Some interesting points to consider here, in this article from Becker's ...

**To Merge or Not to Merge: Benefits, Challenges and the Future for Stand-Alone Hospitals**

In an executive panel discussion at the Healthcare Financial Management Association Annual National Institute in Orlando on Nov. 17, four healthcare financial leaders of stand-alone hospitals discussed their perspectives on mergers and partnerships and how the current healthcare environment is impacting partnership decisions.

Jim Landman, director of thought leadership initiatives at HFMA, who served as moderator of the session, began by discussing some of the challenges that face stand-alone hospitals, including financial pressures, lack of scale and resources. However, he then turned the discussion to some of the benefits of stand-alone facilities.

The panelists, who are all members of HMFA's cohort of stand-alone financial leaders, shared three key benefits of facilities that are not part of larger organizations.

**Benefits**

**Local access to care**

Harold Dupper, vice president of finance at Platte Valley Medical Center in Brighton, Colo., explained that one of the guiding principles of PVMC is to maintain access to care in his community, which is just outside Denver. "Our organization is looking mostly at how do we meet the clinical needs of the community and provide clinical offerings within the community...so people don't have to travel outside the community to get that higher level of care," he said.

However, maintaining depth of service in a small community can be a challenge. In particular, physician recruiting for more specialized services is difficult because more physicians prefer living in metropolitan areas. In order to maintain the depth of certain service lines, the hospital has had to enter into clinical affiliations with other healthcare providers.

**Strong bonds to the community**

Stand-alone hospitals also generally are more tightly knit with their communities than larger tertiary care centers. Michael Allen, CFO of Winona (Minn.) Health said that his organization's deep roots in the community positions it well to take on population health. While Winona Health may not have the scope and scale to handle total risk or capitated payments, he said the health system does see a role in partnering with payers in new models of care.

"Part of the reason is [payers] don't deliver the care. They don't have the relationship with the patient and the
"community, but we do," said Mr. Allen. "Someone is going to get a capitated payment, and we're going to contract with them," adding that his system will focus on providing high-quality, low-cost care in order to remain attractive.

**Agility**

Stand-alone hospitals are generally more agile than larger systems due to fewer levels of approval required to bring about change. Mr. Allen said he has found his system to be more nimble than larger systems regarding ability to meet meaningful use and participation in health information exchange.

**Challenges**

**Size, scope**

The panelists then discussed the biggest challenges facing their ability to stay independent. James Doyle, executive vice president and CFO of Elmhurst (Ill.) Memorial Healthcare, which is just weeks away from completing a merger with Edward Hospital in Naperville, Ill., said in the Chicago market, hospitals "need to be bigger" and "cover more population with single solutions" in order to remain competitive.

"We are chum for the big systems," he said.

Mr. Allen also said independent hospitals' lack of size and scope can make staying independent difficult. "One of our biggest challenges is our competitors have lots of resources," he said.

Access to capital, which many believe to be a challenge to stand-alone facilities, is "oversold" as a concern, according to Mr. Allen. "I think if your operations are poor, then your access to capital will suffer. We'll pay a little bit more for capital, but that differential isn't going to make a difference."

**Physician recruiting**

"Really the challenge is around physician development, medical staff development, having the right depth in that area because it takes a certain amount of critical mass of patient population to really keep certain levels of specialty in place," said Mr. Dupper of Platte Valley Medical Center.

Mr. Dupper explained PVMC has affiliated with other providers to bring in clinicians from other facilities to "round out" its medical staff in certain specialties. "We are working hard at that; however, it continues to be a challenge."

Myron Machula, CFO of Enloe Medical Center in Chico, Calif., agreed physician recruitment is a challenge, explaining that in his home state of California, the prohibition of the corporate practice of medicine gives larger system an advantage. "A [physician] foundation is expensive to create and maintain," he said.

Mr. Allen said much of the difficulty in recruitment is linked to taking call. When there is only a small group of physicians in a certain specialty, the demand for call coverage increases. "It's a handful of specialists in certain specialties where it's hard to attract them when talking about call," he explained. "99.9 percent of revenue requires a physician order. We're not going to do well if we don't do well there."

**How can stand-alone facilities remain successful?**

Most panelists agreed that strong partnerships are key to keeping their facilities sustainable in the next several years. Elmhurst chose to pursue a full merger, but many other types of partnerships outside of full mergers are available to stand-alone facilities.

"I don't think we can avoid looking at associations, short of full mergers," said Mr. Machula of Enloe Medical Center. "Over time, you have to decide will that association will go to something larger, [but] having that experience of time will help to make a better decision if and when that event may arise."

Mr. Allen has begun to explore partnerships with vendors to pursue what he refers to as "virtual integration." Winona has entered into partnerships with vendors for IT and facility services and is exploring partnerships in other areas. "I'm becoming part of a larger organization that has larger scale and talent."

Mr. Doyle of Elmhurst summarized the need to achieve scale, at least in the Chicago market as a business imperative. "We can exist and thrive, but we can't really compete," he said. "The game is getting bigger, at least in Chicago."

Increasingly, the panelists agreed, payers will look to contract with organizations that provide access to an "adequate" network of healthcare providers in a market, unless the organization is in a geographically isolated
area. However, Mr. Machula asked an intriguing questions that never received an answer: "What the heck is a market today?"

Written by Lindsey Dunn

Copyright © 2019 Womble Bond Dickinson (US) LLP All Rights Reserved.

Source URL: https://www.natlawreview.com/article/stand-alone-hospitals-to-merge-or-not-to-merge-question