to needed clinical services. The traditional referral relationships between physicians should be considered in establishing the affiliate partner. Changing referral patterns is like learning to write with your other hand—the failure rate is high unless there is strong motivation to stick with it.

### **Think About the Future**

Sometimes affiliations are pursued to solve an immediate problem (e.g., physician shortage, lack of coverage, financial shortfall). Think about where this affiliation might lead over time. Will there be opportunities to expand the relationship, and if so, is that desired or not by your board and management team? What is the likely long-term commitment of your potential partner? Is it dependent on a single person

(i.e., CEO or clinical leader), or is there broad-based organizational commitment? The more informal or less integrated the relationship is, the easier it is to get going, but also the harder it is to rely on long term. Depending on your goals, that may be fine—just be sure that you are aligned with your partner on both the short-term and long-term aspirations.

### **Be Cautious of Having Too Many “Dates”**

As a smaller facility, there may be many reasons to establish relationships with larger organizations, or even peer group facilities. In some cases, this could lead to a potpourri of affiliations (one for physician resources, one for purchasing, one for population health, etc.). While not a fatal flaw, it can limit the ability to optimize the effectiveness

of your affiliate relationship(s). It can also be quite distracting or confusing to your management and clinical teams.

Entering into relationships with other organizations, particularly in these challenging times, must be carefully planned, astutely negotiated, and deliberately monitored to ensure that the goals you identify at the outset are achieved successfully. Don't be afraid to streamline your relationships and “pick” a partner if it will mean realizing your organization's vision and meeting the community's healthcare needs. ●

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