



## Pondering a Partnership?

### Community hospitals evaluate relationships as a pathway to financial vitality

#### THE SITUATION

Healthcare organizations today face unprecedented pressures. Economic uncertainty, the COVID-19 pandemic, the growing number of uninsured individuals and other forces cause smaller, community-based hospitals in particular to consider the pros and cons of forming a relationship with a larger institution.

In some cases, there is no choice — outside resources are necessary for sustainability. Community Hospital Corporation (CHC) provides help where hospitals need it. CHC through its management and consulting arm, CHC Consulting, works with hospital boards to assess whether a relationship with another institution makes sense, and if so, what type.

#### THE SOLUTION

In some cases, hospitals aren't in the best of health when they turn to CHC for guidance. But no matter the state of the hospital, CHC first checks vitals, so to speak, and then conducts a thorough examination of the organization's cost structure and operations.

"Hospitals need to look at the reasons for their financial challenges, and how things might look years ahead," says Jim Kendrick, CHC president and CEO. Sometimes, revenue-enhancement and cost-reduction opportunities are identified that empower the hospital to adjust accordingly. Other times, a hospital can transfer management responsibilities to a third party while the hospital board maintains governance and control over the hospital. And then there are times when partnering with another entity is desirable or the responsible action. Regardless of the situation, CHC provides guidance to ensure the best possible outcome. In some cases, CHC might be that long-term partner.

Even when a partnership is the recommended path of pursuit, there are different types of partnership arrangement options available, short of total acquisition. Generally speaking, "The more money you want the other organization to risk on your behalf, the less power and control you get to keep," explains Kendrick.

Hospitals need to take stock before seeking out partners to identify their own strengths and where resources and support may be needed.

Jim Kendrick  
President and Chief Executive Officer  
Community Hospital Corporation



An affiliation agreement transfers neither risk nor governance: The smaller organization maintains control, and should it fail, the larger organization does not take a hit. The benefit to smaller hospitals of such an agreement is that it allows them to leverage the larger organization's purchasing power and use its resources and physicians.

A merger of equals occurs when the parties combine assets to form a new company. This type of partnership tends to work when both parties perceive that each will be made stronger by coming together. Mergers also take place that afford a lesser ownership stake, such as 20 percent, to the party that brings less to the partnership.

Sometimes finding a buyer vs. a partner is the only option. Acquisitions involve selling all assets and ceding all control to the buyer.

## THE PROCESS

When partnering is the wisest course of action, CHC guides hospital boards through the process of finding suitable prospects and preparing them to negotiate the relationship.

CHC also helps hospitals determine which resources are needed to ensure long-term success. A debt-saddled hospital might need a partner to take on its debt, for example, or an aging hospital may need guaranteed capital for facility upgrades.

At the same time, a hospital should identify and address which factors will attract or turn off prospective partners before approaching prospects or distributing a request for proposal (RFP).

Then, CHC assists the hospital in finding a partner that is not only willing and able to provide the needed resources but also has a shared mission and compatible culture. The goal is to bring about the proverbial win-win situation, or at the very least to make sure community-based hospitals stay in the game.

### About Community Hospital Corporation

Community Hospital Corporation owns, manages and consults with hospitals through CHC Hospitals, CHC Consulting and CHC ContinueCARE, with the common purpose to guide, support and enhance the mission of community hospitals and healthcare providers. Based in Plano, Texas, CHC provides the resources and experience community hospitals need to improve quality outcomes, patient satisfaction and financial performance. For more information about CHC, please visit [www.communityhospitalcorp.com](http://www.communityhospitalcorp.com).

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