

Strategic M&A for Rural Hospitals: From Barely Surviving to Clinically Thriving

By **Hector Torres**, Managing Director, and
Amit Payan, Vice President, *FocalPoint Partners, LLC*

COVID-19 catalyzed positive, albeit disruptive, changes in what has been a historically “slow to embrace change” U.S. healthcare industry. The pandemic also shed light on many aspects of the domestic healthcare delivery model that reflected antiquated practices that desperately needed to evolve. The digital revolution happening all around us finally manifested itself in healthcare through telemedicine and other virtual means aimed at expanding patient access to care. Hospitals in urban areas with ample resources and infrastructure benefited during this period by being better equipped to adapt to what were systematic shifts in the delivery of healthcare services across the U.S. Yet, these innovations did not manifest equally across all acute care providers; hospitals in rural settings found themselves lacking the resources required to adapt both clinically and technologically.

Rural hospitals have historically faced steeper challenges than their urban hospital counterparts, stemming in part from having to provide care for nearly 20 percent of the U.S. population with only a small fraction of the financial, technological, and human capital resources urban hospitals and health systems have benefited from.¹ In many ways, COVID-19 exacerbated this dynamic, further compounded by the fact that rural hospitals have historically faced declining patient populations, worsening economic conditions, and persistent shortages of clinicians.² Many rural

What's Inside:

- **Strategic M&A for Rural Hospitals: From Barely Surviving to Clinically Thriving**
- **The Russian Invasion of Ukraine: Potential Governance Implications for Healthcare**
- **A Story Rewritten**

1 American Hospital Association, “Fast Facts on U.S. Hospitals, 2021.”

2 George H. Pink, et al., “Geographic Variation in the 2016 Profitability of Urban and Rural Hospitals,” Findings Brief: NC Rural Health Research Program, March 2018.

hospitals were unable to fully deploy and subsequently benefit from the shift to telehealth relative to non-rural hospitals during the height of the COVID-19 pandemic due to insufficient funding to build and/or upgrade the key infrastructure critical to deployment of virtual care. While today many rural hospitals face declining performance and an unsustainable care delivery model, a small but growing cohort of these rural players have utilized M&A as a strategy to achieve long-term sustainability overall.

→ Key Board Takeaways

As boards of rural hospitals further explore the viability of M&A as a potential strategic alternative to ensure long-term clinical and financial sustainability, they should consider the following:

- What challenges are we currently facing that could potentially be solved by a merger or acquisition? Rural hospitals have typically faced much stronger headwinds and operational challenges than their urban counterparts, with the COVID-19 pandemic serving to amplify this historical dynamic.
- Could pursuing a merger or acquisition lead to improved care and outcomes for our community? M&A can certainly support improved financial performance for rural hospitals joining larger urban hospitals and/or health systems, but a recent study now provides for substantive empirical support that mergers and acquisitions of rural hospitals are also associated with better mortality outcomes for certain conditions as compared to rural hospitals that remained independent.
- Can we successfully serve patients well into the future without partnering? While not a one-size-fits-all solution set, the pursuit and consummation of a merger or acquisition between a rural hospital and a larger, more well-capitalized hospital or health system can provide for long-term sustainability through enhanced scale, streamlined clinical services, improved patient outcomes, increased access to capital, implementation of technology infrastructure and related best practices, and even access to higher-margin value-based care programs and related initiatives.

M&A As a Strategic Alternative for Rural Hospitals

It is well known that M&A can improve rural hospital financial performance; however, a long unanswered question has been how, if at all, are care quality and patient outcomes impacted by M&A as a strategic alternative for rural hospitals? Understandably, many rural hospitals have long been hesitant to explore M&A, in large part due to the desire of not wanting to potentially risk diminishing the quality of care provided to their communities.

A recent article published in *JAMA Network Open* discusses an analysis of quality of care for patients at rural hospitals that merged compared to those that remained independent.³ The study compared 172 rural hospitals that underwent a merger or acquisition against 266 rural hospitals that remained independent. After controlling for factors relating to the characteristics of the patients, hospitals, and communities, the researchers found a “significantly greater” reduction in inpatient mortality for several conditions—including acute myocardial infarction, heart failure, stroke, and pneumonia—among patients admitted to the merged and acquired hospitals as compared to the independent hospitals. Improvements in mortality rates for acute myocardial infarction were the greatest in the first four years after the transaction, which could be a result of a transfer of technology and expertise from the larger “acquirer” system.⁴ Improvements in mortality rates for heart failure, stroke, and pneumonia typically occurred three to five years after the transaction, which the authors indicated was consistent with research regarding complexities in adopting quality improvement approaches. The study’s findings concluded that mergers and acquisitions of rural hospitals are associated with better mortality outcomes for certain conditions as compared to rural hospitals that remained independent. This is important evidence of the value that mergers between rural hospitals and acquisitions of rural hospitals by larger systems can bring to patients in those communities.⁵ The study further concludes that M&A resulted in enhanced rural healthcare, as the participants were able to close the gap between disparities in the quality of care between rural and urban settings across key clinical areas.

3 H. Joanna Jiang, et al., “Quality of Care Before and After Mergers and Acquisitions of Rural Hospitals,” *JAMA Network Open*, September 2021.

4 *Ibid.*, p. 3.

5 *Ibid.*

Rural Hospital M&A's Criticisms Revisited

Hospital M&A has historically faced criticism from payers, regulators, and others who allege that acute hospital consolidation results in higher prices and lower quality of care. Many of these historical claims are not applicable to the rural acute care setting. For example, given that most rural hospitals are typically the only acute care facility in their community, the pursuit of a merger with a larger clinical enterprise would not necessarily lead to greater market consolidation. Further, a merger or acquisition is oftentimes the only available lifeline for an independent rural hospital that provides critical services for its community. From an upside perspective, potential benefits of M&A for rural hospitals include access to much-needed financial resources (e.g., growth and working capital), clinical expertise (e.g., specialized services), and new technologies (e.g., electronic health records).⁶

An analysis of the study cited above, combined with the historically proven benefits derived from enhanced clinical integration, size, and overall operational scale collectively reinforce the merits of M&A as a potential solution set for rural hospital sustainability. As such, the following five potential attributes should be carefully considered by rural hospital boards and leadership teams when contemplating M&A as a potentially viable pathway, each of which are stratified across both clinical and financial benefits to the rural hospital joining a larger acute care health system enterprise:

1. Enhanced overall organizational scale:

- *Rural hospital clinical impact:* Access to enhanced and/or higher quality clinical services, capabilities, clinical providers, and medical supplies and/or infrastructure.
- *Rural hospital financial impact:* Opportunities for revenue synergies via access to new acute care and/or ancillary clinical services, while simultaneously realizing operating expense synergies through group purchasing, lower overall cost of capital, and enhanced overall organizational bargaining power.

2. Streamlined and/or consolidated clinical service lines:

- *Rural hospital clinical impact:* Targeted focus on enhancement of key local-level clinical service line capabilities, with ability to access enhanced clinical services, capabilities, and overall clinical outcomes through redirection of patients towards alternate sites for specialized, higher-acuity clinical care.

6 David M. Cutler and Fiona Scott Morton, "Hospitals, Market Share, and Consolidation, *JAMA*, November 2013; pp.1964–1970.

- *Rural hospital financial impact:* Streamlined clinical service footprint at the local rural hospital level will rationalize spend on higher-acuity clinical cases and/or providers, thus enhancing financial performance overall.
3. **Increased access to working capital:**
 - *Rural hospital clinical impact:* Better clinical equipment, resources, and related infrastructure, along with the ability to recruit and retain top clinical provider talent.
 - *Rural hospital financial impact:* Flexibility, financial support, and continued reinvestment in people, processes, and the physical plant to adequately weather short-term financial fluctuations, while creating for a more durable and sustainable financial position overall.
 4. **Shared new technologies and associated infrastructure:**
 - *Rural hospital clinical impact:* Increased patient access to clinical care and enhanced overall throughput via access to best-in-class technology infrastructure, telemedicine, and related capabilities.
 - *Rural hospital financial impact:* IT implementation cost savings realized through economies of scale, as well as improved overall financial performance via cost-sharing and/or subsidization of “high ticket” purchase elements such as EMR, telemedicine, and related infrastructure elements.
 5. **Access to alternative reimbursement models:**
 - *Rural hospital clinical impact:* Ability to improve clinical outcomes, while reducing overall cost of care through participation in value-based care programs.
 - *Rural hospital financial impact:* Bolstered financial performance through participation in higher margin value-based care incentive programs that both enhance profitability and reduce organizational waste.

Conclusion

Unlike much of the merger and acquisition activity that took place over a decade ago, in which financial outcomes were perhaps the only measure of post-transaction success, recent activity and investor sentiment reflects recognition of the critical interdependence between both clinical and financial outcomes as it relates to the acute care setting. Optimized outcomes for acute care providers of all sizes and types can be realized when both hospital and health system leadership and providers are working collaboratively to advance the quality of care and clinical outcomes, while simultaneously striving toward financial sustainability in parallel. Given the nuances, challenges, and unique dynamics of rural healthcare, it is even more critical for rural

hospital boards and leadership to consider how a strategic partnership, affiliation, and/or M&A transaction may advance their organization's mission, while simultaneously ensuring the long-term sustainability of the essential healthcare services being delivered to the community at large.

The Governance Institute thanks Hector Torres, J.D., M.B.A., Managing Director, Healthcare Investment Banking, and Amit Payan, CPA/ABV, Vice President, Healthcare Investment Banking, FocalPoint Partners, LLC, for contributing this article. They can be reached at htorres@focalpointllc.com and apayan@focalpointllc.com.



The Russian Invasion of Ukraine: Potential Governance Implications for Healthcare

By **Kathryn C. Peisert**, Managing Editor, *The Governance Institute*

There are times when healthcare boards need to take into consideration the potential of global impacts on their organization. The COVID pandemic resulted in supply chain breakdowns along with labor shortages and significant financial impacts.

Now, while our members are still working diligently to care for COVID patients with too few caregivers and resources, and trying to see an end to the pandemic, we are coming to the realization that the situation in Ukraine has the potential to impact some of our healthcare organizations at home.

Healthcare organizations may already be including global considerations in their enterprise risk programs including supply chain, labor market gaps, healthcare disparities, climate change, and infectious diseases. Now is a time when boards may need to act with more urgency around these issues, in addition to the following challenges related to the current global environment, and how they will impact the organization's mission, strategy, financial situation, workforce, and community.

Increasing Cyber Risk

In response to evolving intelligence that Russia may be exploring options for cyberattacks against the U.S., the White House and Cybersecurity and Infrastructure Security Agency (CISA), along with the Federal Bureau of Investigation (FBI) and National Security Agency (NSA) and others, continue to encourage organizations to consider strengthening their cyber security readiness.¹

The Department of Homeland Security issued a letter to members of NACD on February 25th recommending the following:

- 1 From the Illinois Hospital Association Daily Briefing, March 23, 2022. The following resources were included for reference: [CISA Alert: Understanding and Mitigating Russian State-Sponsored Cyber Threats to U.S. Critical Infrastructure](#) (January 11, 2022) and the Web site: www.cisa.gov/shields-up; The White House, [Statement by President Biden on our Nation's Cybersecurity](#), March 21, 2022.

- **Empower your CISOs:** security leadership should be involved in the decision-making process; ensure that the entire organization understands that security investments are a top priority in the immediate term, and align cyber defenses to those threats most likely to cause material business, financial, and operational harm (and systems supporting those critical business functions).
- **Encourage senior management to lower thresholds for reporting incidents:** the board may counsel senior management to establish an expectation that any indications of malicious cyber activity, even if blocked by security controls, be reported for the time being.
- **Plan for a worst-case scenario:** boards should expect their senior management team to ensure that exigent measures can be taken to protect the organization's most critical assets, including disconnecting high-impact parts of the network if necessary.

Humanitarianism

CEOs and senior leaders will be looking to the board to help them determine to what degree your organization needs to publicly address the crisis. Considerations include:

- Does this situation have a direct impact in your community (e.g., are there Ukrainian or Russian people in your community who have ties to their countries or family members there who are in danger/suffering)?
- Are there people on your workforce who might be impacted, either directly through a family member or is this adding to the already difficult emotional toll your workforce is bearing?
- ESG: Does your organization have investment portfolios that might be impacted by this? What are the moral implications that need to be considered, as well as financial?

How Boards Can Help

In the immediate term, the most important thing for boards to do is begin the discussion with your senior leadership team, and then keep that communication door open. How does this impact strategic opportunities and the organization's mission? What support does your management team need right now? Let them know you are there for support and ready to provide input and suggestions. Also, the board sets the tone from the top, as we are all well aware. Consider what role the board should play in internal communication to acknowledge the situation and provide an opening for physicians, nurses, and staff to begin having discussions with their team. There

may need to be more support given to those who are responsible for identifying people who are in need of emotional support. Finally, there may be a reason for issuing a public message from the CEO to the community, to acknowledge those who may be directly impacted and offer support as appropriate.

References:

Michael Peregrine, [“The Globalization of Corporate Governance,”](#) *Forbes*, March 13, 2022

Michael Peregrine, [“The Potentially Profound Implications of Ukraine for Corporate Governance,”](#) *Forbes*, February 23, 2022



A Story Rewritten

By **Amelie Karam**, Millennial Specialist—Generational Speaker and Consultant

The past few years have been challenging for people personally and professionally. Recent events, including the ongoing COVID-19 pandemic, extreme labor shortages and supply chain issues, 40-year high inflation, Russia and Ukraine turmoil with fear of international escalation, high crime rates, and concerns at the United States borders, have all been contributing factors.

How should companies, where individuals spend the majority of their time, assist their human capital as they work through these challenging times? To start, leaders at hospitals and health systems can reach out to the workforce at a personal level to help ensure their organization's culture remains positive in these less-than-positive, challenging times.

Employees want to feel heard, seen, relevant, and valued at work. These feelings have always been important in the workplace—and are now more critical than ever. The COVID-19 pandemic spotlighted certain roles and industries and pushed employees to consider their workplace contributions. At the onset of the pandemic, healthcare industry workers quickly surfaced as very valued essential workers. This pressure, in addition to staying healthy and strong—physically, mentally, and emotionally—was a test for medical professionals and also provided the world with an incredible snapshot of everyday heroes.

Now that the pandemic is a part of everyday life, it is important for hospital and health system leaders and boards to be aware of the ongoing needs of their employees. Understanding the different perspectives and embracing the uniqueness of employees can help strengthen the overall culture of an organization: a healthier workplace positions a company to create healthier, more resilient employees. This article highlights steps boards and senior leaders can take to better understand and empathize with the workforce and ultimately build a culture of resiliency.

1. Recognize That Everyone Has a Story

An individual's perspective is the driving force that shapes his or her decisions and character. Each person is impacted differently from life-changing events, and each

generation is marked and impacted by the life-defining moment(s) that happen in their adolescence. A few examples of these generational events include:

- Baby Boomers: The assassination of John F. Kennedy and Martin Luther King Jr. and the Vietnam War
- Generation X: High divorce rates and the Challenger explosion
- Millennials: September 11th and the rise of social media
- Generation Z: Mass shootings and the Great Recession

These events impacted each adolescent within the respective generation, changing their perspectives and stories. But what about those personal events that happened in someone's life? It is easy to think that age dictates someone's life experience. That is not only for those who have lived a long life but for everyone who has had impactful moments that changed their views on the world. **Each one of us has a story.** From an organization's newest hire to the employee about to retire, each person has experienced moments in their life that have changed their views. **We all have a story.** It has always been important for leaders to be aware of other people's stories and how their experiences may impact who they are and how they act, but with the current workforce challenges in healthcare, it is even more critical today. The leadership team should get to know employees and hear their stories. It could forever change their working relationship and the culture of the organization—hopefully for the better! Boards can also benefit from inviting employees to the boardroom to share their stories so they too can get a better understanding of the hospital or health system's workforce.

→ Key Board Takeaways:

- When tackling workforce challenges, consider the diverse perspectives of employees throughout the hospital or health system.
- Recognize that everyone has a story. Encourage employees to share their stories with leadership, and even invite them into the boardroom to gain a better understanding of the organization's workforce.
- Work with management to address compassion fatigue and burnout at your organization. Ask about employee satisfaction levels, turnover rates, and steps currently taken to prevent burnout.
- Set the tone from the top—support and lead the organization in building a resilient, healthy workforce.

2. Acknowledge How COVID-19 Changed Us

The pandemic impacted all of us. Whether you or a loved one contracted the virus, lost a loved one, became a homeschool teacher for your children, were forced to change previously planned events, or maybe were able to slow down for the first time in years, COVID-19 changed us all. Remember, COVID-19 is now **part of our stories**. Don't discount the impact it has had on the hospital or health system's workforce or yourself. Have leaders at your organization asked employees how they are faring personally and professionally? If not, they should. Their responses may be surprising.

It is important for boards and senior leaders to be cognizant of COVID-19's impact on employees. Understand how those changes shifted the perspective of team members and how they have changed since the pandemic began. As leaders, creating opportunities for employees to share their stories and perspectives is a great way to create an open workplace.

3. Compassion Fatigue and Burnout Is Real

According to a Medscape survey, 79 percent of healthcare workers say that they were feeling burnout prior to the pandemic; however, compassion fatigue and burnout in healthcare employees is currently at an all-time high due to the pandemic.¹ Great leaders provide not only a safe and healthy workplace but are aware of challenges employees may be facing and provide the appropriate resources. Some common signs of compassion fatigue and burnout that may be evident include chronic exhaustion, reduced empathy and sympathy, feelings of anger, dreading work, poor job satisfaction, hypersensitivity, poor work-life balance, and difficulty sleeping.

Healthcare boards can gain a better understanding of compassion fatigue and burnout at their organization and how it is being addressed by asking management questions such as:

- What is the leadership team currently doing to prevent compassion fatigue and burnout?
- What does employee satisfaction look like at our organization?
- How does the turnover rate of employees leaving our organization compare to others?

1 *Death by 1,000 Cuts: Medscape National Physician Burnout and Suicide Report 2021.*

Spend time asking the right questions and reflecting on the level of compassion fatigue and burnout at the organization.

4. Encourage Wellness Check-ins

There are eight dimensions of wellness that should be reviewed in striving to become a healthier person. They include:

1. Emotional: setting goals, meditating, journaling
2. Social: setting a time to connect with loved ones
3. Physical: moving your body daily
4. Mental: reading and learning new skills
5. Environmental: decluttering your workspace or house
6. Financial: saving and investing
7. Spiritual: taking time to reflect
8. Vocational: finding your passion and setting goals

Are employees at your organization incorporating these obvious yet often ignored ingredients to good health? Leadership and boards should be supportive of wellness opportunities for the workforce. They should also ensure that they are focusing on these dimensions of wellness to improve their own health so that they can best lead the hospital or health system into the future.

5. Build Resiliency

To achieve a thriving workplace with happy employees, resiliency should be a cultural goal. As leaders, sharing personal stories and hearing employees' stories will position the company to be an open and healthy workplace and create an example of a healthy and resilient employee.

The Governance Institute thanks Amelie Karam, Millennial Specialist—Generational Speaker and Consultant, for contributing this article. She can be reached at ameliekaram@gmail.com.

