

## Tying the Knot in Trying Times: Special Considerations for Affiliation During a Recession

*For many years, healthcare providers have pursued mergers (or other consolidations) as one means of reshaping healthcare in their communities. Current economic conditions may give pause to those that remain independent, motivating them to re-consider their decisions to "go it alone." This article provides food for thought for these hospitals by discussing the special implications and considerations for affiliation during a recession.*



BY CATHY SULLIVAN CLARK

### Need for Speed

An affiliation or consolidation is change, and any change effort requires four dimensions to be successful:

- Pressure for change—because change is difficult, there always must be a compelling reason to change.
- Capacity for change—the organization (especially its leaders) must be both willing and able to change, with the organization's culture supporting the desired change.
- Vision for change—the potential upside of change must be clearly articulated and understood by key constituents.
- Action plan for change—the specific steps for achieving the change should be delineated upfront.

In the past, it was not unusual to see hospitals take years to decide whether to pursue a particular merger. In today's situation, healthcare providers do not have the luxury of easing into change. Current economic conditions may call for rapid action and organizational leaders may need to agree to an affiliation before the organization overall is "ready" for the change. In this case, the affiliation transition plan must include specific steps for getting key constituents on board as the affiliation is unfolding.

Time is also a factor for another reason. Affiliation planning can be very time-intensive, distracting leaders from other needs for many hours over many months. In the current environment, most healthcare leaders cannot afford to put other matters on hold for long periods of time while they sort out affiliation options. If an affiliation is to be pursued, time is of the essence in getting it done.

### Local Options Better than Others

Healthcare providers pursue affiliation for many reasons and affiliations come in numerous shapes and sizes. For example, in some cases, the primary motivation

behind a clinical affiliation is to enhance quality; in others, it is to improve image and reputation in the eyes of payers and patients. For these types of affiliations, geographic proximity of the partners is less important. However, in an economic crisis, the predominant reason for the affiliation is to enhance financial performance which often requires a fundamental restructuring of care delivery. The best affiliation partners are most likely

to be neighbors since the opportunity to consolidate services and eliminate duplication increases exponentially with proximity.

### Putting Your Best Foot Forward?

The parties to any new courtship hope to make a good impression, initiating the relationship from a position of strength. However, this may be difficult in affiliation discussions that begin today as few (if any) providers are immune to the current, harsh economic realities. While a struggling organization may be tempted to delay a conversation about affiliation until things get better, most often this is the wrong course. Remember that all providers are pretty much in the same boat, having seen their fortunes and positions decline in recent months. Despite real financial challenges, there may be no better time than now to begin a dialogue about reconfiguring care for the future.

### Capital Constraints Loom Large

Many healthcare organizations pursue affiliation as a means to enhance access to capital. While this may be a long-term benefit of a consolidation that is initiated today, in the short run, capital availability will continue to be constrained. Healthcare organizations pursuing affiliation at this time must be realistic about their immediate financial capability. In the initial phases of a consolidation, the primary focus will likely be on opportunities to reconfigure delivery, improve care, and achieve efficiencies short of major capital investments. Affiliations that require substantial upfront capital certainly are less attractive in the current environment.

Healthcare providers must develop a full arsenal of strategies to counter current financial pressures, among them affiliations with other providers. Savvy leaders will recognize that a merger or consolidation during recessionary times can encompass a number of special challenges and considerations. At the same time, this environment creates a platform for affiliations to reach their true potential, which in other situations have been allowed to languish or become derailed.

*Cathy Sullivan Clark, Senior Principal and National Practice Director, Strategy & Planning, Noblis' Center for Health Innovation, can be reached at (413) 452-2800 or cathy.clark@noblis.org.*