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Less Can Be More: New Considerations for Hospital and Health System Partnerships

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The year 2022 is proving to be the most challenging financial year of the COVID-19 pandemic for hospitals and health systems, with lagging volumes, rising expenses, and limited prospects for additional federal support.¹ Difficulties are being reported across the board, from large regional health systems to rural critical access hospitals.

These financial constraints—combined with an evolving and uncertain regulatory environment² and, for certain organizations, structural hurdles that make fully integrated transactions difficult to complete—are prompting hospitals and health systems to consider partnership strategies based on discrete, situation-specific needs. Partnerships are still vital to service line growth, access and quality enhancements, expansion to new markets, and in some cases, long-term financial viability. Instead of focusing on “build or buy” decisions, however, hospital and health system leaders show growing interest in a range of affiliation structures and contractual opportunities that stop short of full integration.

Advantages of looser integration

More loosely integrated partnerships offer several advantages that benefit all parties to the transaction:

- **Flexibility:** They provide flexibility through time-limited, renewable relationships
- **Speed to execution:** They are quicker and easier to implement than fully integrated partnerships
- **Patient experience:** They can strengthen coordinated access to services in local communities for specifically targeted areas of focus
- **Customization:** They can be targeted and structured to meet specific needs of both partners
- **Complementary marketplace differentiation:** Local knowledge of—and patient loyalty to—the community-based system can be supplemented by the strength of the larger system’s brand.

There are also specific advantages for both smaller, independent hospitals and larger health system partners.

Advantages of Loosely Integrated Partnerships for Smaller and Larger Organizations

Smaller Organizations	Larger Organizations
Retain independence and decision-making autonomy	Lower capital commitments
Strengthen and enhance available services	Extend brand into new markets/geographies
Enable close-to-home care, enhancing patient experience and financial sustainability	Gain access to broader population to support research and specialty services
Support clinical recruitment and development efforts	Create a menu of tailored partnership options

¹ Kaufman Hall: *National Hospital Flash Report*. August 2022. <https://www.kaufmanhall.com/insights/research-report/national-hospital-flash-report-august-2022>

² Holland & Knight: “FTC and DOJ Continue to Turn Up Antitrust Heat on Healthcare Industry.” April 19, 2022. <https://www.hklaw.com/en/insights/publications/2022/04/ftc-and-doj-continue-to-turn-up-antitrust-heat-on-healthcare-industry>

For smaller, independent hospitals, more loosely integrated partnerships enable them to retain their independence and decision-making autonomy. At the same time, the right partner can bring new or enhanced services into the local community and improve the patient experience by enabling close-to-home care. The ability to care for more patients locally also can support long-term financial viability. Some partnerships can enhance the ability to recruit and retain physicians, enhance clinician access to new care protocols, and establish a pipeline for new clinicians through residency or internship programs.

For larger health systems, more loosely integrated partnerships will typically require significantly lower capital commitments. Partnerships with community hospitals can extend the larger system's brand and reputation across a wider geography and provide access to a broader population to support research and more specialized clinical programs. Larger organizations may want to provide a bundle or menu of partnership options—structured, for example, around service lines gaps or targeted opportunities for growth—that it can offer to potential partners.

Partners should be aware that it can be more difficult to structure a loosely integrated partnership to achieve desired levels of clinical and economic alignment relative to similar benefits under fully integrated partnership models. For example, the partners may have competing interests in the same or contiguous geographies, or existing partnerships with other organizations. If, however, the partners are contemplating the potential for a fully integrated partnership but current circumstances limit the probability of execution, beginning with a more limited, looser partnership can provide a trial-run opportunity and allow the partners to build a trusted working relationship.

Considerations for structuring the partnership

More loosely integrated partnerships can take many forms. Items to consider include:

- **Financial commitment:** To the extent a financial commitment is required, consider the resources available to each partner and develop a manageable structure that will not put too heavy a burden on either partner.

A straightforward, manageable partnership structure will increase the probability of continued strategic attention to the partnership.

- **Governance/management:** Consider creating a separate oversight body for the partnership, with equal representation from both partners and a shared approach to collaborative decision-making.
- **Autonomy:** Structure the partnership to ensure that both partners retain full autonomy over decisions unrelated to the partnership. If the partners contemplate deepening their relationship, targeted contractual mechanisms for additional partnerships might be considered within the parameters of any regulatory constraints.
- **Time limits:** Ensure that the partnership is given enough time to realize the value that both parties hope to achieve. The partnership can be structured with “evergreen” renewals that continue the partnership until one partner signals an intention to terminate. Ensure that steps required to exit the partnership are spelled out from the beginning.

As these items suggest, the key consideration is striking the appropriate balance between maintaining the partners' autonomy while ensuring that both can find value in the partnership.

Conclusion: An attractive alternative for today's environment

The challenges of today's environment may put full integration beyond the reach of many hospitals and health systems. At the same, the need for revenue stabilization and growth has only intensified. More loosely integrated partnerships can offer an attractive alternative for hospitals and health systems that are facing very real constraints but understand the imperative for sustainable growth.

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