

Pondering a Partnership?

Community hospitals evaluate relationships as a pathway to financial vitality



The Situation

Healthcare organizations today face unprecedented pressures. Sustained economic uncertainty, healthcare reform, the growing number of uninsured individuals and other forces are causing smaller, community-based hospitals in particular to consider the pros and cons of forming a relationship with a larger institution.

In some cases, there is no choice — surrendering independence in exchange for resources is necessary for survival. But sometimes there are means by which a hospital can preserve its independence while securing its footing, not just for the time being but for the foreseeable future. This is where Community Hospital Corporation (CHC) can help. CHC through its consulting division Community Hospital Consulting Inc., works with hospital boards to assess whether a relationship with another institution makes sense, and if so, what type.

The Solution

In some cases, hospitals aren't in the best of health when they turn to CHC for guidance. But no matter the state of the hospital, CHC first checks all its vitals, so to speak, and then conducts a thorough examination of the organization's cost structure and operations.

"Hospitals need to look at the reasons for their financial challenges, and how things might look five years from now," says Mike Williams, CHC's president and CEO.

Sometimes, cost-saving opportunities are identified that empower the hospital to adjust accordingly and maintain total independence. Other times, a hospital can transfer management responsibilities while maintaining its independence. And then there are times when partnering with another entity is desirable or inevitable. In each of these cases, CHC provides guidance to ensure the best possible outcome.

Even when a partnership is the recommended path of pursuit, there are different types of partnership arrangement options available, short of total acquisition. Generally speaking,

"The more money you want the other organization to risk on your behalf, the less power and control you get to keep," explains Williams.

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"Hospitals need to take stock before seeking out partners to identify their own strengths and where resources and support may be needed."

~ Mike Williams,
President and Chief Executive Officer,
Community Hospital Corporation

SOLUTIONS

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An affiliation agreement transfers neither risk nor governance: The smaller organization maintains control, and should it fail, the larger organization does not take a hit. The benefit to smaller hospitals of such an agreement is that it allows them to leverage the larger organization’s purchasing power and use its resources and physicians.

A merger of equals occurs when the parties combine assets to form a new company. This type of partnership tends to work when both parties perceive that each will be made stronger by coming together. Mergers also take place that afford a lesser ownership stake, such as 20 percent, to the party that brings less to the partnership.

Sometimes finding a buyer vs. a partner is the only option. Acquisitions involve selling all assets and ceding all control to the buyer, who gets to decide which services will be offered, discontinued or downsized.

The Process

When partnering is the wisest course of action, CHC guides hospital boards through the process of finding suitable prospects and preparing them to negotiate the relationship to their best advantage.

CHC also helps hospitals determine which resources are needed to ensure long-term success. A debt-saddled hospital might need a partner to take on its debt, for example, or an aging hospital may need guaranteed capital for facility upgrades.

At the same time, a hospital should identify and address which factors will attract or turn off prospective partners before approaching prospects or distributing a request for proposal (RFP).

Then, CHC assists the hospital in finding a partner that is not only willing and able to provide the needed resources but also has a shared mission and compatible culture. The goal is to bring about the proverbial win-win situation, or at the very least to make sure community-based hospitals stay in the game.



CHC owns, manages and consults with community-based hospitals. For more information about our services, call David Domingue, FACHE, Director of Sales at 972.943.6451.