

CULTURE of ENCOUNTER

Partnership Integration in a Catholic Healthcare Ministry

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Rapid Pace of Consolidation

- "More than half of the country said **provider transactions also create more coordinated care and efficiency**. The market forces, have frankly, been unleashed, and they are going to move forward fast regardless of what happens in the presidential election." *Modern Healthcare*, March 2016
- "Health Care providers, Insurers Supersize: Five years after the Affordable Care Act helped set off a **healthcare merger frenzy**, the pace of consolidation is accelerating, transforming the medical marketplace into a land of giants." *Wall Street Journal*, September 2015
- "Consolidation in the hospital industry – where **mergers and acquisitions are increasingly commonplace** – benefits patients and enhances access to care, according to a Federation of American Hospitals (FAH) study." *The Advisory Board Company*, January 2014

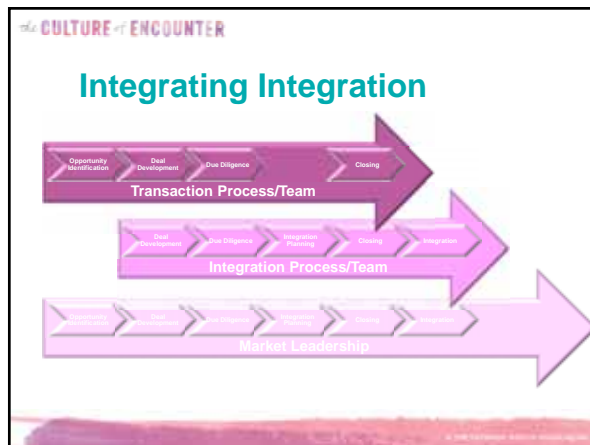
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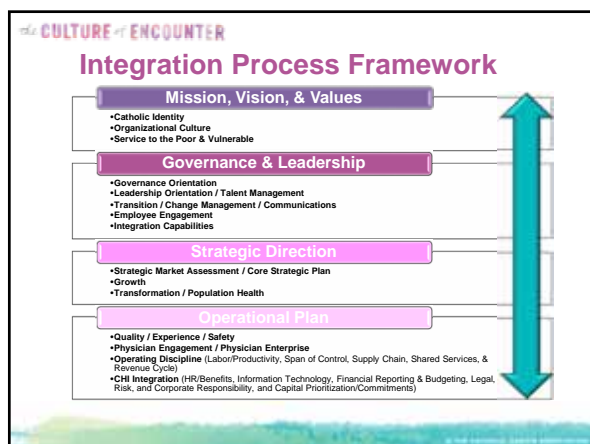
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The Integration Imperative

- Most organizations dedicate significant resources to getting the deal done
- And then the leadership team is left to manage after the ink is dry
- Most teams are not equipped to integrate a new partner along with all the other strategic priorities in a rapidly changing marketplace
- There needs to be a dedicated, experienced team focused on new partner integration
- Catholic Health Initiatives has made a significant investment in the integration process







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Two Determinants of Success

- **Mission, Vision, and Values**
 - It starts and ends with congruence
 - If you don't have this from the start, you probably shouldn't have done the transaction
- **Board Chair and CEO**
 - They set the tone with the board, medical staff, leadership, and the entire organization on whether it will work (or not)

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Integration Playbook

- To ensure that integration occurs in a consistent, planned, and thoughtful manner, we have developed an "Integration Playbook"
- The "playbook" is built on the methodical, transparent integration framework (with frequent updates based on constant learning)
- It is a rather lengthy document with just about everything you need to do and know throughout integration
- New partners will understand entire process and what will happen when (as well as why and how)



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Prioritizing Key Levers

- Starting with patients (and patient care) and physicians sets up the rest of the strategic, operational (and financial) components of the integration process for success
- Having said that, you will still want to derive value from the partnership
- There are typically only two to four key synergies in any transaction that create the vast majority of deal value
- You should understand and identify where value can be created (early in the process), what is proven to work within your organization, and where the risks lie as well as specific milestones, metrics, and clear accountability for results

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Important Integration Competencies/Behaviors

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Case Study

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Case Study Overview

- A potential acquisition was identified in an existing CHI market
- The potential partner had a rich history and strong community loyalty, but they had struggled financially for the past few years (with the competition gaining some momentum)
- It was a sizeable organization in terms of net revenue, hospital size, clinical programs, and physician enterprise
- There was very strong mission, vision, and values congruence
- The organization fit well within the strategic priorities of focus of the existing ministry
- There were several identifiable opportunities for improvement:
 - Productivity
 - Management Span of Control
 - Supply Chain
 - Physician Enterprise
 - Network Integrity
 - Local System Synergies
 - Overhead
 - Revenue Cycle
 - Real Estate Consolidation
 - IT Integration

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It All Started With Mission

Mission, Vision & Values

- We held a Day One Missioning Ceremony that engaged the entire community and all the associates in the transition process
- We preserved the partner's legacy and the presence of their founding Congregation
- We promoted several of their executives into system leadership positions (including the VP of Mission Integration)

Governance & Leadership

- We rebuilt a community board including some individuals that had "lost faith" in the organization in the past
- The new partner's board members added competencies to the regional health system board
- We developed a local leadership team mixed with existing CHI ministry leadership and existing senior leaders

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Methodical Approach to Improvement ("Seasons")

Governance/Leadership Engagement			
"Spring"	"Summer"	"Autumn"	"Winter"
\$4.8 million	\$11.9 million	\$1.4 million	\$11.0 million
Acute Care Integration Growth Service Line Evaluation Real Estate Statewide Health Network	Span of Control Labor/Productivity Supply Chain Anesthesia Clinical Resource Mgmt/LOS	Physician Enterprise Integration	Wage Index Revenue Cycle IT Payer Integration
Transition Management			

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One Measure of Success

*Income Statement Comparison
FY13 vs. FY15
(Dollars in Thousands)*

Revenue	FY13	FY15
Net Patient Services:		
Net Patient services revenue before provisions for doubtful accounts	250,475	281,538
Provisions for doubtful accounts	26,602	15,178
Total Net Patient Services Revenue	232,873	262,360
Other Operating Revenue:		
Other Operating Revenue	13,214	12,360
Total Non Patient Revenue	13,214	12,360
Total Operating Revenue	246,087	274,720
Expenses:		
Salaries & Wages	108,728	108,152
Employee Benefits	27,240	28,224
Purchased Services	48,295	43,126
Supplies	40,513	51,788
Depreciation and amortization	12,978	8,675
Interest	573	6,344
Other	19,775	22,585
Total Operating Expenses before restructuring, impairment, and other losses	268,097	268,894
Income (loss) from operations before restructuring, impairment, and other losses	(15,010)	6,826
Restructuring, impairment, and other losses	-	220
Income from Operations	(15,010)	6,606
Nonoperating gains (losses)		
Investment income (loss)	201	13
Other non-operating gains (losses)	(4,405)	51
Total nonoperating gains (losses)	(4,204)	64
Excess (deficit) of revenues over expenses	(19,214)	6,670

A "before" and "after" peak at performance shows significant improvement on both the revenue and the expense sides of the equation in a short period of time

Revenue grew by 11.6%

Growth occurred without salary gains given synergy work



Growth in income of over \$24.5 million

That was accomplished without major restructuring costs

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Lessons Learned

- Start the integration process early
- Culture trumps strategy (and operations)
- Put in the time and be present (the process can be overwhelming)
- Understand that every individual moves through the process at a difference pace

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Some More Lessons

- If it isn't broken, then please don't fix it
- Integration is a marathon not a sprint (manage the pace and timing)
- Avoid the "new baby" syndrome (manage the crowd)
- There is always something for both organizations to learn from one another

