

## Creating A Meaningful Affiliation Between Healthcare Organizations and Physician Partners

Becker's Hospital Review Meeting  
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### Agenda

- ❖ The Imperative to Find an Affiliation Partner
- ❖ Development of Partnership Criteria
- ❖ Hospital and Physician Alignment
- ❖ The Affiliation Documents
- ❖ Lessons Learned
- ❖ Discussion and Questions



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### Client Health System



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## “Client” Health System

- Health System that is the Parent Corporation of two rural hospitals.
- The Client System was established to:
  - Ensure the survival of two essential healthcare organizations
  - Improve the overall delivery of care in the region
  - Address shortages in physician and allied health services
  - Improve the quality of care and health status of the population




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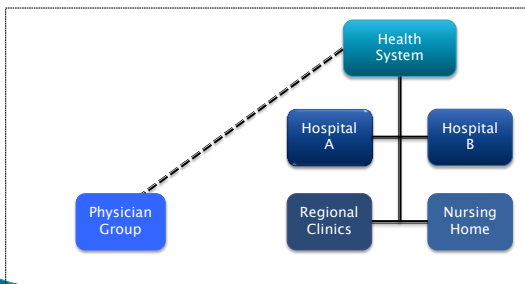
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## Client Health System




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## Strategic Planning

- Completed a Strategic Plan that recognized the need for significant action, including an affiliation with another healthcare provider in the region.
- The Board embarked on a comprehensive process to seek an affiliation partner.

**This was about the survival of a rural healthcare system.**




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## Considerations in Developing a Regional Affiliation Strategy

- Challenging financial climate
- Shortage of provider manpower
- Escalating cost of delivering healthcare services
- Regulatory and compliance issues
- Ability to meet community needs
- Concerns about quality
- Need for capital
- Intermediate-term facility concerns




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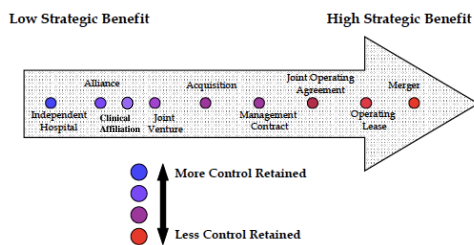
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## Finding the Right Balance




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## Criteria for a Successful Relationship

- Clinical excellence
- Partner commitment
- Community support
- Retention of local control
- Cultural similarities
- Physician engagement
- Availability of resources
  - Expertise
  - Financial




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## Review Process

- › Working with consultants, the Client completed a formal Request for Information (RFI) that was sent to several healthcare organizations in the region
- › The Board developed and approved affiliation criteria, including the need to retain control of the organization and the need for an infusion of financial support
- › Received several responses, all of which fell short of perceived needs; one response required a change in control
- › Entered into discussions with one responder. This led to renewed interest from another health system which showed increased flexibility from its initial response. One other responder remained interested, but its response could not compete with the other two responders




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## Final Selection

- › After due diligence and a lengthy negotiating process, selected an affiliation partner.
- › Major factors in the final selection included the ability to remain independent, access to planning and operational resources, a financial agreement tied to operational improvements and agreements to work together on developing a physician network in the region
- › **A key issue was the need to memorialize agreements as binding legal agreements – to move from a *Letter of Understanding (LOI)* to a *Strategic (Definitive) Agreement***




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## Regional Health System




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## Regional Health System Background

- Total number of beds: 412
- A healthcare delivery system that reaches greater than 1 million people in northwestern Pennsylvania, western New York and eastern Ohio.
- System has routinely achieved national recognition for its cardiovascular care (heart, vascular and stroke), critical care, neurology and neurosurgery, orthopaedics and overall clinical excellence by virtually every rating agency
- Regional hospital strategy in place: 5 hospitals engaged in clinical/strategic or formal affiliations




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## Why this Relationship was Attractive

- Had a large associated physician practice in the service area of the Client Health System
- Geographic proximity
- Established referral network and insurance
- Service line opportunities
- Culture – compatibility with management




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## Why Pursue a Strategic Affiliation?

- Avenue for successful cooperation
- Uniquely designed to meet the needs/desires of the community, physicians and hospital
- Affords flexibility to regularly review needs and adjust initiatives accordingly
- Management teams work closely together to develop a knowledge of operations and solutions
- Will establish a long-term, trusting relationship
- May lead to a tighter relationship over time




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## Goals and Performance Objectives

- ▶ Explore synergies with physicians and other regional partners
  - Develop regional centers of excellence
  - Alignment with physicians
  - Recruitment of key specialties
  - Telemedicine
- ▶ Improve hospital and physician-related cost efficiencies
- ▶ Review outmigration and current/future needs
- ▶ Patient safety and quality programs
  - Multi-disciplinary process teams
  - Best practices




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## Expected Benefits

- ▶ Revenue enhancement
  - Improve ED throughput and increase hospital admissions
  - Improved performance metrics
  - Specialty physician recruitment
  - Appropriate documentation and coding
  - Decrease re-admission rate
  - Improve length-of-stay
- ▶ Cost efficiencies
  - Operational excellence – reduce labor/supply spend
  - Eliminate locums coverage/contract
  - Improved supply chain costs
- ▶ Physician alignment




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## Special Issues and Concerns

- ▶ Meeting financial expectations in light of difficult realities and healthcare change
- ▶ Agreeing on and implementing an *Operational Improvement Plan*
- ▶ Continuing relationships with other community healthcare providers
- ▶ Potential physician concerns
- ▶ Labor concerns




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## Letter of Intent (LOI)




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## LOI – General Provisions

- The *Letter of Intent* provides a framework for the preparation of a binding agreement.
- The *Strategic Agreement* stipulates the final terms of the Agreement.
- A *Confidentiality Agreement* remains in place until the affiliation is approved, along with a detailed communication plan.
- Mutual standstill provision during the term of the LOI.
- Note: The *LOI* and the *Strategic Agreement* should be constructed in accordance with the laws of the State.




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## LOI – Elements of Operational Improvement Plans

- Reductions in readmissions
- Achieving appropriate documentation and coding
- Addressing Value-based purchasing components
- Staffing efficiencies/benchmarking
- Throughput improvements
- New specialty or other service offerings
- GPO opportunities
- Consultant/Locums savings
- Plans to reduce the outmigration of patients from primary and secondary service areas




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## LOI – Governance

- › Client System remained a separate corporate entity with authority to select its Board and its President/CEO.
- › Regional provider is not a corporate member.
- › Regional provider has an ex-officio (senior executive), non-voting member on the Client System Board
- › The Client System President/CEO is invited to present quarterly reports on the affiliation to the Regional Provider Board.
- › A Joint Affiliation Committee was formed from members of both Systems to oversee the target initiatives




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## LOI – Principles of Strategic Affiliation

- › Establish "ground rules" of the relationship
- › Establish exclusivity
- › Both parties will collaborate on strategic initiatives that impact the local community.
- › Reporting and tracking mechanism
- › Level of support from partner
  - Economic assistance
  - Management resources
- › Provisions to advance to more integrated relationship




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## Sample – Annual Improvement Plan Summary

Initiative	Projected Opportunity
Coding/Documentation	
Operational Excellence	
Supply Chain Management	
New Specialty Services	
Contracted Physicians	
Other Opportunities	
Total	




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## LOI – Physician Alignment

- ▶ A joint venture Medical Service Organization (MSO) will be established, to be jointly owned and governed by the entities
- ▶ The MSO will provide the following services:
  - Billing and collection services
  - Electronic medical record services
  - Coding and compliance support
  - Human resource services
  - Other services as approved by the MSO Board




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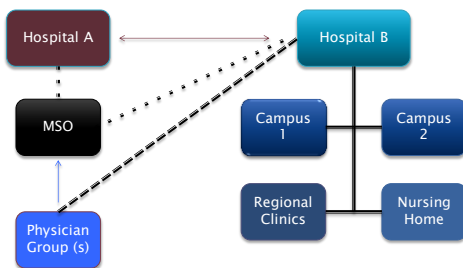
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## Physician Alignment Opportunity




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## Mutual Expectations of Physician Alignment Model

- ▶ Increased quality and outcomes tracking/reporting
- ▶ Information sharing (quality improvements and reduced medical errors)
- ▶ Cost management at patient level
- ▶ Care continuity
- ▶ Creation of Centers of Excellence
- ▶ Service aggregation – decreased competition for ancillaries




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## Lessons Learned

- Set your expectations high
- Some competition in the negotiating process is constructive
- Don't underestimate the time required to define and complete an agreement
- The hard work starts with implementing the agreement
- Pay attention to culture




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## Discussion and Questions




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## Contact Information

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