

# Strategic Financial Planning



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## Identifying the Most Responsible Moment for Partnerships & Affiliations

By Jeffrey R. Hoffman

*Whether a facility chooses to pursue a partnership strategy via a clinical affiliation or joint operating agreement, to join a network, or to pursue a merger, the most critical step is to make a decision. Not doing anything could derail every population health effort that the organization launches in the future.*

In an era when partnerships are pursued not from a position of distress, but from one of strength, there is a most responsible moment for partnering or affiliating. Letting that moment pass—by waiting until liquidity ratios slip, until volume starts dropping, or until an outside network threatens market share—means a hospital may start looking more like an acquisition target, or even a sacrifice, than an attractive complement to a population health network or integrated system.

Lacking an immediate burning platform, many facilities are bogged down in analysis paralysis. Or they remain in wait-and-see mode, believing that they are strong enough to carry on as they are and not in obvious need of allies.

The threat, however, isn't always an obvious conflagration: More subtle factors can weaken a hospital's position in its journey toward population health, and hospitals that

wait to act can eventually find themselves trying to launch toward a new venture from an unstable position. Hospitals of all sizes can monitor the following performance indicators for a better understanding of the condition of their smoldering, if not-yet-burning, platforms.

### Clinical Indicators

Organizations need to be continually improving clinical care (i.e., efficacy, patient satisfaction, efficiency, cost). Closer and closer affiliations with physicians and other hospitals are likely required for this continual improvement. Small clinical programs that routinely fail to meet reasonable quantity and quality numbers need to be reconsidered in light of clinical partnerships.

Clinical triggers that indicate you have reached or passed the most responsible moment for partnership or affiliation include:

- > Your organization is behind local competitors regarding quality of care (perception and/or reality).
- > You have difficulty securing programmatic affiliation agreements.
- > You have difficulty in attracting or working with physicians to maintain key clinical services.
- > There is minimal physician interest in clinical care innovation.
- > The organization has no real tangible value strategy or progress toward population health.

### Growth Indicators

Adeptus Health, the for-profit owner and operator of First Choice Emergency Rooms, launched an IPO in June and plans to grow by 20 facilities per year in both existing and new markets. For smaller facilities whose future roles in a regional network might shift to outpatient or emergency-only services, failure to jump into collaborative care delivery conversations early could make such a market disruption fatal. Even the last-ditch option of being acquired—a four-letter word for many stand-alone facilities—can fall off the table as integrated systems move forward with strategic acquisitions and affiliations that leave no room for picking up a weak link.

Growth triggers to watch for include:

- > Despite strategic investment, your hospital does not grow share.
- > There is a clear and consistent pattern of market share loss.
- > Competitors are aggressively moving into your service area, targeting attractive services.

### Operational Indicators

Multiple operational metrics can begin to tell the story that an organization needs a partner. The most significant is when a facility creates a strategy, but cannot implement it. Applying non-strategic tactics to achieve goals—such as using cost-cutting alone to achieve an operational target as opposed to a combination of cost cuts and care transformation—can also be an indicator that new relationships are necessary. More than just a solution to building supply chain and finance scale, strategic partnerships can also build the scale of expertise and skill that is so critical in the evolution toward population health.

Operational triggers include:

- > Your organization cannot realize needed economies of scale to achieve profitability (trying to cut your way to success).
- > Recruitment and retention is difficult; competitiveness related to human resources cannot be maintained.

- > Employee turnover reaches unacceptable and difficult-to-manage levels.
- > You find yourself needing to purchase physician practices not to improve care access and quality, but to maintain operations, share, and/or volume.

### Organizational Indicators

Successful physician alignment strategies are becoming critical to organizational success. For providers that have struggled in the past to create beneficial physician partnerships, time is now running out. These partnerships will be vital to the development of clinical integration strategies that, ultimately, support new clinical care models, reduce waste and duplication in clinical care, and lead to success in value-based reimbursement.

Organizational triggers to monitor include:

- > The market is experiencing further physician employment consolidation.

## Criteria to Consider for a New Relationship

Criteria	Definition/Why It's Important
Brand	The consumer perception and familiarity with the reputation of a potential partner will significantly influence public reaction
Breadth/Depth of Programs	The extent to which the programmatic strengths of potential partners align or complement current capabilities
Clinical Excellence & Innovation	The extent to which the provider is associated with developing new care delivery models, technology, processes, etc.
Culture	Mission, vision, and values of potential partners need to align with the hospital and its surrounding community
Financial Strength	The liquidity and leverage of any potential partner is a critical consideration and could determine future investment at the hospital
Geographic Synergies	Juxtaposed and/or overlapping target markets allow for potential central delivery of programs and services (vs. duplicating resources)
IT Utilization & Strength	IT and the utilization of EHRs will become increasingly important
Physician Resources/Alignment	Physician relationships and infrastructure will be important in providing high-quality, cost-effective care and in preparing for health reform
Quality Signature	Indicates the level of quality associated with the institution (perception and reality)
Scale/Resources	Size correlates strongly with the ability to achieve economies of scale, operating efficiencies, access to capital, etc.

Source: Kurt Salmon's Health Care Group, 2014. Used with permission.

- > A large physician practice affiliates with a competitor.
- > Succession planning for key leadership positions proves difficult.

### Financial Indicators

This spring, a West Coast hospital that failed to adapt when drops in federal and state reimbursements coincided with loss of private-pay market share found itself imploring other facilities for support, rather than arguing its position as a key part of an integrated system. The hospital recently received a third taxpayer-funded infusion intended to keep it afloat, but its downsized future now depends on permission to creatively interpret state legislation.

Financial indicators can be some of the easiest to keep tabs on, but some of the hardest to overcome. Triggers include:

- > Short-term performance is acceptable, but financial forecasts appear unfavorable.
- > Capital is needed, but not available, for a mission-critical project within five years.
- > The bottom line continues to deteriorate, and there's a minimal-to-negative ROI.
- > There is a high likelihood of triggering bond covenants over the next three years.

### A Position of Strength

Prejudices still exist against hospital partnerships, which historically were considered only as a last resort for financially distressed organizations or were implemented to increase overall size and scale. Today, partnerships are forward-thinking efforts pursued from positions of strength. They're about creating hospital efficiency, developing a

value-based strategy, or implementing a streamlined payer strategy. Ultimately, today's hospitals are looking to create a narrow care network that allows them to deliver higher quality and better care under risk-based arrangements.

Those who partner proactively from a position of strength will have the opportunity to refine their networks and adapt them to new variables. While one hospital adheres to the "wait-and-see" approach, another is forging ahead, adjusting to mistakes and, ultimately, capitalizing on opportunities. Those that wait until someone else creates a regional care delivery system risk being left out of it. ☞

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