

Hospital M&A During COVID-19: 3 Considerations in Determining the Right Affiliation Model

Daniel M. Grauman, Managing Director & CEO

Hospital mergers and acquisitions (M&A) slowed down during the pandemic, with [M&A volume declining each quarter](#) and sinking to a 10-year low as management teams focused on the immediate operational priorities of the pandemic. Now, as the initial shock of the pandemic wears off, leaders who were leaning toward partnership before the pandemic are left to consider: What type of affiliation model best meets our needs?



In the past decade, we've seen a shift in the structure of M&A transactions taking place. A decade ago, many hospital M&A transactions were focused on survival, with hospitals seeking a partner because they could no longer meet their communities' healthcare needs. While survival is [still top of mind](#) for 43 percent of hospital leaders, there has been a move toward more balanced transactions, such as a co-membership model or instances where a health system obtains a minority, rather than a controlling majority, stake in a hospital. Hospitals seeking partnership also are obtaining relatively higher capital commitments and a pledge to develop more advanced clinical programs and services.

While hospital M&A has slowed down during the pandemic, the benefits of partnership, including access to scale, have become increasingly clear. Recent transactions demonstrate the value that hospital leaders gain when they approach M&A with an eye toward the commitments they wish to secure for their organization and the communities they serve.

Consider the [proposed deal](#) between New Jersey not-for-profit systems CentraState Healthcare System and Atlantic Health System, a deal that is taking place even amid the pandemic. Earlier this year, about a month before the coronavirus emerged in the United States, these systems [announced a clinical affiliation](#) that will accelerate growth of CentraState's neurosciences and oncology programs. Now, as Atlantic Health takes its strategic partnership with CentraState to the next level through a co-membership model, the letter of intent outlines the benefits CentraState will receive under the deal, such as:

- **Shared governance.** Under the proposed deal, while Atlantic Health will [become the majority corporate member](#) of CentraState, both systems will hold seats on the CentraState governing board, and each will have specific rights and responsibilities.
- **Commitment to strengthen clinical services.** The proposed deal includes a five-year plan for capital commitments that will strengthen CentraState's clinical services, physician network and infrastructure

This balanced approach to hospital M&A is an example of where the industry was headed prior to the pandemic. It's also a reminder to not-for-profit hospitals and health systems that such arrangements are still possible, even during COVID-19.

"People are used to seeing just pure mergers where a large system acquires a smaller system. And that's not what this is," Atlantic Health System President and CEO Brian Gragnolati [told HealthLeaders](#) about the arrangement. "This is a new way of figuring out how to work with great healthcare organizations in a way that allows them to continue to stay laser-focused on the communities that they're serving, but get the necessary support through this relationship, so that they can do an even better job than they're already doing."

WHAT TO CONSIDER

As the dust settles from COVID-19, hospital leaders who anticipate that M&A will be part of their organization's future can take steps toward a more balanced approach by keeping the following in mind.

Initiate discussions around capital commitment and shared governance early.

This sets expectations for both sides from the start and ensures that leaders for both organizations are clear on priorities before a letter of intent is signed.

Determine your must-haves before discussions start. For example, if capital or service-expansion commitments are a priority for your organization, which commitments rank highest in priority? Which ones are nice-to-haves that your organization would be willing to give up to secure your highest-priority commitments?

Consider whether the organizations' missions and cultures support a balanced approach. Taking a strategic approach to hospital M&A means assessing whether your organizations are culturally compatible. That's especially true if your hospital seeks a balanced approach to M&A. Determine where cultural differences exist, and [don't shy away from discussions](#) around how to overcome them.

In the case of CentraState and Atlantic Health, shared mission and values were crucial to pursuing a balanced approach to M&A. "Our organizations align in mutually beneficial ways, with the constant focus on a common culture of commitment to our patients, physicians and employees," CentraState CEO John Gribbin [told a local news outlet](#). ●