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Not a Merger, Not an Acquisition: When and Why Strategic Partnerships Make Sense

Written by Molly Gamble | November 21, 2011

As healthcare organizations continue to merge or acquire, some hospitals are taking a more flexible route and are becoming "strategic partners" to tackle challenges unleashed by healthcare reform.

Colloquially, a strategic partnership may stir ideas of loose affiliations or the simple exchange of best practices, since the arrangement is typically less aggressive than a full-on merger. These arrangements do not necessarily involve transactions affecting hospital governance, management or financial independence, but some hospitals may find this to be more malleable for their organizations in the onset of accountable and collaborative care.

The benefits of a strategic partnership

Strategic partnerships vary slightly from organization to organization, but they generally share a few common principles such as the sharing of electronic resources, clinical data, best practices and administrative services. Hospitals can trim costs incurred through duplicate services while extending their geographic reach and solidifying the continuum of care for patients. While collaborating on all of these fronts, however, the hospitals remain independent — one characteristic that makes the strategic partnership especially interesting.

Dan Marino, president and CEO of consulting firm Health Directions, says a strategic partnership can make a lot of sense. "I think it's a good way to dip your toes in the water without getting wet," says Mr. Marino. "A lot of health systems and hospitals have cultural implications. You're not only dealing with a hospital's leadership, but also with its medical staffs. In some cases, strategic partnerships are a great way for medical staffs to begin testing one another's culture to see if something more can be aligned."

Health systems coupling in Washington

In October, Renton, Wash.-based Providence Health & Services and Seattle-based Swedish Health Services announced plans for a particularly innovative strategic affiliation. Under the proposed deal, Swedish's five hospitals will remain non-religious, and Providence's 27 hospitals

will keep their Catholic mission. The systems share the Epic electronic health records platform, which will allow them to join forces on population health management and drive the standardization of best practices.

"Over a year ago, we started considering structures that could respect the Catholic identity while respecting a non-religious relationship with Swedish. We think we came up with it," says Swedish Health Services President and CEO Rod Hochman, MD. The proposed partnership is still in the early stages of regulatory review.

Shortly after that relationship was announced, two other providers in Washington state [also formed a strategic partnership](#) to collaborate on patient care and trim the costs of duplicative services. Virginia Mason Medical Center in Seattle and Kirkland, Wash.-based Evergreen Healthcare have initially identified two areas of immediate collaboration — cardiac services and home care and hospice — and are developing frameworks for future joint efforts. Officials from both systems said the arrangement made sense due to the organizations' like-minded nature.

Like-minded and complementary partnerships

What makes the proposed Providence-Swedish partnership groundbreaking is the preservation of their respective identities and religious affiliations. The two systems aren't quite unlikely partners, but they certainly have different cultures. Religious and non-religious organizations typically face numerous challenges when it comes to affiliations — either in attaining approval from regulatory agencies or religious authorities. Nonetheless, Providence and Swedish have set out to break the mold.

Mr. Marino says this strategy of pairing complementary institutions is an intelligent move for hospitals today. "It makes sense to strategically partner with a group that has complementary services. For example, if you're an acute-care hospital, it makes sense to partner with a children's hospital," says Mr. Marino. These types of relationships can increase accessibility for patients and help hospitals achieve more sophisticated physician alignment, and Mr. Marino predicts we'll see more of them in the next few years as providers aim to form ties to improve population health.

Shared EHRs enable big cost-savings

Mike Butler, COO with Providence, expects the proposed partnership to trim costs on the clinical and administrative side. Through the consolidation of certain services, like billing or human resources, the systems can find additional savings and leaner operations. Additionally, Providence and Swedish hospitals may standardize treatments for certain conditions, such as breast cancer, and exchange clinical best practices to trim unnecessary costs.

Those clinical savings will largely be the result of the systems' shared EHR — one of the largest drivers to cost-savings. A shared EHR platform can be a huge partnership asset by enabling both parties to access the same clinical data and patient histories. "Technical infrastructure is becoming more critical," says Mr. Marino. "In a lot of areas, you're seeing community hospitals that can't necessarily afford to buy IT infrastructure. So they look to a larger hospital so [they] don't have to build it all from scratch," says Mr. Marino.

EHR platforms can make or break a partnership, and officials from Providence and Swedish said health IT was a very significant factor in their pursuit for a partner. "Large health systems need to become [information-rich] organizations. The strength of a hospital's ability to compete in the future will be based on health information," says Dr. Hochman.

"World-class" partnerships

Partnerships centered around specific service lines can be an impetus for hospitals aiming to develop centers of excellence. For instance, Saint Vincent Health Center in Erie, Pa., and Cleveland Clinic [signed a letter of intent](#) in Aug. 2011 to join forces over cardiac and neurological services. These types of partnerships — with extremely reputable institutions — make sense, according to John Ortiz, a partner at the executive services firm Tatum.

"If a hospital wants to bring a 'world-class service' to their community, then a strategic partnership with an organization considered 'world-class' can provide substantial benefit. As an example, there are now numerous hospitals throughout the [country] that have partnered with MD Anderson Cancer Institute in Houston to enhance their oncology programs and improve access to 'world-class' cancer treatment within their community," he says.

Extending geographic reach

In partnerships, the factor of geography is not so much measured in the distance between headquarters but the harder-to-measure factor of market power. More hospital transactions — not just partnerships — are beginning to span state lines. In October, Des Moines-based Iowa Health System and Peoria, Ill.-based Methodist Health Services [finalized](#) a strategic partnership.

IHS CEO Bill Leaver said Methodist was a natural strategic partner since Peoria is contiguous to one of the system's markets in the Quad Cities. Under the deal, IHS committed to invest \$175 million into strategic capital initiatives for Methodist. Methodist will keep its own board of directors and local leadership team, but the partnership still lets IHS spread its geographic reach to cover more people, according to Mr. Leaver.

Potential problems

While there are compelling benefits to strategic partnerships, the same characteristics that make the arrangement so attractive can also cause their downfall. Some experts think strategic partnerships can serve as a temporary solution to healthcare challenges, but the real, long-term cost savings can only be found in full-on acquisitions or mergers.

The arrangement also raises questions and concerns over governance. Van Conway, CEO of Detroit-based turnaround firm Conway MacKenzie, says it's hard to imagine an organization excelling with two administrations. "If you have some type of marriage — call it a merger, partnership, acquisition, consolidation or combination — somebody has to be calling the shots."

If hospitals do choose to pursue a dual-CEO model, it will take an enormous amount of planning and organization to delineate each leader's responsibilities. "For example, one might focus on healthcare services and one on the administrative side of business duties," says Mr. Conway. "But there really can't be two 'CEOs.' Some multiple hospital chains have an executive in charge

of each hospital, but there is one CEO of the entire system."

Mr. Ortiz also says there's a risk when hospitals come together to form a new, multi-hospital entity resembling a hospital system but lacking a single leadership group to maintain accountability. "Numerous examples of this approach have failed miserably because of the competitive environment and ownership barriers that infringe on decision making," says Mr. Ortiz.