The Human Side of Affiliations and Consolidations – Part 2

June 10, 2014
Recap of Webinar 1 (May 8, 2014)

- Key features of affiliations and consolidations in 2014
- The benefits and limitations of affiliations
- Key considerations and common pitfalls of any arrangement
- The importance of physician alignment within the arrangement
- Developing your three-step action plan
Today’s Webinar Participants Will Learn …

- Case studies: The importance of your affiliation plan
- Essential actions that your organization should take to be successful when pursuing an affiliation
- Tips for engaging key stakeholders
  - The Board
  - Physicians
  - Nursing staff
  - The payers
Case Study One

An Independent Community Hospital Wrestles with Approach

- 70-bed independent not-for-profit on a highway; no other facility within 30 miles
- Aging plant, declining clinical quality and financials, increasing patient outmigration
- Different perspectives on the primary drivers for affiliation
  - Brand enhancement
  - Financial infusion
  - Clinical support
  - Succession planning of the executive team
- Lack of information and transparency between Board, medical staff, and management
Case Study Two

Developing a System from Two Independent Hospitals

- Hospital 1: 200-bed Catholic community hospital with heavy dependence on independent medical staff and 12 percent inpatient market share
- Hospital 2: 150-bed secular academic medical center with robust physician network and 11 percent inpatient market share

- Key considerations for the Boards and management
  - Highly competitive and rapidly evolving market
  - Different strategic drivers for each hospital
  - Secular hospital and Catholic hospital
  - Academic medical staff and community medical staff
  - Significant redundancy in operational functions
  - Redundant and complementary clinical programs
Establish Your Organizational Goals and Objectives

Actions Your Organization Should Undertake

- Establish and build consensus around your organizational strategic goals and objectives
  - Assess if those goals and objectives can be achieved independently, or will require a strategic partner
  - Ensure that the Board, management, and key medical staff leaders are aligned
- Establish a list of prioritized organizational needs, and identify how those needs can best be fulfilled
- Assess the “value” that your organization offers to its community, and how that value could be impacted with a strategic partner
- Objectively evaluate the talent and skill mix necessary to develop and manage your organization in an industry transitioning to population health management
Setting Context to Your Vision

Establish a Clear Pathway to Selecting the Ideal Partner

- Establish and clearly communicate the strategic rationale for pursuing an affiliation
- Gain Board understanding and endorsement
- Develop guiding principles for affiliation discussions that reflect your organization's goals and objectives, and those of potential strategic partners
Establish The Strategic Rationale For Partnering

Prioritize Your Strategic Objectives in Each Category

<table>
<thead>
<tr>
<th>Operational</th>
<th>Finance</th>
<th>Programs/Service Lines</th>
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<tbody>
<tr>
<td>Improved community access to care</td>
<td>Improvement in operating and financial performance</td>
<td>Quality enhancement</td>
</tr>
<tr>
<td>Enhanced access to payers</td>
<td>Reduction in infrastructure and overhead costs</td>
<td>Acceleration of strategic investments</td>
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<tr>
<td>Improved capabilities to support mission-driven services</td>
<td>Increased revenue opportunities</td>
<td>Key service line development</td>
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<td>Enhanced position for healthcare reform</td>
<td>Better support investment in information technology (“IT”)</td>
<td>Strengthening of tertiary/quaternary referral base</td>
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<tr>
<td>Ability to attract and retain the best</td>
<td>Better support investment in physician infrastructure</td>
<td>Physician retention and recruitment</td>
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<td>Management and Board leadership</td>
<td>Improved access and lower cost of capital</td>
<td>Achievement of key volume thresholds for select subspecialty programs</td>
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<td>Ability to attract philanthropic support and commitment</td>
<td>Increased capital capacity</td>
<td>Leveraging clinical talent and expertise</td>
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<td>Diversification and minimization of risk</td>
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<td></td>
<td>Ability to attract philanthropic dollars</td>
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## System Integration Opportunities

### Which Functions Could Be Enhanced Through Affiliation?

<table>
<thead>
<tr>
<th>Administrative Departments</th>
<th>Support Departments</th>
<th>Clinical Departments</th>
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<tbody>
<tr>
<td>Senior Administration</td>
<td>Facilities Operations and Maintenance</td>
<td>Physician Practices</td>
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<tr>
<td>Financial Services</td>
<td>Biomedical/Clinical Engineering</td>
<td>Emergency Department</td>
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<tr>
<td>(accounting, billing, finance, etc.)</td>
<td>Food and Nutritional Services</td>
<td>Urgent Care</td>
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<tr>
<td>Legal and Compliance</td>
<td>Environmental/Housekeeping Services</td>
<td>Cardiac Services</td>
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<tr>
<td>Medico-Administrative functions</td>
<td>Laundry and Linen</td>
<td>Surgical Services</td>
</tr>
<tr>
<td>Human Resources</td>
<td>Security and Safety</td>
<td>Endoscopy Services</td>
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<tr>
<td>Strategy/Marketing/Public Relations/Governmental Relations</td>
<td>Patient Transport</td>
<td>Central Sterilization</td>
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<tr>
<td>Nursing Administration</td>
<td>Mailroom and Print Shops</td>
<td>Clinical Staff Education</td>
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<tr>
<td>Purchasing/Materials Management</td>
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<tr>
<td>IT</td>
<td></td>
<td>Clinical Resource Management</td>
</tr>
<tr>
<td>Quality</td>
<td></td>
<td>Medical/Surgical Nursing Units</td>
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<td>Business Development Office</td>
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<td>Pharmacy</td>
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<td>Laboratory</td>
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<td>Physical Therapy/Occupational Therapy/Speech Therapy</td>
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<td></td>
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<td>Home Care Services</td>
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<td></td>
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<td>Cancer Services</td>
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<td></td>
<td></td>
<td>Imaging (X-ray, CT, MRI, etc.)</td>
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<tr>
<td></td>
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<td>Hospice</td>
</tr>
</tbody>
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### Assess for Potential Opportunities

| System centralization | Coordinate system-wide | Coordinate system-wide |
| Centralize/Consolidate management | Centralize management and oversight structure | Maximize existing capabilities, capacity, resources |
| Co-location            | Standardize policies and procedures | Eliminate inappropriate duplication |
| Staffing               | Service improvement          | Service rationalization |
| Standardize processes  |                          | Policies and procedures standardized |
| Coordinate policies and procedures |                          | Coordinate growth initiatives |
Considerations for Stakeholder Groups

Stakeholders Have Different Interests/Needs

- Community
- Patients
- Boards
- Executive team
- Management and employees
- Medical staff

Engage Them Throughout

- Understand the impact the transaction will have on both internal and external stakeholders
- Develop a listing of local and regional officials, payers, regulators, and medical staff to meet with to gain support for the potential affiliation or merger
- Create a common set of message points and communication schedule, and follow them rigorously
Recognize What Motivates Each Group

All Change is Threatening

Breakdowns occur when people feel the threat of:

- Control
- Comfort
- Continuity
  - Employment
  - Processes
  - Providers
  - Colleagues
- Familiarity
- Income
- Status
- Clarity
- Convenience
- Predictability

The Role of the Leader:
- Articulate the vision
- Instill confidence
- Maintain calm
- Get ahead of the buzz - vital to all phases of the affiliation
Key Considerations for a Successful Affiliation

Do Not Limit Yourselves by Historical Ties to Individuals

- Make sure you have the right people at the table
  - Board leadership
  - Chief Executive Officer and senior management
  - Medical staff leadership

- Seats should be filled by:
  - The most skilled individuals available, whether internal or external to the system at the time of transaction
  - The individuals that can best serve the system’s needs
Key Considerations for a Successful Affiliation

Be Willing To Make Strategic Investments

Value the whole and recognize that the impact may differ between the parties

- Highlight the shared vision as well as common goals and objectives of the affiliation, and how they influence specific decisions
- Commit to transparency as well as fair and equitable treatment of all areas
- Recognize there will be perceived “winners” and “losers”
Key Considerations for a Successful Affiliation

Understand How The Affiliation Will Affect Your Brand

Spend time on the brand

- A brand is a promise based an emotional reaction
  - Brands are dynamic
  - Brand can not be forced

- Invest the time to consider what you want your brand to be
  - Look for the synergy of your existing brands

- Commit to the new brand and do not allow for legacy outliers

- Allow time for the brand to take root
  - Celebrate the brand
  - Model brand adoption at the highest levels
  - Reinforce the brand in all communications
Key Considerations: Board Members

Board Members will Focus on Governance and Due Diligence

- Emphasize process without belaboring technical details
- Identify larger issues early and outline potential solutions
- Ensure the equal, strong representation on joint planning committees
- Provide consistent information to all participating Boards
- Allow Boards and those with reserved powers* enough time to review issues
  - Work through issues with constituents before meetings to avoid competing agendas or surprises

* Reserved powers are areas of governance which have been carved out for oversight by another entity other than the main governing board. This is often the case in faith based organizations which may choose to reserve certain aspects of governance to the sponsoring body, such as sale of real estate, divestiture of mission-based programs, or incurring debt above a certain threshold amount.
Key Considerations: Medical Staff

Engage the Medical Staff Early and Often

- Reframe anger as pain
- Know what makes your physicians tick to limit ticked off states
- Reflect on problems to solve vs. polarities to manage
- To avoid getting bogged down on the how, reconnect on the why
- Phrase all requests in “What’s In It For Me” terms
- Cultivate champions
- Even your opposition has something from which you can learn
  - Embrace their concerns
Key Considerations: Nursing Staff

Engaging the Nurses is Vital

The nursing staff is your barometer for organizational health:

- Largest percentage of your employee base
- Closest and most consistent contact with the patient
  - Your brand representative
  - Your advocate in patient safety and satisfaction
- Critical link to population health effectiveness and outcomes
- Nursing models emphasizing collaboration and innovation
- Nursing culture drives much of the overall organizational culture
- Nurses know community health needs before they are measurable
Key Considerations: Nursing Staff

Tips for Engaging Nurses: A Three-Step Approach

- Connect with their mission as patient advocates and problem solvers, especially in the area of patient safety
- Understand the importance of affiliative leadership, that promotes harmony to build high-performance teams (Goleman, 2002)
- Utilize the eight “I”s that create successful “We”s (Kanter, 1994), especially information, interdependence, and integrity (Cohn, *Collaborate for Success!*)

![Nurses image]
Key Considerations: Payers

Engaging Payers Early is Better than Waiting
Organizations can outline their strategic rationale for affiliation with payers, and:

- Articulate their respective goals and objectives
- Identify how the affiliation will benefit access, improve clinical quality, and reduce cost
- Frame your objectives in light of their strategic direction
- Emphasize partnership and collaboration
- Minimize/Avoid any inference of contracting advantage
Five Common Pitfalls to Avoid

- Analysis paralysis: use data as a guide, not a crutch, to see the big picture
- Personalities trumping skill sets in succession planning
- Tendency to focus on individual trees instead of the whole forest
- Glossing over health information technology hurdles
- Insensitivity to cultural incompatibilities
Call to Action

- Start *now*
- Conduct the necessary analyses: SWOT, revenue forecast, expense ratios, capital budgeting, and population health readiness assessment
- Engage your key stakeholders
- Get your house in order:
  - Operational efficiency
  - Clinical quality
  - Medical staff engagement/alignment
  - Strategic positioning
- Determine your path
Questions?
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