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Eight Reasons Hospital Partnerships Fail

Here are mistakes to avoid when hospitals partner or affiliate with other organizations.

By Jeffrey R. Hoffman

Whereas yesterday's health care partnerships were often balance sheet mergers pursued by financially distressed organizations, today's are about creating efficiencies, implementing value-based care and streamlining payer strategies — often while retaining balance sheet independence. No last resorts, these partnerships are new animals, and they require strategy and strength. The clinically integrated networks of tomorrow will be led by the hospitals trying, adapting and re-adapting such partnerships today. Providers making early efforts, even when they don't always succeed the first time, already are cementing their place in the emerging care delivery systems.

The greatest failure would be not to learn from those blazing this trail. Below are eight mistakes organizations can make as they evaluate their partnership strategies.

They aim for an outdated goal. Tread carefully if you find yourself considering partnership or affiliation with the primary goal of scale, scope or supply chain purchasing power. While often a key element of a partnership, "being bigger" is no longer the foremost goal. Affiliations formed for such reasons may achieve near-term savings by creating efficiencies in purchasing or physician resources, but they are shortsighted because they fail to address the broader goals of achieving population health and succeeding in a value-based reimbursement world. They do not speak to the need for integrated payer, clinician, and communication and technology solutions. In other words, if your orthopedists are still trying to agree on a standard hip implant technology, you are drastically behind.

The goal is not necessarily to be big, so the answer cannot be scale or scope alone. The goal is population health and value-based reimbursement, which require scaling for skill and scoping for the expertise your organization lacks in house. What will it take for you to provide or participate in a clinically integrated network that delivers top quality care under a risk-based, value-based reimbursement? What skills will the network need? Which do you have that you can offer to other providers? Which do you lack that they may have? These are transformational strategies. Align your questions with the right goals, and you create a guide to finding the right partners and the right structure.

"A good sense of specifically what's relevant to the market you're in is so important," says Ninfa Saunders, chief executive officer of Central Georgia Health System and a founder Stratus Healthcare, the largest collaboration of its kind in the Southeast. "In the absence of that, you don't have a workable model, and people revert to M&A [mergers and acquisitions]."

They fail to get the board on board. Major change will have to flow down from the CEO and board to physician leaders, staff and the community, and buy-in must begin at the top. You must believe in the long-term transformational strategy.

"There are still plenty of hospitals whose boards think, 'This is our community hospital and it must stay that way.' That's not sustainable," says Norman Gruber, CEO of Oregon's

Salem Health, whose board has been working on a non-balance-sheet partnership strategy. "If you can't get the board on board, the rest of it's a bit academic." Gruber recommends that board members with less exposure to hospitals and systems outside their own visit other organizations and network to gain broader perspectives on the industry dynamics driving change.

One small shift? A change in terminology. When Salem Health put "merger" on the agenda at a board retreat, the conversation stalled. But shifting the conversation to "partnership" helped to open minds and avert defensive reactions.

They stop after the first try. Finding other providers whose goals, strengths and gaps align with yours may not be a mere matter of knocking on the door across the street. Salem Health's leaders initially sought to create a larger Oregon system with similar-sized providers. Finding little interest but knowing they had to move forward in pursuit of their population health goals, they switched tactics and started looking at larger systems and possible out-of-state partners.

Similarly, a hospital should not necessarily accept the first partnership offer that comes to its door. One of Salem Health's courters sought to expand its own services in the Oregon region, but did not share Salem Health's value-based mission. Salem Health cut it from consideration, even though it was a strong provider.

They compel medical staff participation. Are you compelling alignment, or creating a compelling plan for alignment? If a new partnership or technology runs into complications, any resentment will manifest in obstructionism and finger-pointing. But medical staff who believe in the process and feel ownership will help to work through complications.

In Georgia, the Stratus Healthcare alliance of 29 hospitals representing 14 health systems has a governing board of 28 individuals; half are physicians. Rather than stating outright, "This is our game, and you must follow the rules to play," Stratus Healthcare enlisted all participants in the creation of its governance structure from the outset.

"It is the most difficult thing to go through. But everyone had skin in the game to put it together," Saunders says. "At the end of the day, it's the right thing. Today, we are so coalesced. We have a strong sense as to where we're going."

They create an affiliation that is too loose. Several partnership efforts have failed because the parties lacked the incentive to make the effort work. In the Midwest, one provider facing financial distress spent 18 months working on a loose affiliation with two other hospitals. It wasn't enough, and all three ended up merging with a large regional system.

Partnerships must have teeth, and they must be tailored to the participants. Copying existing efforts will not work.

"When you've seen one population health model, you've seen one population health model," Saunders says. "You must work in the framework in which you find yourself."

They talk too soon. Salem Health has been formally working on partnership efforts for two years and is on track to announce a new affiliation this year. But it was only in fall 2013, when the board had reviewed responses from seven potential partners and was confident it could formalize an arrangement, that the two-hospital Oregon system embarked on a calculated communication plan with community leaders, medical staff and employees.

"This was kept quite some time at strictly the board level," Gruber says. "There are things you share and things you don't share." Otherwise, he adds, exploratory conversations could be perceived externally as failed attempts, influencing reputation and future partnering efforts.

They insist on pursuing the perfect partnership. Health care delivery will continue to evolve, and partnerships likely will evolve with it. Kevin Halter, CEO of Our Lady of Bellefonte, calls the Eastern Kentucky Healthcare Coalition he is part of "a step toward a tighter affiliation."

"People are trying to find the perfect scenario, and I'm not sure there is one," Halter says. "It's better to get started on something and adjust than sit back and try to find the perfect thing to do. None of us knew if this was the right thing to do, the perfect thing to do, but everyone was glad we were doing something."

They start too late. Partnership and affiliation efforts are pursued from a position of strength, whereas mergers and acquisitions have tended to be pursued from a position of weakness. There is a "most responsible moment" for pursuing non-balance-sheet partnerships or affiliations, and waiting too long could mean passing that point: Triggering a debt covenant, losing market share as other partnerships evolve without you, and otherwise moving backward by standing still could mean your attractiveness as a partner diminishes and your options dissolve.

As the care delivery model shifts, those providers that choose to "fail fast" and continually adapt their efforts to build clinically integrated networks will create a place for themselves at the table. Those who wait for the music to stop may be left without a seat.

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