Considering Quality in a Business Combination

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Of the umpteen elements hospital leaders evaluate when considering the viability of a potential partner, quality is generally at the top of the list.

A larger partner can bring the scale, resources and expertise many smaller hospitals and systems seek to improve care quality for their community. This can include enhanced clinical protocols and standards, facility and equipment investments, deployment or recruitment of highly-skilled medical staff, patient support programs and more. Integrated delivery systems are also better positioned to address population health and health inequities, offering new approaches to keeping communities well and synergies with readmissions reduction strategies.

A partnership can provide a host of opportunities to improve care quality and patient outcomes, but in the early stages of exploration there is limited ability to dive deep into tactics. Instead, hospital leaders look for succinct ways to ascertain a potential partner's quality of care.

Countless measures can be equated to quality, from objective metrics like infection and readmission rates, to the more subjective, like noise levels at night. And there is no shortage of options for comparison: CMS Hospital Compare, Leapfrog, Consumer Reports, US News & World Report, the Commonwealth Fund. Many states also have their own scorecards.

These comparison tools attempt to distill complex hospital data into a single, consumer-friendly quality rating or grade. While these efforts are admirable in theory, health care organizations and trade groups regularly question rating systems' methodologies, weighting and the impact of incomplete or statistically insignificant data. Deloitte reported that "5-star rated hospitals tended to be missing data for more measures than their lower-rated peers", and this summer Rush University Medical Center in Chicago released an analysis showing flaws in CMS' Hospital Compare Star Rating calculations.

Using the same metrics to rate the quality of care at hospitals that have significantly disparate services, volumes, acuity and patient demographics does not result in highly-precise, comparable scores. Even comparing quality trends at a single hospital can be challenging, as the measures that go into a score can be modified year-to-year.

The goals of the ratings are also different. "Saying you're number one is great. It makes people feel good. It provides a marker and indicator of quality. But the quality is based on that specific methodology that the ranking organization has set up. It's really like oranges to apples when you're trying to compare," Melissa Riba of the University of Michigan's Center for Healthcare Research and Transformation recently told HealthLeaders Media.

An example of variances between rating models is illustrated in the table below that shows ratings for three hospitals in the same town.

	CMS Star Rating	Leapfrog	Consumer Reports Safety Score	Medicare Readmission Penalty	Commonwealth Fund
Hospital A	2	A	46	-1.07%	100%
Hospital B	4	C	Not rated	-0.14%	95.99%
Hospital C	2	B	48	-2.27%	96.30%

Green denotes category leader

In addition to industry ratings, individuals can go to sites like Yelp or Google to find unvarnished, entirely subjective, consumer reviews of a hospital's quality and patient experience. Even though the feedback is usually not based on clinical standards, such rating sites can provide a glimpse into how a hospital is perceived in its community. Hospital leaders should have an understanding of a partner's reputation for quality as it will have a halo effect (for better or worse) on their own institution should they combine.

Yet, rating systems and review sites –even with their limitations– offer a practical option for rudimentary quality comparison for consumers and C-suites alike. Hospitals are proud to market high ratings and accolades, but a hospital's Leapfrog grade is not the be-all and end-all in the world of quality. It is important to keep quality ratings in perspective when evaluating a business transaction.

A culture of quality is not so easily shaken. The drivers that led to a hospital's high rating will not change upon the signing of a definitive agreement. A hospital will not be downgraded by association for joining a health system that includes a lower-rated facility. Similarly, a hospital will not get bonus quality points simply for partnering with a high-performing system, nor will it see a reduction in their readmission penalty overnight. In fact, it often takes several years before the results of new quality initiatives are reflected in consumer ratings due to the complexity of many process improvements and data lags.

Quality of care is a hospital's cornerstone. Hospitals considering a partner must look beyond a single rating to thoroughly assess each suitor's approach and commitment to quality improvement and how it aligns with their own philosophy and needs.

Juniper Advisory is an investment banking firm dedicated to serving hospitals and health systems, providing objective financial advice and guidance on strategic parnterships. More information is available at juniperadvisory.com.