

Hospital Review

BUSINESS & LEGAL ISSUES FOR HEALTH SYSTEM LEADERSHIP

5 Key Questions for Healthcare Executives Considering a Transaction

By Kathleen Roney of Becker's Healthcare

Compared to the past, healthcare executives of hospital and health systems, either looking to acquire other organizations or seeking a partner, are approaching mergers and affiliations differently. There are different goals in mind.

“The days of rust-belt consolidation are over. Thankfully, the idea is no longer to save money in the back office by reducing redundancies and firing employees,” says Joseph Lupica, chairman at Newport Healthcare Advisors. “Today’s M&A is about adding volume and value growth. Executives are looking for ‘top line’ growth more than expense cutting.”

The reasons for healthcare consolidations have evolved. Thus, approaches to finding a potential partner should evolve as well. At the beginning of a transaction, many healthcare executives may have historically asked themselves the question of “Who should we merge with?” According to Mr. Lupica, that is the wrong question to ask first. Instead, the first question should be “What do we want to accomplish with an affiliation?”

Here Mr. Lupica discusses the most important questions hospital executives should ask themselves when considering a transaction.

1. What?

According to Mr. Lupica, many healthcare executives seeking a partner do not realize that transactions should depend on the hospital’s needs and goals. A merger or an affiliation is a means to an end. There should always be a goal in mind. Sometimes the goal is to provide better quality care, to offer specialty care closer to the community or to become more sustainable in the face of healthcare reform. Hence, the question of “What does the hospital need?” or “What do we want a transaction to accomplish, if we even do one?” should be asked first.

In order to identify what type of transaction is suited to the hospital’s needs, Mr. Lupica recommends thinking of affiliations on a spectrum instead of as a binary choice. “The choice is no longer ‘to sell or not to sell.’ An affiliation can be anything from a linen contract with a hospital in the next town that has

better laundry capacities, to a big rural hospital supplying telemedicine services for less fortunate rural hospitals or even a joint venture with an urban hospital to construct a medical office building,” says Mr. Lupica. Thinking of an affiliation as a choice among only a few options can hinder benefits and outcomes. “You may miss out on a successful transaction that meets the hospital’s exact needs,” says Mr. Lupica.

Perspective is also very important to the “what” question. “Many times you’ll hear that hospital executives want an affiliation or partnership because of what they’ve read about looming risks, because their hospital is struggling or because they feel threatened,” says Mr. Lupica. “They look around and notice the big health systems from urban areas have physician clinics, outpatient centers and lots of resources. Well, those big guys are also nervous, so smaller freestanding hospitals should not look for a transaction as a reaction to fear.”

2. Why?

The next question — “Why do we want a transaction?” — may help

executives avoid seeking an affiliation or merger as a reaction to fear. The “why” question enables executives to get a grasp on the reasons the hospital needs a partner.

“It may be true that the hospital cannot compete with a larger hospital or health system, but it could still play a role as a community hospital and avoid getting lost in a bigger system. It doesn’t always have to merge to stay afloat,” says Mr. Lupica. “Sometimes we start by asking the board, ‘Why did you even invite us here?’”

Entering into an acquisition or affiliation when objectives are not clear can hurt a smaller hospital down the road — it can jeopardize its independence. According to Mr. Lupica, one of the better reasons for a transaction is when hospital executives hope to achieve a higher level of excellence at the hospital — a level that may not be attainable if it stands all alone.

The mentality of “we are doing fine but an affiliation can make us better is ideal” says Mr. Lupica.

3. When?

The next question to ask is “when?” There really is no good or bad time to enter into a transaction. It depends entirely on the hospital’s situation. “I think that hospital executives — those that are enlightened — should consider affiliations as part of a strategic plan,” says Mr. Lupica. “An affiliation should no longer be an option only for when the hospital is deep in distress. A transaction is not hospice.” Instead, working and playing well with oth-

ers should be a normal part of a hospital’s strategy. “Executives should be thinking ‘can we improve our operations through teamwork with others?’” says Mr. Lupica.

4. How?

Once executives decide to work with others, the next question is “how should we go about setting the terms of the transaction? How should we select a partner?” According to Mr. Lupica, the answer to questions of “how” is to engage the community and listen to what they say.

“A hospital affiliation does not have to be like a Wall Street merger handled in secret and in the dark of the night,” says Mr. Lupica. “Your community is an asset. I find the term ‘community education’ offensive. It implies a top-down effort to convince the masses after their leaders made the decision. Trust your community; engage them honestly — without propaganda or agenda — and listen to them.”

When hospital executives let the community members educate them on what could benefit the hospital, they gain support. The community becomes more invested in the hospital. They care about the transaction’s outcome. Additionally, it gives more collateral to discussions with potential partners.

“When executives tell potential partners what they have decided in the boardroom, the response may be ‘so what?’ When hospital executives come forward with terms, requests and questions that they’ve developed through discussions with

community members, they bring a powerful endorsement to the table,” says Mr. Lupica.

The community discussions should guide the entire merger process. Keep track of what develops in community forums and turn the key ideas into the transaction objectives. Bring the objectives to every meeting. Turn them into the request for a proposal as well as the evaluation criteria when potential proposals are reviewed. Finally, make them the guidance tool for a definitive agreement.

“Look at the community, not as a hostile thron, but as a sustaining force to build confidence,” says Mr. Lupica.

5. Who?

Finally, the question of “who” may be addressed. Starting a transaction discussion with the what, why, how and when questions makes the final question of “who” much easier to address. The heavy lifting is complete and the next step is merely contacting potential partners or sending out requests for proposals.

“The best advice I can give is to not take the passive begging position. You must have the confidence to tell the potential partners what your community wants, not wait for the partner to dictate terms to you,” says Mr. Lupica. “Smart affiliation is not about losing control. It is about sustaining your control over the things that matter by increasing your resources to achieve your community’s aspirations.” ■