

Reprinted from

HARTFORD BUSINESS JOURNAL

June 6, 2016

EXPERTS CORNER

Tips for navigating hospital affiliations

By Bryan Burgett, Thomas Marrion and Mark McCue

The pace of change in today's healthcare industry has caused consolidation to become the "new normal" for many community hospitals and smaller health systems. Value-based payment, more informed patient-consumers, increasing costs of clinical personnel, technology, and the need to expand the care network have led providers of all kinds to seek economies of scale.

As a result, many hospitals are considering affiliating with a larger system or other strategic partner. This can be a challenging prospect, but with careful planning, hospitals can successfully manage the process, turning the affiliation challenge into an opportunity.

Here are some things to keep in mind:

Identifying long-term objectives:

The hospital's leadership should resist the urge to rush into merger negotiations without appropriate preparation and advice. Leadership should evaluate the relative importance of:

- Improved access to specialty services, recruitment and retention of physicians, and non-acute services;
- Greater access to capital;
- Cost-saving synergies;
- Impact on organizational culture; and
- Community participation on the current and potential future board of directors.

The right partner and the right arrangement often come into focus based on this evaluation. Thorough articulation of the hospital's long-term objectives will help ensure a more constructive dialogue with potential strategic partners.

Taking a self-assessment: The hospital's leadership should honestly assess the organization's current strengths and weaknesses. An objective point of view on the hospital's desired role in the future and preparedness to assume this role is



Bryan Burgett



Thomas Marrion



Mark McCue

critical. Would the hospital be better served by remaining independent for some period of time, or should it seek to partner as soon as possible? What are the risks of waiting?

Finding potential partners: Finding the right partner is key to a successful affiliation. Advisors can assist in the plan to identify potential partners, whether through direct inquiries, a formal request-for-proposal process, or some other means. The universe of potential partners often is broader than initially considered by leaders.

Understanding the opportunities: Affiliations can take many forms, ranging from loose to tight arrangements. Generally, the greater the "gap" between where the hospital stands today and where it needs to move in the future, the greater the level of integration needed with a strategic partner.

Full integration typically involves a parent-subsidary relationship, meaning the hospital gives up most control to the larger system in exchange for assistance in meeting specific strategic and/or financial goals. Mergers, changes in corporate membership, and asset sales are examples of fully-integrated transactions.

The hospital can retain more "local" control by being less integrated with a strategic partner, aligning through various contractual relationships. However, antitrust, self-referral and other regulations can limit

operational and financial flexibility.

Putting the house in order: Advanced preparation is critical to a successful affiliation.

First, the hospital's board of directors should understand and support the strategic part-

nering effort, including the reasons the hospital is seeking an affiliation, the long-term objectives, the universe of potential partners, and the desired affiliation model.

Next, leaders assemble the affiliation team. Internally, that will typically include a combination of trustees, the CEO, the CFO, and other senior executives. External members of the team will include consultants, legal counsel, and finance professionals.

Finally, preparation for due diligence is vitally important. The hospital can save substantial time and money by performing an internal due diligence assessment, including:

- Compliance and risk management;
- Contracting, including fraud and abuse issues;
- Debt financings; and
- Employment and employee benefits.

Even under the best of circumstances, a health-system affiliation is a significant undertaking and a substantial change to business as usual. Careful preparation and management of the process will maximize the chance for a successful outcome. ■

Bryan Burgett is a senior vice president of Kaufman, Hall & Associates LLC a national healthcare consulting firm. Thomas Marrion and Mark McCue are partners at Hinkley Allen, a regional law firm with offices in Hartford and across the northeast.