“Key Drivers of a Successful Academic Healthcare Merger”

Glenn K. Geeting, MD
Goals of Presentation

- Identify drivers of recent merger trends
- Identify reasons for failed mergers in the 1990’s.
- Elicit key drivers anticipated to lead to successful merger by an Academic Medical Center.
- Discussion
Healthcare in US is changing
agar.io
Healthcare in US is Consolidating

- Independent hospitals/health systems
- Owned/operated by HMA
- Owned/operated by WellSpan
Healthcare in US is Consolidating

- Owned by/affiliated with Geisinger
- Owned/operated by CHS
- Owned by/affiliated with WellSpan
- Owned/operated by UPMC
- Seeking a partner/merger

Lancaster General Medical Center
Lancaster Regional Medical Center
Memorial of York
Holy Spirit
St. Joseph Medical Center
Reading Hospital
Ephrata Community Hospital
Lewistown Hospital
Mount Nittany Medical Center
Carlisle Regional
Chambersburg
PinnacleHealth
Lancaster General
Hanover
Gettysburg
York
Heart of Lancaster
Good Samaritan
Lewistown Hospital

Owned by/affiliated with WellSpan
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UPMC
Geisinger
Community Health Systems

Healthcare in US is Consolidating
Hospital deals on the rise
America’s Health Insurance Plans

Provider Consolidation
LESS COMPETITION AND HIGHER COSTS

Research demonstrates that when hospitals consolidate, either merging with other hospitals or buying up physician practices, health care costs go up. Provider consolidation gives hospitals greater negotiating strength and limits competition, resulting in higher prices for services, higher costs for patients, and no improvement in the quality of care delivered.

Physicians Are Becoming Hospital Employees

In 2000, 1 in 20 specialists was a hospital employee...

..Today, 1 in 4 specialists is a hospital employee.

“Last year, a 15-minute visit to a doctor in private practice cost $69...That same visit to a hospital-employed physician cost $124.”
- Orlando Sentinel

Increasing Market Concentration Leads to Higher Prices for Consumers

Percentage increase in market concentration from 1999-2003.

“Research suggests that hospital consolidation in the 1990s raised prices by at least five percent and likely significantly more. Prices increase 40 percent or more when merging hospitals are closely located.”
- Robert Wood Johnson Foundation
• Pace of consolidation is increasing
• 71 hospital deals in 2015 announced as of Aug 31, the most since 1999
• The top 5 companies are being consolidated into 3 massive corporations

Drivers of Healthcare Consolidation

- Look at insurance, airlines, and telecommunications
  - national or international industries that are now oligopolies
  - Georgia Tech’s “rule of 3s”
“The ACA is the trigger.”
  • Robert Kocher, former White House health adviser

Cost is the biggest driver of healthcare reform

The Federal Trade Commission held a 2-day conference last year on healthcare consolidation
Three Basic Financial Drivers of Healthcare Consolidation

- Liquidity and balance sheet drivers
  - Economies of scale
  - Spreading fixed overhead costs to a larger base, gaining efficiency
  - Withstand systemic shocks

- Operational metrics
  - Smaller hospitals desire a broader base to fill beds
  - “Uncontrolled variation is the enemy of quality.” Deming

- Purchasing power
Case Study of a Failed Merger
Jaan Sidorov MD, Managed Care, November 2003

- July 1997-November 1999
- Geisinger Health System + Hershey Medical Center = Penn State Geisinger Health System
  - Both financially healthy
  - Climate of consolidation
- Board of Directors
  - Chair appointed by Geisinger had the tie-breaking vote
Penn State Geisinger Health System

Advantages of Merging

- Broad customer base, >1 million people
- No longer had to compete
- Support of financially threatened academic health center
- Access to greater capital
- Integration of managed care principles
- Greater negotiating leverage
- Predicted 3y cost reductions of $105 million
Geisinger Health System

- Northeast PA
- Strong reputation for health care management
- Geisinger Health Plan: not-for-profit HMO, physician-led, owned by the health system
- Wanted the luster of affiliation with an academic health center
Hershey Medical Center

- South Central PA
- Penn State College of Medicine
- Health insurance, education, and research costs were considerable
- College of Medicine support formula
- Academic structure, strong chairs of independent departments
“Winners and losers are inevitable”

- Clinical and residency programs challenged with tackling leadership and ownership

Cost savings not realized. First year deficit of $30 million

Culture clash

- strong academic departments vs. managing salaried physicians
- Distrust from nearby providers and hospitals
- The Final Straw- Microbiology service consolidation to Geisinger
  - Microbiology, Pathology, ID protest
“Long after the merger failed, there is still no shortage of unflattering anecdotes about delay, gaming, passive resistance, demeaning colleagues, bullying opponents, and failing to address conflicts of interest in a setting that was supposed to be dedicated to healing and service.”
Case Study of a Failed Merger

Lessons Learned

- Leadership: manage winners and losers
- Cultural differences are easily underestimated
- Mergers do not automatically result in economies of scale
- Not all stakeholders will welcome a merger
Mergers vs Systems

- Unique definition in healthcare
- **Merger** = combination of separate facility licenses into a single license
  - Allows shift of inpatient services across facilities
  - Reorganization or elimination of services
  - Potentially greater cost savings
  - May bypass state regulations
- **System** = common ownership but separate facilities, licenses, and financial records
  - may impede clinical consolidation
Mergers vs Systems

- Mergers in which hospitals consolidate financial reporting and licenses generate savings of approximately 14%: 2, 3, and 4 years after merger

- Consolidation into Systems does not generate savings, even after 4 years

Does Consolidation Affect Quality of Care?

- Study of CA hospitals 1991-1996
- No evidence that mergers and acquisitions measurably affect inpatient mortality, may increase myocardial infarction readmissions and early discharge for normal newborns

## Consolidation and Mortality

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<tr>
<th></th>
<th>No Consolidation</th>
<th>Pre Merger</th>
<th>Post Merger</th>
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<tr>
<td><strong>Heart Attack Mortality</strong></td>
<td>9.6%</td>
<td>7.7%</td>
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<td>9.3%</td>
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* Source: Hospital Mergers and Acquisitions….Does Market Consolidation Harm Patients; Journal of Health Economics, March 2000
Reasons for failure in the 1990’s

- Cultural differences
- Emotional vs rational decision-making
- Forced structure
  - Failed to coordinate care
  - Information technology
- Lack of payment reform/incentives
Drivers of a Successful Merger

- **Culture**: everybody has a shared goal
  - new unified values, mission & vision

- **Clear communications**

- **Leadership**: 2% of people in organization have huge impact on the other 98% (Ram Charan)
  - Collaboration is a key value
  - Ability to synchronize different points of view
Drivers of a Successful Merger

• Structured approach to managing change (ie. don’t force change)

• Population Management / Grow Patient Base
  – Payment reform will change provider behavior
Recommendations

- Change Management
- Triple Aim
- Similar Culture
- Patient Base

Potential Partners
Recommendations

- Communication (trust)
  - establish clear expectations

- Develop capabilities for partnership

- Learn from the past: rational decisions
  - What is best for the new organization

- Identify service lines that coordinate the continuum of care
  - identify experts and develop teams

- Have contingency plans
Group Members

- Carolyn Barbieri
- Glenn Geeting
- Jerry Griffin
- Brenda Mallory
- John Potochny
- Scott Russell

Sponsors: Jeff Miller, Mike Freeman
**Interviews Conducted**

- Craig Hillemeier, MD, CEO of Penn State Hershey Medical Center and Health System, Senior Vice President for Health Affairs for Penn State, and Dean of College of Medicine
- Robin Wittenstein, COO of Penn State Hershey Health System
- Michael Freeman, Senior Director of Strategic Planning, Penn State Hershey Health System
- Wayne Zolko, Associate Vice President for Finance and Business and Controller at Penn State Hershey Medical Center
- Steve Ettinger, MD, Interventional Cardiology Program Director, E-MBA student with Penn State Smeal College of Business
- R. Kevin Grigsby, MSW, DSW, 1st Senior Director, Member Organizational Development at Association of American Medical Colleges
- David J Handel, MBA, former director of Indiana University Hospitals, and former executive vice president and chief operating officer, Clarian Health Partners, Indianapolis, Indiana.
- Daniel A. Handel, MD, MBA, MPH, Chief Medical Officer and Executive Medical Director, Medical University of South Carolina
References


References