

The Partnering Process



**INTEGRATED
DELIVERY
NETWORKS**

As the demand for managed care arrangements intensifies, providers across the United States are linking up with established healthcare networks. In markets where provider networks do not yet exist, however, hospitals must still work from the ground up, gauging the climate for managed care and establishing

contacts with potential partners.

TESTING THE ROCKFORD MARKET

In Rockford, IL, Saint Anthony Medical Center began exploring possible partnership relationships more than two years ago, when it submitted a business review letter to the U.S. Department of Justice describing plans to form a preferred provider network with one of the city's other two hospitals. Saint Anthony Administrator Jerry Nash says that the medical center wanted to ensure that the justice department would approve such an agreement before it began pursuing the possibility. A few years earlier the justice department had blocked a merger proposal between Rockford's other two hospitals, each of which is significantly larger than the 254-bed Saint Anthony facility.

Nash says that calls from local employers for some form of managed care arrangement spurred Saint Anthony to look into partnership possibilities. "If you want to have a truly marketable managed care product," he notes, "you have to provide all sorts of services to payers and purchasers, and we realized that we could not offer some of the necessary ingredients. Our options have been to add the services on our own or to network in order to offer them. We believed that the latter course would provide an up-front cost savings both for us and for the community we serve."

Under the proposal, which was finally



"We need to be assured that a potential partner's operations don't conflict with the ethical values and standards we operate under," emphasizes Jerry Nash.

approved by the justice department late last year, Saint Anthony would subcontract with physicians and another Rockford hospital to offer managed care to area businesses (see *Hospitals & Health Networks*, December 20, 1993, p. 22). Nash speculates that the justice department's response took so long because of antitrust concerns and uncertainty over what the Clinton administration would do in healthcare reform.

PROBING POTENTIAL PARTNERS

In the meantime, Saint Anthony has been in talks with both of the other hospitals to determine which would be the more desirable facility to link up with. "We feel that either of them would be happy to partner with us," Nash says. "One factor that draws them to us is our affiliation with the OSF Healthcare System, sponsored by the Sisters of the Third Order of St. Francis. They are currently both stand-alone facilities, and I think they realize that the larger the system they affiliate with, the greater their chances for success under a capitated system."

Among the criteria Saint Anthony is using to evaluate the hospitals, the most important is a common mission and values. "We need to be assured that a potential partner's operations don't conflict with the ethical values and standards we operate under," Nash emphasizes. Once that criterion is met, the hospital would explore whether the other facility's services complement those offered by Saint Anthony. The facility's location and the specialty mix of its referring physicians could be additional factors.

Although Saint Anthony has continued to talk with the other Rockford hospitals, the facility has changed its plans somewhat since the business review letter was sent. "We're not so sure anymore that subcontracting with another facility is the direction we want to go in, as opposed to a true joint venture," Nash says. He adds that the possibility of entering a joint venture depends on a number of factors, including the approval of the Saint Anthony and OSF board, which is still eval-

uating whether it wants that kind of relationship.

One key development since the business review letter was sent are plans by the Sisters of the Third Order of St. Francis to provide managed care coverage under a capitated system for central and northern Illinois. Nash explains that these plans can have important consequences for how Saint Anthony will proceed in Rockford. "We will have to evaluate whether a partnership with another Rockford hospital will complement or conflict with the corporate plans," he says. "If there is a conflict, we will not proceed."

BUILDING TRUST

Nash hopes, however, that Saint Anthony will have the opportunity to become partners with a Rockford hospital. "I believe that, with health-care reform, it's important for Catholic organizations to start to look for ways to partner with non-Catholic organizations." He adds that one possible outcome is that if Saint Anthony linked with both the corporate health maintenance

Nash says to be open from the beginning about hopes and concerns.

organization (HMO) and a local hospital, it could bring the latter into the corporate HMO.

Nash acknowledges that making such a partnership work takes time and effort, particularly when the parties involved are both collaborators and competitors. "Building trust is an evolutionary process," he says. "Especially under a fee-for-service arrangement, there will always be an element of competition, no matter how close a joint venture you enter into. But the competition becomes healthier when you are not fighting the other facility tooth and nail for everything."

The conversations with the other Rockford hospitals have been constructive. Nash says that the best approach to forming partnerships is to be open from the beginning about hopes and concerns and to encourage the other parties to be open as well. Both of Saint Anthony's potential partners have been advised of the medical center's planned participation in the corporate HMO and its possible consequences.

The key advantage to collaborating with other

RECENT INTEGRATED DELIVERY ACTIVITIES

Following are recent integrated delivery activities that have come to our attention. Please keep us informed as you begin to integrate with other providers. Call or send your press releases or notices to *Health Progress*, 4455 Woodson Road, St. Louis, MO 63134-3797. We will continue to update our listings in upcoming issues.

Columbia, SC

Midlands Partnership for Community Health

Providence Hospital, Lexington Medical Center, Richland Memorial Hospital, South Carolina Baptist Hospitals

The four hospitals (one Catholic, one Baptist, and two community) have formed a network to address important community health issues. Separately, Providence Hospital and Baptist Medical

Center announced a joint venture to offer a preferred provider organization that includes area hospitals, physicians, and ancillary providers.

Davenport, IA

Proposed Hospital Merger

Mercy Hospital and St. Luke's Hospital

Merger plans, announced in March 1993, are currently being reviewed by the U.S. Department of Justice.

Des Moines

Mercy Network of Health Services

Adair County Memorial Hospital, Greenfield, IA; Audobon County Memorial Hospital, Audobon, IA; Davis County Hospital, Bloomfield, IA; Hamilton County Public Hospital, Webster City, IA;

Manning General Hospital, Manning, IA; Mercy Hospital Medical Center, Des Moines; Monroe County Hospital, Albia, IA; Ringgold County Hospital, Mount Ayr, IA; St. Anthony Regional Hospital, Carroll, IA; St. Joseph's Mercy Hospital, Centerville, IA; St. Jude Hospital, Vieux Fort, St. Lucia, West Indies; Story City Memorial Hospital, Story City, IA; Story County Hospital, Nevada, IA; Wayne County Hospital, Corydon, IA; Westside Hospital, Des Moines

In October 1993 the integrated delivery network announced it will offer a health-care package, titled Mercy Accountable Health Plan, which will become available later this year. In December 1993 Mercy Medical Center purchased Westside Hospital, Des Moines, a 66-bed facility with 18 licensed psychiatric beds that is now part of Mercy Network of Health Services.



providers, Nash believes, is that the trust which grows in a productive relationship helps wear away resistance to further cooperative ventures. Providers start making mutually beneficial decisions that also help control healthcare costs for the community. "As you go through the process, you start looking at how you can partner in other areas. If one facility is getting ready to replace a certain piece of equipment, planners may decide to purchase it jointly with the other provider or not to purchase it at all if the other hospital already has it. The ability to work cooperatively can be really beneficial in developing outpatient services."

An advantage of working with non-Catholic providers, Nash notes, is that it provides an opportunity to educate them about the Catholic mission and possibly even to influence the way they operate. He has noticed that physicians who are unfamiliar with Catholic healthcare often marvel at the process Saint Anthony Medical Center goes through in making difficult treatment deci-

Hospitals
must begin
with a firm
commitment
to seeing the
process
through.

sions. "They are impressed with the commitment to life we have here, and they feel more support from us when they are forced to make hard choices," Nash says. He adds that other healthcare providers are likely to notice this kind of response from physicians. "The possibility that our ethical standards and beliefs will have an impact on non-Catholic institutions is very exciting," Nash stresses.

CLEAR VISION

Any hospital considering the possibility of linking up with other providers must begin with a clear idea of the benefits and difficulties, as well as a firm commitment to see the process through, Nash emphasizes. "To go into this type of venture and do it well, you must first educate yourself and your board about the benefits of moving in this direction. Once you've got that commitment, you can begin to take the steps and make the difficult decisions necessary to making a go of it."

—Phil Rheinecker

Everett, WA

Hospital Merger

Providence Hospital and General Hospital Medical Center

Hospitals merged in January. Merged hospital (as yet, unnamed) is owned by Sisters of Providence, Seattle, but run by a local board. Merger agreement stipulates that the merged hospital will not perform abortions or tubal ligations.

Lafayette, IN

Proposed Hospital Merger

St. Elizabeth Hospital Medical Center and Lafayette Home Hospital

Hospitals propose to merge operations under a single board of directors to improve local healthcare delivery. Hospitals will maintain individual identities.

Manchester, NH

Proposed Hospital Merger

Catholic Medical Center and Elliot Hospital

Proposed merger, announced in September 1993, is being reviewed by U.S. Department of Justice, which in October issued a second request for information to review possible anticompetitive effects.

Miami, FL

Proposed Hospital Joint Venture

Mercy Hospital and Mount Sinai Medical Center

Hospitals are discussing possible non-medical joint ventures and shared support and ancillary services. Could lead to merger in the future.

Springfield, MA

Hospital Senior Management Consolidation

Mercy Hospital, Springfield, MA; Providence Hospital, Holyoke, MA

In September 1993 the hospitals, both members of the Sisters of Providence Health System, hired a chief executive officer to manage both facilities and consolidated a number of top management positions. Their goal is to coordinate services and become more attractive as managed care providers.

Yakima, WA

Hospital Joint Venture

St. Elizabeth Medical Center and Yakima Valley Memorial Hospital

Hospitals are discussing joint ownership of a laboratory and starting a family practice residency together.