

Partnership Road Map

Well-thought-out strategy, flexibility needed when linking up with another health care organization

By Ethan Rii, Jordan Shields and Caitlin Podbielski

The decision to align with another health care organization is among the most important, if not the most important, undertakings for a hospital board. Selecting the right partner, strategy, timing and structure all play important roles in determining the ultimate success of an organization and a partnership.

In forming a partnership, choices are made (even in initial conversations) that help determine how an organization will meet the health care needs of its communities for years to come. These choices may also influence whether the organization will be successful in meeting its objectives. Complexities inherent in these choices can make the process overwhelming, akin to approaching a five-way intersection without a map. Following are a few rules of the road that can provide safe passage and aid leadership in finding the route that leads to the desired destination:

Identify your destination. Organizations often make their first mistake while they are still in the driveway. They do this by identifying a given structure — independence, loose affiliation, full integration into a health system of a specific size, or others — as their destination.

Instead of single-mindedly driving toward a specific partner or structure,

successful organizations develop precise objectives to direct them to the best fit and approach. These objectives set forth the organization's vision for its role, guiding key decisions and leading it toward its ultimate destination.

In developing such objectives, it can be tempting to focus on near-term considerations: a target for next year's operating performance, growth of a particular service line, reducing medical errors and so forth. Individually, such goals are valid, but they may be insufficient to address longer-term needs. Instead, objectives should be dynamic and vision-driven, focusing on long-term structural implications including the effect on cost and quality of care, patient access, navigating the competitive landscape, and access to capital.

Furthermore, objectives are not static; they may shift or realign throughout the partnership process. Diligent leaders should not be afraid to adjust or challenge their objectives where necessary to keep their organization on an appropriate course.

Chart your course. With objectives guiding the organization to a destination, it is time for the road map. Plan for roadblocks and detours by identifying all actionable alternatives and giving due consideration to each.

One common mistake boards make is to select an option that involves achieving a singular or primary objective, perhaps to the detriment of others. For example, the organization may have a set of identified objectives including (1) improving quality metrics and (2) increasing operating margins to support the clinical enterprise. Narrowly focusing on objective 1, the organization pursues a clinical affiliation with a nearby system known for its quality infrastructure. The partnership gives the organization the intended infrastructure, which will help it improve its metrics, but the financial benefits associated with the improved quality performance disproportionately accrue to the partner. As this example shows, a single





strategy may have varying degrees of success in achieving each objective, so prioritization is necessary. The pursuit of one path to the exclusion of others can have the unintended effect of derailing the organization by preventing it from realizing balanced, meaningful results.

Take the wheel. Board members should be cognizant of the fiduciary duties they owe to their organization that cannot be ceded or delegated, and the board must be careful not to relegate itself to the role of a backseat driver. It can be tempting to be a passive receptor of information vetted and prepared by management and outside experts about which affiliation vehicle may be best for the organization. But effective boards take

an active role, critically digesting the available information, asking questions, testing underlying assumptions and, ultimately, making a decision.

Pushing for more information or for answers to unaddressed questions is an appropriate role for the board of an organization seeking to embark on such an important journey. Furthermore, evaluations should compare multiple strategies against one another in addition to appraising each

important tool in an organization's emergency roadside kit, permitting the organization to arrive at its intended destination with minimal detours and delays.

Unpack from the trip. Closing the transaction is critical, but it is not the point at which the journey ends. Successful affiliations are defined by outcome and whether the participating organizations are positioned to achieve measurable results in health

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alternative's ability to achieve identified objectives.

Avoid the potholes. Along the best-charted paths, there can be unexpected setbacks and mistakes that even the most prepared organizations fail to recognize. There are key steps, however, that can be taken to anticipate possible delays and allow for the least bumpy ride.

Organizations with well-crafted and tended-to objectives and a vetted, plotted course can rely on experienced business and legal advisers to design, facilitate and execute a process that can navigate both common and out-of-the-ordinary detours. Counsel can identify and strategize to avoid or address potential roadblocks. They can conduct Hart-Scott-Rodino antitrust reviews, identify legal requirements that may dictate transactional structure and seek regulatory approvals that are necessary before closing in order to limit revenue interruption.

Business advisers who are well-versed in the industry and marketplace can be invaluable in identifying financial, operating and other risks such as hidden balance sheet exposure, the effect of various structural choices on value and vulnerabilities associated with a potential transactional partner. Ultimately, a team of experienced advisers can be the most

care quality and access.

Post-closing action items typically focus on the immediate: coordinating reporting systems, linking information technology platforms and rolling out clinical best practices. Uniformity of policies and procedures on its own, however, is insufficient to ensure success. Integration must go beyond paper and matching uniforms. Ongoing efforts at cultural integration reinforced by formal tracking of responsibilities and progress should remain a guiding tenet of the post-closing board's agenda and goals.

Whatever the ultimate destination, the journey will be unique to every organization. Organizations that approach the trip haphazardly, reacting to a single alternative, an obvious choice or an unintended distraction instead of conducting thoughtful diligence to vet a full range of alternatives, are destined to fail. But engaged boards that are prepared with information, experienced support and access to the full range of actionable alternatives have the best chance to achieve success. **T**

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