PYA

PYALeadership Briefing

Hospital Network Alliances:

Independence Through Interdependence

The pressure to maintain a competitive market position, the stress of margin constraints (i.e., shrinking reimbursement and growing operating costs), the increasing complexity of regulatory compliance, and the uncertainty associated with new payment models are driving hospitals to consolidate through mergers and acquisitions. Healthcare M&A activity remains brisk since the passage of the Affordable Care Act (ACA).

Many hospital boards – especially those serving community hospitals – resist this trend. These leaders worry their community's interests would take a backseat to those of the acquiring entity. Fearful of losing local control, they continue to "go it alone," even in the face of an uncertain future.

Best of Both Worlds?

A new strategy is emerging for these independent-minded hospitals: Network Alliances. While a generally accepted definition has not yet emerged, these alliances share common characteristics:

- Two or more hospitals enter into a formal relationship to share resources and capabilities with an eye toward clinical integration
- Participants together define their common interests to be advanced through the alliance
- Each participant's individual interests are respected and protected through the alliance's governance structure
- Participants make some financial commitment to support the alliance's operations, but each remains economically independent

We have surveyed Network Alliances announced since the passage of the Affordable Care Act to learn the following:

- Motivations for pursuing relationships
- How Network Alliances are formed and governed
- Scope of their partners' relationship
- Secrets to success and dangers to avoid

Motivations

We have found hospitals' motivations for forming or joining Network Alliances are similar to the reasons other hospitals pursue M&A strategies:

- Achieve economies-of-scale through joint purchasing and similar strategies
- Leverage current and future information technology investments
- Sustain members as they learn to thrive under new care models
- Design continuums of care for specific types of patients
- Improve quality of care through common evidence-based clinical guidelines
- Develop narrow networks for contracting purposes
- Defend against competition from larger integrated delivery systems
- Test the waters for more "involved" relationships

Simply put, hospitals forming Network Alliances seek to ensure their continued **independence** by forming **interdependent** relationships with other healthcare providers. They are pursuing integrated care delivery without integrating ownership.

Getting Started

Just like married couples, each Network Alliance has its own story of how its participants first met. Sometimes it's a matter of geography, with one hospital reaching out to its neighbors. In other cases, a payer spurs interest among hospitals to form a Network Alliance.

Most often, a larger health system, such as an academic medical center (AMC) or integrated delivery system (IDS), invites community hospitals to explore networking opportunities. The reverse is also true: community hospitals often reach out to larger health systems for needed support.

Either way, these relationships benefit both parties as well as patients. The community hospitals gain access to the health system's highly-skilled professionals and stellar reputation, while the health system furthers its mission for teaching, research, and community service. Also, the health system shores up referral relationships with the smaller hospitals, increasing its opportunities to provide quaternary care.

Five Stages of Network Alliance Development

No matter how the conversation gets started, our survey helped us identify five stages of Network Alliance development. A hospital considering an alliance as part of its overall strategy must be deliberate in its decision-making, following these five stages. Otherwise, the hospital runs the risk of rushing into a relationship without a strong foundation of trust.

The Key Ingredient: Governance

While every stage of this process is important, we cannot overstate the significance of custom-designing the Network Alliance's governance structure. Simply put, these decisions will define the Network Alliance's future success. Among other things, a well-designed governance structure will:

- Provide a structured environment for discussion and decision
- Promote trust and transparency
- Balance power among diverse participants
- Protect individual rights and concerns
- Facilitate joint decision making in a safe environment

There is no "one-size-fits-most" governance structure. Form follows function. Note that in Stage 3, "define business aims and outcomes," "identify and prioritize objectives," and "determine scope" all come before "custom-design and memorialize governance structure." If the form of the governance structure is to truly follow the function of the Network Alliance, all parties must commit to the hard work of defining the function.

In traditional equity alliances, the form of the governance structure is often a reflection of the amount of capital committed. There is no such governor on the balance of power and governance issues when forming a Network Alliance. As a result, as confirmed in our survey, we learned that if you've seen one Network Alliance governance structure, you've seen one Network Alliance governance structure.

Despite this diversity, the governing bodies of successful Network Alliances share the following characteristics:

- Balanced time, energy, and economic investments by participants
- Balanced voting rights and reserved powers for participants
- Shared vision and goals while recognizing "sacred cows" to be protected
- Formal, but flexible and adaptable rules of operation
- Fair opportunity for all participants to engage and be heard
- Allows for organizational change and growth to address evolution of function

Joint Contracting?

One obvious advantage of the traditional M&A strategy is that bigger hospitals and health systems can negotiate favorable reimbursement rates with commercial payers. Often, the lure of better rates becomes one of the two or three primary drivers of a decision to buy, sell, or merge.

However, the benefits of joint contracting are not always sacrificed when forgoing an equity transaction. By participating in a properly structured Network Alliance, independent hospitals may also be able to jointly negotiate and contract with payers, assuming they are clinically integrated.

Antitrust law prohibits collusion on pricing among independent providers. However, enforcement agencies view provider collaboration through a clinically integrated network differently. **To the extent joint contracting is both necessary and subordinate to the network's broader effort to improve quality and efficiency, the federal agencies see these arrangements as beneficial to consumers and pro-competitive.** Thus, the Network Alliance providers' full commitment to achieving critical integration is critical.

Just a few of the Network Alliances we surveyed are presently pursuing joint contracting opportunities. Instead, most Network Alliances are still developing the relationships and infrastructure needed for clinical integration including shared quality improvement/ quality assurance programs, common clinical protocols, and network care management strategies.

One strategy several young networks are pursuing is cost reductions for the participating hospitals' health plans. By sharing experience and resources, hospitals in Network Alliances can identify and implement tactics aimed at keeping those plan participants healthy, while aggressively managing high-cost, high-risk participants.

Survey

The following "who, what, when, where, why, and how" for several of the Network Alliances we surveyed offers some perspective on this innovative strategy to meet the challenges of the new healthcare environment. The diverse shapes and sizes of these organizations show how this strategy can be tailored to the parties' specific needs and circumstances.

NETWORK ALLIANCE	MEMBERSHIP	STRATEGIES
BJC Collaborative ANNOUNCED OCTOBER 2012 *Missouri, Illinois, Kansas*	**Founding Members:** • BJC Healthcare • St. Luke's Health System • CoxHealth • Memorial Health System **Subsequent Members (2013):** • Blessing Health System • Southern Illinois Healthcare	• Each partner has equal voice on governing board. • Network operations conducted by committees comprised of leadership from each system. • Current focus: – Operational cost-savings (e.g., joint purchasing) – Population health management and clinical service quality – Capital asset management and financial services – Information systems and technology
Accountable Care Alliance ANNOUNCED JANUARY 2010 *Nebraska* accountablecarealliance.com	**Founding Members:** • Nebraska Medical Center • Methodist Health System	• Initial focus on developing and implementing consensus pathways and order sets. • Now exploring opportunities with rural hospitals in response to expanded presence of national hospital chain throughout the state.
University of Iowa Health Alliance ANNOUNCED JUNE 2012 *Iowa* uihealthalliance.org	**Founding Members:** • University of Iowa Healthcare • Mercy Health Network • Genesis • Mercy Cedar Rapids	• Alliance serves as provider network for Iowa CO-OP plan on health insurance exchange. • Each member has equal representation on governing body, which develops service contracts that are offered to each member. • Current focus: – Transition primary care practices to patient-centered medical home model – Establish evidence-based medicine standards of care – Develop provider education programs and pursue patient engagement strategies – Share costs of information systems and data analysis – Position to participate in new payment models and research initiatives
University of Colorado Health ANNOUNCED JANUARY 2012 *Colorado and Wyoming* universityofcoloradohealth.org	**Founding Members:** • University of Colorado Hospital • Poudre Valley Health System **Subsequent Affiliations:** • Memorial Health (Colorado Springs) • Ivinson Memorial Hospital (Laramie, WY)	• "Separate identities with shared values." – Merger-like characteristics: centralized strategy, shared bottom line, system board of directors, share services – Maintain independence: no change of ownership, each participant controls operations at its facilities • Current focus: – Achieving operational efficiencies – Now marketing a health insurance option for businesses interested in offering employees a partially-funded health plan
Quality Health Solutions ANNOUNCED SEPTEMBER 2013 *Wisconsin*	**Founding Members:** Consortium of eight Wisconsin health systems and the Medical College of Wisconsin	• Launched a commercial ACO with UnitedHealthcare covering 100,000+ lives • Current focus: – Exploring narrow network offerings and bundled payments – Using data aggregation tools in creating shared evidence-based clinical guidelines – Developing telemedicine capacity (first pilot project on stroke protocol in ER settings)
Vanderbilt Health Affiliated Network *Tennessee, Virginia, Kentucky, North Carolina*	**Initial Affiliations:** Vanderbilt contracts with several middle Tennessee hospitals to participate in Vanderbilt's employee health network **Subsequent Affiliations:** • West Tennessee Health • Mountain States Health Alliance	• Partners' relationships governed by respective affiliation agreements with Vanderbilt. • Building what is believed to be the nation's largest clinically integrated network. • Current focus: – Sharing best practices in areas of evidence-based care models – Collaborating in areas of medical research and clinical trials – Developing consultative relationships among specialists and subspecialists – Working together in physician recruitment – Defining continuum of care for cardiovascular and oncology services

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Stratus Healthcare ANNOUNCED JULY 2013 *Georgia* stratushealthcare.org	**Founding Members:** 14 independent health systems in central and southern Georgia (originated with Central Georgia Health System and Tift Regional Health System)	• Although formed as a non-equity alliance, members expect to form corporate entity in near future to pool resources. • Current focus: – Improving population health using best practices, shared services, and coordinating primary and specialty care needs for the region
Allspire Health Partners ANNOUNCED SEPTEMBER 2013 *New Jersey, New York, Maryland, and Pennsylvania* allspirehealthpartners.org	**Founding Members:** • Atlantic Health System • Hackensack University Health System • Lancaster General Health • Lehigh Valley Health Network • Meridian Health • Reading Health System • WellSpan Health	• Each member contributes $1 million to fund joint activities – Sharing best practices and pursuing health information exchange – Pursuing shared services and joint purchasing (but maintain current GPO relationships) – Engaging in joint research projects
University of Chicago Medicine and Franciscan Alliance ANNOUNCED NOVEMBER 2013 *Illinois, Indiana*	**Founding Members:** • University of Chicago Medicine • Franciscan Alliance	• Current focus: – Jointly developing and implementing clinical, research, and educational initiatives for better models of care delivery to improve quality and joint development of care protocol – Accomplishing synergies by collaborating on joint clinical service lines, such as oncology
Tampa General and Florida Hospital Network ANNOUNCED SEPTEMBER 2013 *Tampa Bay Area*	**Founding Members:** • Tampa General Hospital • Florida Hospital – Tampa Bay	• Each organization contributed $1 million to establish a joint operating board tasked with developing new service offerings to be provided through the partnership. • Potential joint endeavors include ambulatory care, post-acute care centers, home health, wellness programs, expansion of organizations' primary care networks, insurance products, freestanding rehabilitation complex, "big box" outpatient concept.
Frederick Regional Health System, Meritus Health, and Western Maryland Health System ANNOUNCED OCTOBER 2013 *Maryland*	**Founding Members:** • Frederick Regional Health System • Meritus Health • Western Maryland Health System	• Executed letter of intent to create a regional collaboration focused on cost reduction and population health management • Current focus: – Forming a regional alliance board – Creating a management services organization to reduce costs – Improving quality – Expanding Meritus Health's accountable care organization
Baptist Health, Flagler Hospital, and Southeast Georgia Health System ANNOUNCED NOVEMBER 2013 *Florida and Georgia*	**Founding Members:** • Baptist Health – Jacksonville • Flagler Hospital – St. Augustine • Southeast Georgia Health System	• Executed letter of intent to pursue "contiguous health network" spanning across all three service areas • All members will retain names, brands, and local governance
Sanford Health and Benefis Health ANNOUNCED DECEMBER 2013 *North and South Dakota, Montana*	**Founding Members:** • Sanford Health • Benefis Health System	• Alliance will provide framework for members to collaborate in key areas, e.g., highly specialized clinical services, exploring additional technology avenues, telehealth, quality programs, research opportunities, and healthcare cost reduction.

NETWORK ALLIANCE	MEMBERSHIP	STRATEGIES
The Mid-Jersey Health Alliance FINALIZED JUNE 2013 *New Jersey*	**Founding Members:** • Hunterdon Healthcare System • Atlantic Health System	• Current focus: – Developing joint physician recruitment plan to place key subspecialty physicians within the Hunterdon community – Providing Hunterdon physician access to technology and services in AHS facilities – Pursuing joint strategic planning initiatives to expand clinical offerings at both organizations – Implementing healthcare cost reduction strategies, such as purchase of supplies, implants, pharmaceuticals and information technology – Identifying opportunities for sharing/implementing quality, performance improvement, patient safety and patient satisfaction strategies – Improving care coordination for Hunterdon patients requiring tertiary care at AHS – Exploring joint investments in outpatient facilities
Mayo Clinic Care Network	**Members:** • Mayo Clinic • Hospitals and physician groups throughout United States	• Contracting providers remain independent but pay undisclosed annual fee to Mayo. • Give patients benefits of Mayo Clinic expertise without traveling to a Mayo Clinic facility. • Formal collaboration and information-sharing tools, including: – eConsult – Brings the expertise of a Mayo medical specialist to local community – AskMayoExpert – Web-based information system allows hundreds of doctors to quickly connect with expert clinical information on hundreds of medical conditions at any hour of the day or night – Business process and administrative consulting – Access to peers, tools, and expertise in business processes to help members implement and realize the value of Mayo Clinic's integrated clinical care and practice models
Mayo Illinois Alliance ANNOUNCED JUNE 2010 *Illinois* Mayoillinois.org	**Founding Members:** • University of Illinois • Mayo Clinic	• Partnership to promote broad spectrum of collaborative research, the development of new technologies and clinical tools, and the design and implementation of novel education programs. • Activities are coordinated by a joint steering committee. • Current focus: – Innovative education programs to train clinicians and biomedical scientists – Integrated research activities focusing on information-based medicine, genomics, and point-of-care diagnostics – Entrepreneurial modes for deployment and commercialization of educational and research outcomes
Sidney Health Center and Sanford Health ANNOUNCED AUGUST 2013 *Montana and North Dakota*	**Founding Members:** • Sidney Health Center • Sanford Health	• Stanford Health supports Sidney Health Center, a critical access hospital, in transitioning to integrated state-of-the-art electronic health record that otherwise would not be possible for Sidney. • Exploring additional opportunities for Sanford to support Sidney's continued independence.
Carson Tahoe Health and University of Utah Health Care ANNOUNCED JANUARY 2014 *Utah*	**Founding Members:** • Carson Tahoe Health • University of Utah Health Care	• Alliance permits that Carson Tahoe Health provide patient access to advanced cancer care, participation in clinical trials, complex cardiovascular care, neurosciences, and transplant services. • Pursue expanded use of telehealth services, as well as satellite clinics staffed by University of Utah specialists.

With our deep and wide experience, PYA consultants can facilitate internal discussions (Stages 1 and 2) and serve as an honest broker for parties engaged in network planning and implementation (Stages 3 to 5). Let's talk.

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