



## UPDATE TO SUBSCRIBERS

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### NEW ISSUE OF GREAT BOARDS COMING SOON

The spring issue of Great Boards is being finalized and will feature articles on community benefit, future healthcare trends, and institutional integrity. In the meantime, check out the winter issue – with articles on recruiting for diversity, physician compensation, and developing board goals -- at [www.GreatBoards.org](http://www.GreatBoards.org).

#### MEMO TO THE BOARD

from Barry S. Bader, Publisher of Great Boards

##### **Strategic Partnerships: Should They Make Your Board's Agenda for 2008?**

In the late 1990s a “trifecta” hit the healthcare system, but many hospitals held a losing ticket. Medicare and Medicaid cuts in the Balanced Budget Act, the peak of managed care plans’ power to negotiate hospital contracts, and a worsening economy that swelled the ranks of the uninsured using hospitals as a safety net all resulted in hospital operating losses and cutbacks in staffing and capital spending.

Fast forward to 2008: the Bush Administration proposes major Medicare cuts, health plans have consolidated and wield huge market power, a recession is looming, bond insurers may fail, and the profitability or utilization of some cash cow services, namely invasive cardiology, is declining. It may be “déjà vu all over again,” as Yogi Berra would say.

In the last two months, seven of my clients have made acquisitions or are pondering deals. I checked with several other consultants and attorneys who see a similar pattern.

A forecast of tough economic times should prompt hospital boards to ponder the strategic implications of these developments:

1. Do we have the critical mass we need to leverage economies of size and scale and optimize operating performance?

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#### GOVERNANCE TRENDS AND NEWS

**Provena hospital appeals loss of tax exemption; AHA files amicus brief; major implications for other tax exempt hospitals**

<http://www.aha.org/aha/advocacy/compliance/tax-exemption.html>



**GAO warns: Action needed on health costs to avoid possibility of serious economic disruptions**

<http://www.gao.gov/highlights/d08411thigh.pdf>



**In nearly a third of cases of sudden cardiac arrest in hospitals, staff take too long to respond, increasing risk of brain damage and death, new study finds**

New England Journal of Medicine, Jan. 3, 2008,  
<http://content.nejm.org/content/vol358/issue1/index.shtml> (subscription required)

**MEMO: Strategic Partnerships**

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2. Do we have a strong enough bottom line, balance sheet and reserves to endure tough years and attract affordable capital to fund physical plant modernization, new technology, and growth initiatives?
3. Do we have under-performing assets that we should divest or restructure?
4. If the hospital is freestanding, should we join a system now, before our finances deteriorate?
5. If we are a system, is this a good time to grow stronger through selective acquisitions or merger with other systems?
6. If we are a system, are we fully exploiting the potential of operating efficiencies by reducing duplicative expenditures and integrating clinical services across facilities?
7. Do the pressures on physicians give hospitals an opportunity to strengthen their alignment with doctors, by forming or acquiring groups or employing physicians?
8. Do we have an effective governance structure that can examine and take action on these questions objectively?

These are not easy questions, which is precisely why boards should discuss them with their management teams – before an economic crisis occurs. An updated 3-5 year financial projection is a good starting point, coupled with a strategic assessment of your local market, competitors, physicians, and possible payment system reforms.

Strategic partnerships – whether you're merging, acquiring, or just affiliating -- raise fundamental questions for boards: What are our objectives in seeking to partner, and what are our criteria for assessing alternatives? What will be the effect of a strategic partnership on governance and autonomy, on our senior

management team, our physicians, our foundations and fund-raising, our culture and values, and most important, the community we serve? What's in the community's best, long-term interests? Would a strategic partnership strengthen our long-term financial sustainability, efficiency, and quality -- and the community's access to services?

If a strategic partnership strategy makes sense, then what is the board's direction to management? Should the CEO initiate a formal process to request interest or proposals, quietly explore selective partnerships, or just wait for opportunities to arise?

As boards plan their work and retreats for the year, the opportunities offered by strategic partnerships may well be a ripe subject for serious discussion.

Barry S. Bader  
Publisher, *Great Boards*

**More Governance Trends  
and News**

**Half of physician owned specialty hospitals lack emergency departments and full-time physician availability – reforms needed, says OIG**

<http://oig.hhs.gov/oei/reports/oei-02-06-00310.pdf>



**Facing primary care physician shortage, changes may be needed to widen scope of nurse practitioners' practice, report says**

<http://www.chcf.org/documents/policy/ScopeOfPracticeLawsNursePractitionersIB.pdf>