



PYALeadership Briefing

Affiliation Objectives: **Connecting Strategy-Satisfying Mutual Needs**

April 2013



Affiliation Objectives

Connecting Strategy-Satisfying Mutual Needs

Trover Health System, now known as Baptist Health Madisonville, focused its affiliation process on objectives derived from its strategic plan. The Madisonville, Kentucky, health system identified the need to align with a partner after determining that additional resources were needed to achieve its goals. “We had a good plan, but we needed a partner that could mitigate the risk associated with making the capital investments required to execute our plan,” recalls Bert Whitaker, President/CEO who led Trover through its affiliation process.

Mr. Whitaker continued, “Throughout the process, we relied on the affiliation objectives to communicate our goals internally and externally. We began every affiliation-related meeting with them. We used the objectives to evaluate potential partners. We relied on the objectives to keep us focused on what our organization and community needed from a partner.”

Examples of how Trover used its affiliation objectives:

- Included them in the request for proposals sent to potential partners
- Addressed the objectives in forums with employees and physicians
- Included them in all affiliation-related press releases
- Provided talking points focused on the objectives to board members for use when approached by community members
- Began every affiliation-related meeting by reviewing the objectives
- Explained the objectives in meetings with community organizations during the affiliation process
- Compared the expression of interest from potential partners to the affiliation objectives
- Focused on the affiliation objectives during interviews with media outlets
- Evaluated the final letters of intent from potential partners to the affiliation objectives
- Communicated to employees and the community how the board’s decision to align with Baptist Health of Louisville, Kentucky, was supported by the affiliation objectives

Proactive Planning

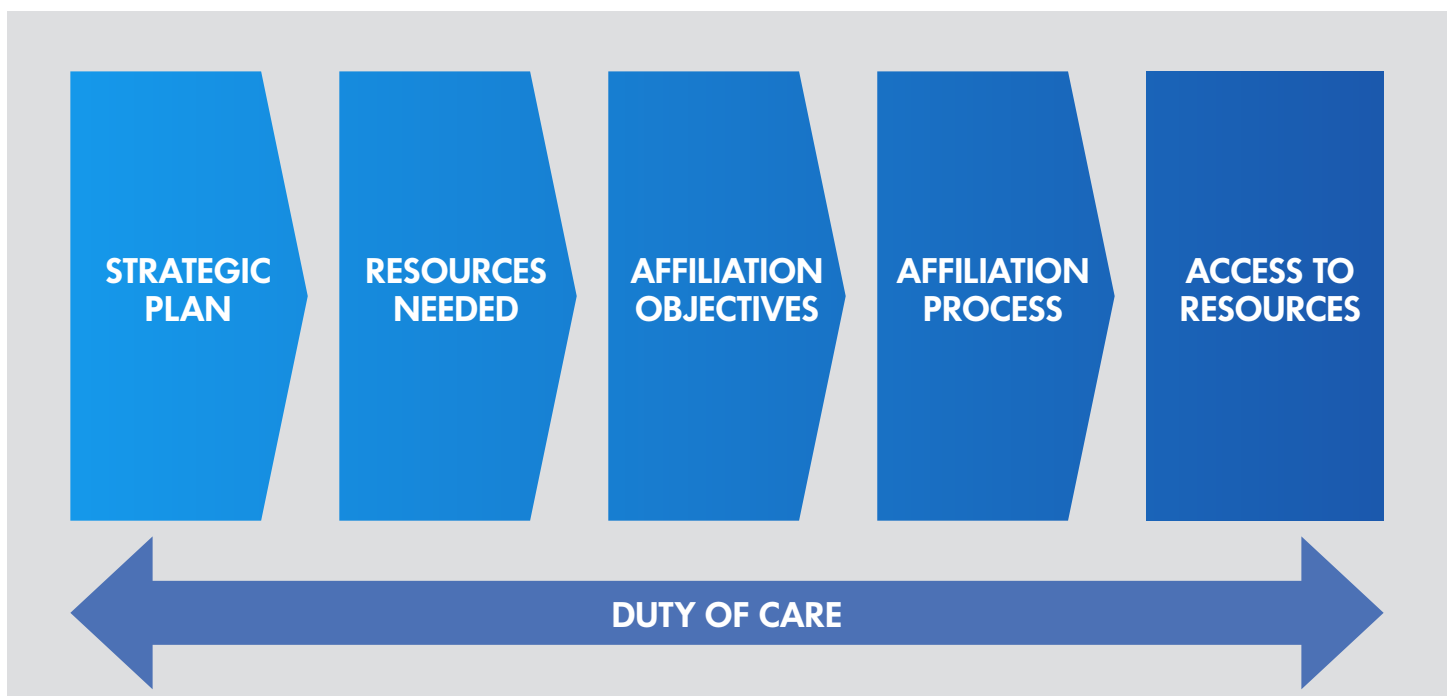
The old adage can be applied when pursuing an affiliation: "If you don't know where you are going, any road will get you there." Trover's decision was well received by its employees, physicians, and community. This receptiveness can be largely traced to how the Trover management team and board actively communicated the organization's goals and stayed committed to the process that led them to a partner that fully supported the affiliation objectives. An engaged board must proactively identify the organization's strategic direction and establish clear affiliation goals, otherwise it risks ceding control. A truly successful, sustainable affiliation results when the parties to the affiliation articulate its respective goals and help one another achieve those goals while protecting its own self-interests.

By gaining consensus around strategic objectives, the board will be able to identify whether an affiliation is necessary to further the organization's strategic plan. Should the board choose to pursue an affiliation, the statement of objectives will guide the process of

choosing a partner. Finally, the statement of objectives will guide the board to stay on task to assure the goals of the affiliation are achieved. Through proactive planning, which often considers matters beyond financial performance, the board is able to exhibit its duty of care as it attempts to gain access to needed resources.

It is the board's responsibility to approve the strategic direction for the organization. It is management's duty to execute that strategy. A comprehensive strategic plan with clearly defined objectives provides management its blueprint for the future. Management decisions are guided by the plan, and the board uses the plan to monitor management's performance. A proactive planning process keeps the entity focused on its goals.

When the board determines that a partner is desirable to help the organization succeed, the statement of strategic objectives will enable the board and its partner to reach a mutual understanding of the objectives of the affiliation.



When affiliation is deemed advisable, the statement of strategic objectives benefits the entity by:

- Enabling the board to establish criteria desirable in an affiliation partner.
- Identifying affiliation partners which have compatible, mutually supportive affiliation goals.
- Defining focus and scale of the affiliation to assure the best use of limited resources to assess affiliation opportunities.
- Facilitating quick reaction to rapidly emerging opportunities in a constantly changing environment.

Each of the affiliation parties benefits from the establishment of precisely stated objectives because they help:

- Manage expectations within the organization and externally to the communities they serve.

Beyond Balance Sheets

Certainly, the financial implications of an affiliation are important; no margin, no mission. But a successful affiliation must stay focused on the mission of improved patient care above all else. A comprehensive planning process that includes cultural intangibles in addition to financial considerations can mean the difference between a partnership that thrives and one that merely survives.

Historically, affiliations sought to increase the capacity to simply deliver more healthcare services. Now, the emphasis has shifted to the value of the services rendered to improve population health. The successful healthcare entity will be driven to improve efficiencies, improve outcomes, and expand the population served.

Affiliations are not limited to acquisitions or mergers. Effective affiliations help the constituent parties achieve its respective strategic goals. Joint ventures, management agreements, contractual relationships, or virtual mergers - wherein affiliates jointly own a management company designed to manage one or all of the affiliates - may allow

- Facilitate an objective review of proposals from potential partners.
- Enable the board and management team to develop a focused message for staff and the community regarding the value to be achieved by the proposed affiliation.

Regardless of size, hospitals and healthcare systems must establish clear goals to guide its affiliation decisions. Well-considered and articulated strategic and tactical objectives for all constituent parties are essential to successful affiliations.

The legal and regulatory constraints governing affiliations are complex. Legal guidance is essential to assure the directors' fiduciary obligations are met and risk exposure is mitigated. The board must be involved in the process to make informed decisions each step of the way to satisfy the directors' standard duty of care.

the parties to achieve its affiliation goals.

Hospitals and health systems are motivated to seek affiliations for reasons unique to its particular circumstances. Organizational goals may often include:

- Improved economies of scale for improved efficiencies.
- Access to integrated networks of providers that provide effective care management for a defined population.
- Access to capital and improved credit ratings.
- Integrated health information technology.
- More robust physician recruiting capabilities.
- More comprehensive planning resources.

Regardless of the specific descriptions assigned to an entity's objectives, affiliations are typically sought in order to accomplish one, or both of the following objectives: (1) Expand access to a more comprehensive network of patients, providers, or payors, or (2) Expand access to necessary resources.

Organizations Seeking to Expand Networks

If an organization's primary objective is to secure and expand its network of providers and the patients it serves, it will seek an affiliation partner for access to additional areas of clinical expertise and additional lives for population health initiatives. Some organizations seeking an affiliation partner for this purpose may also be interested in gaining access to new models of care or payor networks.

The current healthcare landscape is changing rapidly, and for many organizations there is no feasible way to access or build the infrastructure necessary to participate in contemporary models of care. Leveraging an affiliate's infrastructure for these purposes may assist organizations in achieving speed to action, and, perhaps more importantly, remaining a relevant resource and provider in its communities.

While the details defining access to networks are important, no network can effectively function if its culture is in disarray. Therefore, discussions with a potential partner should include questions regarding the partner's view of mission, its attitude about culture, and its vision of how the parties would fit into the "big picture." Particular attention should be focused on the impact of an affiliation on the parties' respective medical staffs and its affiliates.

Organizations Seeking Resources

If the focus of the affiliation is to fortify resources, financial or otherwise, the organization will prioritize its due diligence differently. As a result, a different affiliation relationship will likely emerge. Respect of mission and culture remain important, but the affiliation process will focus on access to the resources needed to support strategic and operational needs.

The disparity in size of the constituent affiliation partners often suggests that comprehensive corporate

Geography, proximity, and supplementary capabilities are all important considerations, but evolving technological advances can help mitigate such challenges. The parties must be committed to frank and transparent discussions, based on trust and shared vision, to negotiate the complexities of any affiliation, especially one focused on merging multiple care networks. The success in building a governance structure that assures each party the ability to secure its self-interests while working toward the mutual best interest of the affiliated entity will guarantee long-term success.

These considerations often dictate affiliation objectives such as:

- Assuring strategic fit - mission, market, access to complementary/supplementary services.
- Solidifying cultural fit for the constituent organizations and the communities they serve.
- Blending the physician and other provider communities.
- Balancing the governance structure to assure trust.
- Building a sustainable financial model.
- Achieving economies of scale within the given cultural, organizational, and governance environments.

and consulting support services are useful in creating a trusting environment for joint strategic planning and development of new care models. Smaller community hospitals, especially in rural areas, are challenged in recruiting and retaining physicians to provide access to specialties. Larger hospitals can provide such support and solidify referral relationships for its medical staff specialists through a balanced and trusting relationship with the smaller hospital.

These goals lead smaller organizations to develop objectives such as:

- Access to capital.
- Support of physician recruiting.
- Access to comprehensive corporate support services.
- Access to specialty medical services for patients.

The larger hospital or system's goals usually emphasize:

- Expanded access to referral sources.
- Protection of service area.
- Scale for population health management.

Both parties would have the mutual goal of seeking new care models that achieve efficiency while improving population health in the expanded service area achieved through the affiliation.

Conclusion

The decision to affiliate is most often a tactic considered in the implementation of an organization's strategic planning process. Development of affiliation objectives should, therefore, be consistent with the strategic plan and clearly demonstrate support of the mission. Only then can an organization effectively address the *function*, and therefore the *form*, of a potential alignment with a partner to achieve its goals. Boards must be fully engaged and, with the management team, proactive in all phases of an established affiliation process. A concise statement of the desired and anticipated outcomes, and a framework that evaluates both, is imperative.

William Mahoney, President and CEO of Cox Medical Center Branson, said it best, "It is just hard work. Every step is critical to success. Commitment to mission and vision; development of the strategic plan; honest conversations about the option to affiliate; and developing the objectives for seeking a partner are all equally important. When one step in that process is omitted or short-changed, the process is less efficient and the resulting affiliation can be compromised."

To learn more about how PYA can assist you with strategic planning or mergers, acquisitions, and affiliations, please contact:

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