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responding to the HIT imperative
a guide for independent hospitals

Independent hospitals and small health systems face a daunting challenge in developing their healthcare IT capabilities to meet the requirements of value-based care. But they must carefully weigh their options and proceed cautiously in meeting that challenge.

AT A GLANCE

Independent hospitals and small health systems that lack the financial wherewithal to develop an electronic health record system on their own, and that are seeking an alternative strategy, should keep in mind five lessons learned by organizations that have faced a similar challenge:

> Review the full range of options.
> Be realistic and acknowledge the importance of strong management.
> Adhere to a budget.
> Reach out to peers.
> Be wary of competitors' offers to help.

As recently as 2008, only 9 percent of acute care hospitals had adopted an electronic health record (EHR) that could provide such basic functionality as the ability to view patients' medications or test results. By 2013, this number increased to 59 percent.[a]

Congress prompted this growth in technological investment by passing two important pieces of legislation: the Health Information Technology for Economics and Clinical Health (HITECH) Act, in 2009, and the Affordable Care Act (ACA) of 2010. The HITECH Act created incentives for hospitals and health systems to adopt EHRs, while the ACA set in motion the U.S. healthcare system's gradual shift in focus from fee-for-service to population health management and value-based payment—a transition that could be accomplished only through the use of sophisticated health IT (HIT) systems.

Experts agree that upgrading the nation's HIT systems will bring communities tremendous health benefits and is the necessary next step for health care as an industry. Michael Alkire, COO of Charlotte, N.C.-based Premier, Inc., has aptly expressed this point: "Investments in HIT, data analytics, and

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a. Office of National Coordinator of Health IT and U.S. Department of Health and Human Services, *Report to Congress: Update on the Adoption of HIT*, October 2014.

modern clinical infrastructure are foundational for providers to seamlessly deliver population health services."[b]

The findings of a literature review by the Office of the National Coordinator for Health IT identified a prevailing sentiment among authors of HIT-focused content that the most common IT functionalities will have a positive effect on healthcare quality, safety, and medical efficiency.[c] The clear consensus is that any hospital still lagging in EHR adoption must modernize to be able to continue delivering high-quality health care to its community. Driven by government regulation, technological advances, and market competition, traditional inpatient-focused acute

care hospitals now view IT as critical to the future success of their business. IT systems are needed for population health analytics, meaningful use requirements, value-based care initiatives, ICD-10 implementation, accountable care organizations' requirements, narrow network navigation, consumer-driven health care, and shifting local market dynamics.

However, such modernization, as with all change, must be approached carefully, and the challenges are more acute for some organizations than for others. Around the country, smaller health systems and independent community hospitals that are struggling to transition to the new IT reality—particularly those organizations with less than $1 billion in revenue—are arriving at a difficult conclusion: Given the requirements of the ACA and the HITECH Act, hospitals require a comprehensive EHR to connect all components of their system, but the costs of implementing such a system independently are prohibitive.

b. Davis, J., "Technology Leads Hospital Expenditures," *Healthcare IT News*, Oct. 29, 2015.
c. Office of National Coordinator of Health IT, "Effects of Meaningful Use Functionalities on Health Care Quality, Safety and Efficiency, by Author Sentiment (% of Studies): Systematic Review of Literature from 2007-2013," HealthIT.gov, 2013.

EFFECTS OF MEANINGFUL USE FUNCTIONALITIES ON HEALTHCARE QUALITY, SAFETY, AND EFFICIENCY
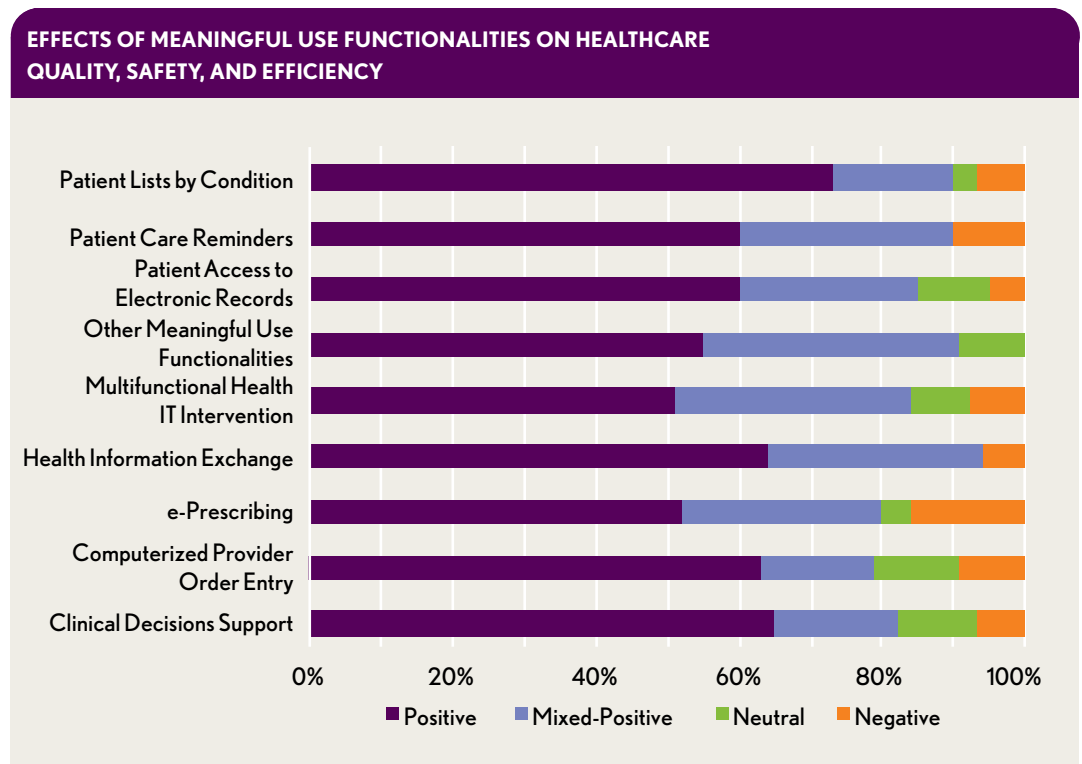
Source: Office of National Coordinator of Health IT, "Effects of Meaningful Use Functionalities on Health Care Quality, Safety and Efficiency, by Author Sentiment (% of Studies): Systematic Review of Literature from 2007-2013," HealthIT.gov, 2013.

EHRs are costly regardless of the choice of vendor, with a full implementation potentially running into the tens or hundreds of millions of dollars. Runaway budgets are common, and the fixed costs (such as initial hardware and software purchases) and variable costs (such as implementation and training fees) associated with an EHR implementation can quickly grow beyond management's expectations.

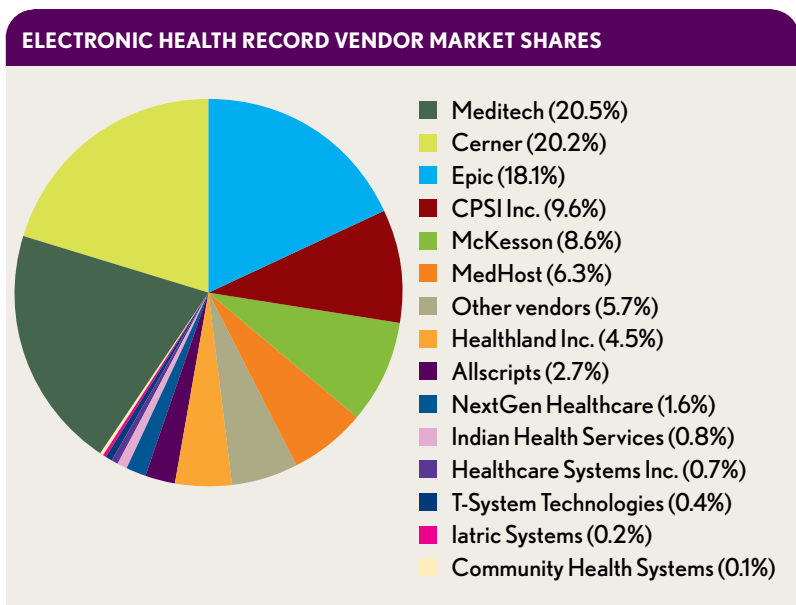As an example of how damaging budget overruns can become, one Midwestern hospital spent millions of dollars and several months of staff commitment upgrading its EHR to a top-of-the-line system. After these heavy investments, the system failed to launch properly, resulting in months of revenue cycle disruption, increased bad debts, and decreased government payment, which greatly exacerbated the hospital's financial troubles. Another example is the now infamous IT installation at the University of Arizona Health Network, where budget overruns on the vendor's installation led to unprecedented losses for the system. The health system was saved through an

Health Care's New IT Realities and Challenges

Bringing the healthcare industry into the 21st century has generated a seemingly endless series of headline-making deals where big-name EHR providers fetch multimillion- and billion-dollar contracts from health systems attempting to meet meaningful use requirements under HITECH. Leading HIT vendors all tout the comprehensiveness, enhanced security, and interoperability of their EHRs. A high point in this activity came in the summer of 2015 when the Department of Defense awarded its estimated $9-11 billion dollar Military Health System contract to Cerner.[a] The exhibit at right depicts how competition and market share among the multiple HIT players has remained relatively fragmented.

Despite this progress, large swaths of the industry have not started this process of IT conversion, and many of the nation's smaller hospital systems have yet to adopt sophisticated, state-of-the-art systems. Moreover, there is strong evidence that larger

ELECTRONIC HEALTH RECORD VENDOR MARKET SHARES

- Meditech (20.5%)
- Cerner (20.2%)
- Epic (18.1%)
- CPSI Inc. (9.6%)
- McKesson (8.6%)
- MedHost (6.3%)
- Other vendors (5.7%)
- Healthland Inc. (4.5%)
- Allscripts (2.7%)
- NextGen Healthcare (1.6%)
- Indian Health Services (0.8%)
- Healthcare Systems Inc. (0.7%)
- T-System Technologies (0.4%)
- Iatric Systems (0.2%)
- Community Health Systems (0.1%)

Source: Office of the National Coordinator for Health Information Technology, "Electronic Health Record Vendors Reported by Hospitals Participating in the CMS EHR Incentive," March 2015.

hospitals and health systems generally have greater IT capabilities than do smaller organizations, as would make sense, intuitively, given that larger enterprises have stronger financial resources, management expertise, and clinical support to better harness EHR capabilities. Population health management requires statistically significant inputs to inform decisions, which is possible only when vertically integrated providers can apply the law of large numbers.

a. Conn, J., "Cerner, Leidos and Accenture Win Massive Defense Contract for EHR System," *Modern Healthcare*, July 29, 2015.

acquisition by Banner Health, which promptly replaced the HIT system.[d]

Adapting to Change

Meanwhile, independent hospitals and small health systems that cannot afford to implement their own EHRs continue to fall behind. To meet this challenge, many small hospitals and health systems are creating a host of new, innovative, but also often not fully understood solutions. Some are electing to partner with systems that have the capital and expertise to facilitate an EHR rollout. Indeed, the increasingly vital role IT systems play in a hospital's business operations has been a significant factor driving much of the hospital merger-and-acquisition (M&A) activity occurring across the industry in recent years.

Often, however, in lieu of pursuing full business combinations (e.g., joint venture, merger, or sale), independent hospitals and small health systems have sought IT-focused partnerships with large regional or national health systems that rent their platforms and expertise to the smaller independents. As an example, one fairly large southeastern system (with about $700 million in revenue) recently partnered with a larger regional competitor (with $2.7 billion in revenue) in exchange for a 20 percent cost break on its IT system. Theoretically, such arrangements are a mutually beneficial exchange of cash for services. In practice, however, these partnerships expose the smaller system to unintended risk factors due to asymmetries in the partnership.

Problems arise in such IT partnerships because one party is providing the other with a fundamental operational need that cannot otherwise be acquired. Whoever is in control of a hospital's IT system will have an outsized role in defining that organization's future. Critics might suggest that this fact is the underlying motivation for larger hospital systems in lending their IT systems to smaller providers: The partnership is not simply an exchange of goods for services, but an opportunity for the large system to get its hooks into a future acquisition target.

In short, although a business combination can be an effective means for an independent hospital to upgrade its HIT capabilities, such organizations should be wary of potential pitfalls associated with such a strategy resulting from unanticipated changes to ownership, control, and governance. Before pursuing mergers or affiliations for such a purpose, independent hospitals should understand their vulnerabilities with respect to such transactions as well as the full range of alternative options available to them, which includes unique partnerships that have been developed by some organizations. Independent hospitals also should conduct a thorough assessment of the full implications of a HIT-driven strategy, including how a large health system tends to deal with a smaller player's IT system.

Benefits of Scale

It would be myopic to view the IT transition only from the perspective of a small player. The EHR transition is disrupting the strategy and decision making of large players as well. For example, in a recent conversation, the CIO of one hospital system with more than $2 billion in revenue told us: "Appropriately rationalizing hospital IT is vital in the face of declining reimbursement, increasing compliance concerns, increasing regulation, and an aging population. The main attributes we seek in an EHR program are reliability, consistency, and the ability to create analytical insights."

These considerations play a key role in this hospital system's overall strategy, and its executive leadership is fully aware that, given current interoperability standards, having disparate IT systems in a large health system is a burden. The solutions are either to maintain a Gordian knot of an operating system that pulls data from several individual systems, or to migrate all the system's hospitals to a single EHR. Such considerations also are playing into how major systems view targets, deals, and future strategic moves.

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d. Innes, S., "Banner Scrapping $115M UA Health Records System," *Arizona Daily Star*, Sept. 5, 2015.
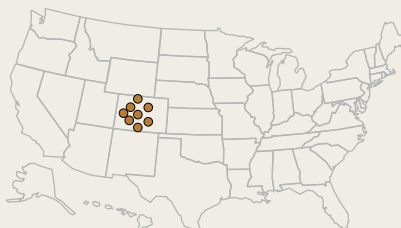
EVOLUTION OF HIT SYSTEM CONFIGURATIONS

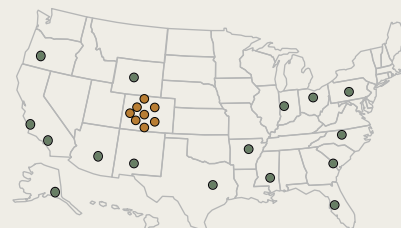### Traditional Investor-Owned Model
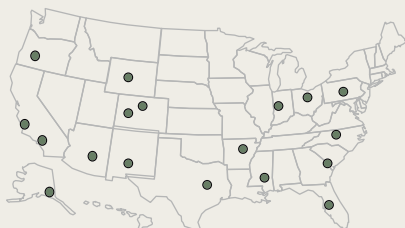
- Large volume of data
- Ability to extract findings
- Best practices, protocols

Traditional Not-for-Profit Model

- Network opportunities
- Geographic population coverage
- Care coordination capabilities

Future Configuration

- Best of both arrangements
- National breadth
- Local market insight

The results of these strategies will have an impact on the future configuration of larger health systems. Traditionally, investor-owned companies have been more likely than not-for-profit health systems to have geographically disparate hospitals in highly varied markets with the goal of achieving benefits from diversification. Not-for-profits, meanwhile, have typically owned hospital facilities densely clustered in one region. Experts believe that future success for hospital systems will depend on having hospitals both densely clustered in specific regions and widely distributed nationally.

To transition to this new distribution model, many growth-oriented large health systems are competing in an IT arms race to partner with smaller hospitals, using what could be characterized as a "bear hug" approach. In this structure, the smaller hospital enters into an IT-sharing agreement and ultimately becomes part of the larger system in exchange for little or no economic consideration or market provisions that are customary for a merger or acquisition. In essence, a bear hug approach amounts to a slow giveaway on the part of the acquired hospital.

Historically, this approach typically would occur between two not-for-profit hospitals, where a independent hospital would be offered the opportunity to "join the family" of the larger system, but would receive no consideration for its enterprise (which could amount to hundreds of millions of dollars).[e] The troubling aspect of such IT-focused partnerships is that the independent hospital, more often than not, is not interested in a full acquisition when it enters the initial IT partnership and is unaware of the larger health system's long-term intentions.

Alternatives for Independent Organizations

Practically speaking, once an independent hospital has agreed to use the IT platform of a larger hospital system, it has, in essence, chosen to become part of the larger system. This is because the arrangement involves an extreme operational reliance on the larger partner that both thwarts any other parties' strategic interest and makes the smaller hospital's prospect of withdrawal from the partnership (or, to use the colloquial expression, unscrambling the egg) untenable.

For this reason, smaller hospitals around the country have begun proactively pursuing innovative strategies to acquire the IT benefits of a large system while maintaining their independence

e. Cerreta, J., and Shields, J. "Protecting Corporate Value in Affiliation Transactions," *hfm*, April 2014.

and avoiding a large system's bear hug. These efforts often involve complex arrangements among several determined and committed players to find IT solutions via nontraditional channels. A common approach involves the establishment of a health information exchange whereby several hospitals share healthcare data to meet their IT goals while maintaining their independence. The sustainability of such exchanges remains to be seen. Along with all the usual IT implementation obstacles, shared information exchanges run into interoperability issues and the stress of balancing the interests of the collaboration's various parties.

Connecticut is home to another nontraditional solution. There, a group of several health systems—Griffin Hospital, St. Vincent's Medical Center, Lawrence and Memorial Health System, Western Connecticut Health Network, and Middlesex Hospital—have entered a partnership to centralize and distribute their healthcare data. The goal of the alliance is to acquire needed big data analytics, while each health system is able to maintain its independence. Thus far, the alliance has proved to be a strong example of how independents can thrive in a data-heavy, population-health-based world. In this way, by creating a constellation of independent hospitals that each capitalize a central data utility shared among the hospitals, smaller organizations may be able to successfully transition to a value-based care environment supported by big data analytics.

Key Considerations for Hospital Executives

In many ways, the future of the U.S. healthcare system remains unclear. But one thing is certain: IT systems will only increase in importance. Future HIT systems will need to be able to collect large amounts of reliable data that can be turned into actionable goals, but getting there will be a capital- and labor-intensive process. With that in mind, the following are five practical recommendations for leadership teams of independent hospitals that want to take control of their organizations' IT transitions based on the

experiences of organizations that have effectively met this challenge.

Review the full range of options. All too often in the fragmented not-for-profit hospital industry, management teams and boards do not fully educate themselves on their full range of strategic alternatives. Reviewing what others have done, looking at the benefits and limitations inherent in their outcomes, can be very helpful. More often than not, the comparable situations of other hospitals around the country can inform leadership's decision making.

Be realistic and acknowledge the importance of strong management. Hospital executives should take into account both the strengths and limitations of their organizations' data analytics capabilities, recognizing that an IT system is only as good as the capacity of the local management team. An IT system can lead to improved outcomes only to the extent that the management team is able to interpret information, extract findings, and act on those statistics. Such expertise generally requires a sizable and experienced team. Even if capital is available and the business logic is sound, organizations often find themselves overwhelmed by a product's complexity or dramatically underutilizing its functionality.

Adhere to a budget. Organizations that decide to go it alone in upgrading their IT systems should plan for the worst possible outcome and take steps to make sure they will be able to survive it. Multiple scenarios should be stress-tested and backup plans developed for situations where initial plans go awry. It may be prudent to have hard budgets that cannot be extended, even if it means abandoning an implementation or conversion. Training staff on a new system alone can run into millions of dollars. A runaway EHR implementation can be significantly more costly than the perceived advantages.

Reach out to independent peers. Odds are that within or near every healthcare market there are a number of hospitals that share similar IT

concerns. As long as they can find common ground, it's possible for these like-minded, independent hospitals to work together and achieve their IT goals. Several alliances have sprouted up nationally to foster collaborative work among independent hospitals. Shades of gray exist, however, with the forms and structures of these affiliation arrangements and with the degree to which ownership or control, or both, are exchanged.

Be wary of competitors' offers to help. In today's M&A-hungry healthcare landscape, it pays to be cautious. For any hospital looking to avoid a bear hug by acquisitive systems, any offer to integrate IT systems should be viewed with heightened awareness. More often than not, these arrangements end in full consolidation, and it is wise to keep this point in mind while giving full consideration to other options. ◾

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