NETWORK DEVELOPMENT, PARTNERSHIPS, AND STRATEGIC ALLIANCES:

How Collaboration Can Drive Success at Your Children’s Hospital
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EXECUTIVE SUMMARY

In October 2013, children’s hospital CEOs and industry leaders gathered at Boston Children’s Hospital’s Global Pediatric Innovation Summit + Awards to discuss the most pressing issues facing providers of pediatric healthcare. The Winter 2014 issue of Children’s Hospitals Today, a publication of the Children’s Hospital Association, summarized these concerns in “Up All Night” as the following:

- Workforce shortages are affecting hospitals’ ability to provide timely access to pediatric specialists.
- Revenue sources for research and patient care are shrinking.
- Navigating the murky waters of competition, collaboration, and partnerships can be difficult but beneficial.

ECG Management Consultants, Inc., believes that addressing these challenges will depend in large part on the willingness and deliberate effort children’s hospitals exert toward establishing successful and mutually beneficial strategic alliances. This white paper discusses the need for children’s hospitals to develop networks and strategic alliances with physicians, health systems, academic affiliates, and research partners to flourish within and beyond this era of transformational change.

Alliances with physicians, other hospitals and systems, academic medical centers (AMCs), and research partners will each require a unique set of considerations and approaches to ensure that the promise and potential of these partnerships are fully realized.

NETWORK DEVELOPMENT, PARTNERSHIPS, AND STRATEGIC ALLIANCES:

How Collaboration Can Drive Success at Your Children’s Hospital
Waves of change are rolling through the U.S. healthcare system as providers seek to innovate ahead of reform mandates that rely on increasing levels of performance-based payments. Research and vigorous debate have occurred about what imperatives are required and when changes must be in place for healthcare organizations to thrive in the new value-based healthcare environment. Answering these questions is particularly challenging for children’s hospitals and pediatric physicians as they grapple with the pacing of reform and its impact on their already unique position in the healthcare system. Despite lingering uncertainty about what transformational change will look like now and in the future, successful pediatric organizations are aligning with strategic partners in new and pathbreaking ways to ensure that their mission of serving the nation’s child and adolescent population is sustained.

**Alliances with physicians, hospitals, AMCs, and research partners each require a unique approach.**

new value-based healthcare environment. Answering these questions is particularly challenging for children’s hospitals and pediatric physicians as they grapple with the pacing of reform and its impact on their already unique position in the healthcare system. Despite lingering uncertainty about what transformational change will look like now and in the future, successful pediatric organizations are aligning with strategic partners in new and pathbreaking ways to ensure that their mission of serving the nation’s child and adolescent population is sustained.

**The Game Changer: Accepting Risk and Managing Population Health**

In the adult market, public and commercial payor initiatives are migrating toward value-centric payment systems in which economic rewards rise and fall with care quality, cost, and access. Under this new payment paradigm, high-performing organizations will be those that are capable of accepting risk and effectively managing the health of a population across the entire continuum of care. Meeting the needs of the pediatric population is a significant weakness within most adult systems, particularly those that dramatically reduced their pediatric capabilities in the past to chase services with higher margins. Recognizing this, many larger health systems have been actively developing their pediatric alignment strategies, including acquiring or aligning with children’s hospitals, pediatric physicians, and other strategic partners in an effort to increase their market scale, meet patient demand, and expand their clinical service mix.

These same considerations and strategies are beginning to permeate children’s hospitals and pediatric care organizations, whose expertise in the under-18 population is second to none. Within this climate of consolidation and affiliation, children’s hospitals have a unique opportunity to parlay their unique expertise into relationships across a number of competing adult networks or to work more directly with a few to narrow their network offering in return for preferred terms. Alternatively, many have focused alignment efforts on organizations that share the same mission of delivering pediatric healthcare.

While a select number of children’s hospitals can afford to be everything to everyone, most are facing the need to band together and focus their investments on specific areas of expertise within the pediatric continuum. This strategy recognizes the fact that pediatric subspecialty care inherently requires large populations. Ultimately, these partnerships are designed to maximize population health management (PHM) capabilities, coordinate and integrate care, bolster their portfolio of clinical services, enhance funds flows, and leverage resources.

**PHYSICIAN AFFILIATIONS**

As healthcare ventures deeper into reform mandates and efforts, the effects are becoming more pronounced. Clear evidence of this can be seen in the acceleration in associations among children’s hospitals, pediatric subspecialists, and, more recently, primary care pediatricians.

**Driving Factors: Why Alignment is Important Now**

In addition to the factors driving change across the healthcare system as a whole, forces unique to children’s hospitals are pushing tighter affiliations with pediatric providers. These driving forces include:

- Increasing investment in clinical quality infrastructure and coordination among inpatient, outpatient, and ancillary care
- The nesting of subspecialty practices and Centers of Excellence within larger children’s hospitals
- The desire of physicians to practice in large programs linked with major hospitals, rather than the private practice setting
- The high proportion of Medicaid patients in pediatrics and corresponding reliance on a seemingly uncertain payor
- Increased costs and burdens of physician practice, triggered in part by increasing regulatory requirements (e.g., meaningful use) and the ongoing shortages in key subspecialty areas and the need to pay higher salaries

Alliances with physicians, hospitals, AMCs, and research partners each require a unique approach.
One Size Does Not Fit All: Differentiating Between Subspeciality and Primary Care

As children’s hospitals consider strategies that will usher them toward their near- and long-term goals, detailed evaluation and proactive adaptation to both national trends and local dynamics are imperative. Informed and responsive organizations leverage their physician-hospital alignment strategies to promote integration and reach across the pediatric care continuum. Given the nuances between pediatric subspecialists and primary care physicians, there is no one-size-fits-all affiliation approach for children’s hospitals to lean on. They each present unique opportunities, as well as challenges, and successful alignment strategies will account for these differences.

Strengthening Connections: Pediatric Subspecialists

Pediatric subspecialists are historically embedded in children’s hospitals, if only informally, so greater alignment is not much of a stretch. A 2011 study of private practice employment trends among pediatric subspecialists showed that as many as 77% were employed by hospitals/health systems or medical schools.1 Although many of the factors driving subspecialty alignment have been present for the past decade, they have taken on a greater sense of urgency due to the Affordable Care Act (ACA) and healthcare reform initiatives at local, regional, and national levels.

Economics and the widening gap between professional fees and the cost of practice are creating financial instability for pediatric physicians and a need to pursue other sources of funding. According to ECG’s annual physician compensation survey,2 the average loss for a health system per subspecialty and surgical physician consistently remained around or above $200,000 from 2010 to 2014, as shown in Figure 1. This financial drain has led to greater reliance on additional funding to sustain the pediatric subspecialist enterprise. Alternate sources of funding for subspecialists are typically provided by children’s hospitals or health systems through formal alignment or affiliation arrangements. For children’s hospitals, the benefits of better alignment are more than economic. Subspecialty integration into strategic planning processes, leadership, and management of services are important for program growth and development.

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2. ECG, National Pediatric Subspecialty Physician Compensation, Production, and Benefits Survey, year 2014 based on 2013 data.
Affiliation arrangements between hospitals and pediatric subspecialists can be structured in a variety of ways. The most effective affiliation and alignment models typically follow one of the approaches shown in Table 1.

These group practice structures have proven to be effective affiliation vehicles, because they promote and enable financial, strategic, technical, and leadership alignment between children’s hospitals and physicians that is not possible under private practice structures. Key attributes of the models noted below include aligned finances, common IT platforms, common leadership and strategic decision making, and organizational relationships that have a track record for adapting to change.

Still, the selection and efficacy of an affiliation or alignment arrangement with subspecialists depends upon the requirements of existing structures within parent organizations.

Table 1: Affiliation and Alignment Models

<table>
<thead>
<tr>
<th>Model</th>
<th>Strengths</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed Group Practice Model</td>
<td>Provides direct alignment and an integrated organizational structure</td>
</tr>
<tr>
<td>Academic Practice Plans Dedicated to Pediatrics and Distinct from Adult Practice Plans</td>
<td>Allows for better alignment between physician specialties that reside in separate academic departments (e.g., surgical divisions)</td>
</tr>
<tr>
<td>Aligned Practices that are “Friendly” or Wholly Owned Subsidiaries</td>
<td>Provides alignment while still offering practices some degree of independence</td>
</tr>
<tr>
<td>Foundation Model</td>
<td>Offers affiliation opportunities in states where employment is not allowed (e.g., California, Texas)</td>
</tr>
<tr>
<td>Joint Venture Nonprofit Models</td>
<td>Balances the needs of two partners, often as a separate nonprofit entity, while offering new capabilities, access to resources, shared risk, and flexibility</td>
</tr>
</tbody>
</table>

Source: ECG’s National Pediatric Subspecialty Physician Compensation, Production, and Benefits Survey, year 2014 based on 2013 data.
Strengthening Connections: Pediatric Primary Care

The practice of primary care pediatrics has remained largely private and until recently has not experienced the consolidation into larger groups seen in pediatric subspecialty physician and surgery practice. In its 2012 survey of children’s hospital leaders, the Children’s Hospital Association reported that 10% of participating children’s hospitals employed the majority of primary care pediatricians in their market. By contrast, the same survey revealed that 67% stated that they employed most of the pediatric subspecialists in their market.

Children’s hospitals are now finding that they must reevaluate and adjust their approach to primary care alignment. The passage of the ACA and increasing concentration on PHM have elevated the role and stature of primary care physicians as valued partners in clinically integrated networks. As the focus turns more intensely toward primary care, large health systems are aggressively scooping up pediatric primary care practices, where the medical home concept was largely invented.

In the past, children’s hospitals have often chosen a traditional hospital/private medical staff approach to alignment, working with each practice individually to ensure that immediate needs for space, practice management, recruitment, or other services are met. Many children’s hospitals are maintaining this stance, assuming that their stature in the community and history of collegial relationships with community physicians will ensure stability and success going forward. Forward-thinking hospitals, however, are taking an aggressive approach to physician alignment by pursuing more proactive strategies.

The spectrum of affiliation options for primary care physicians generally includes those shown in Table 2.

With each model or approach to primary care affiliation, the goal is to streamline referral and communication lines between general pediatricians and subspecialists to better integrate care for children who most need specialized services. Children’s hospitals and pediatric providers need to recognize and prepare for the fact that stronger alignment is inevitable.

<table>
<thead>
<tr>
<th>Model</th>
<th>Strengths</th>
<th>Limitations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional Approach (some employed presence, closely aligned but distinct private practice relationships)</td>
<td>Balanced and based on historic relationships that have been closely managed</td>
<td>May leave some practices susceptible to acquisition by large health system expansion efforts</td>
</tr>
<tr>
<td>Employment Model</td>
<td>Simple, singularly focused, and produces strong alignment with providers</td>
<td>Risks alienating physicians who do not want to be employed</td>
</tr>
<tr>
<td>Aligned Private Practice (EHR/IT integration, hospitalist support, management services support)</td>
<td>Designed to address individual practice needs while moving toward closer alignment</td>
<td>Is potentially limiting, highly variable, and requires considerable administrative effort</td>
</tr>
<tr>
<td>Clinically Integrated Networks (tightly organized networks around specific populations)</td>
<td>Potentially provides innovative ways to coordinate care and align incentives among providers to drive optimal results</td>
<td>Is often built on potential and great expectations but does not have historical evidence to inform decisions</td>
</tr>
</tbody>
</table>
Insights for Physician-Related Affiliations

Close alignment with and between subspecialty and primary care pediatric physicians is critical. To respond to the mandates and pressures of payment reform, children’s hospitals are finding it increasingly necessary to band together with physicians to maximize their PHM capabilities, expand clinical services, and manage the entire continuum of pediatric care.

Successful affiliation and alignment can be achieved in a variety of ways. Many options exist that can be tailored to the unique cultural, financial, and environmental challenges facing children’s healthcare providers, with many moving toward incorporating specialists and primary care pediatrics into clinically integrated networks as an alternative to direct employment.

Focus on physician leadership development. PHM success requires physician leadership and alignment and enables organizations to further develop the physician voice in management and decision making at all levels of the organization. Physicians who advance their administrative acumen will become the next generation of health system leadership; their development is a critical investment that systems must make today.

Local market dynamics should inform your approach. Local factors, including competition in children’s healthcare and the aggressiveness of adult health systems seeking alignment with pediatricians, will inform selection of the best approach and the timing for implementation. Stay abreast of reimbursement reform efforts from state Medicaid and commercial insurers, including the growth of narrow networks. Successful children’s programs are driving these changes in partnership with their state and tailoring efforts to match their strengths.

A “wait-and-see” approach will ultimately be unsuccessful. Healthcare reform is hastening the pace of change. Children’s hospitals that do not address physician affiliation issues head-on and act in a timely way will fall behind and risk losing strategic positioning and market share, both locally and regionally. Plan now, and be prepared to execute alignment strategies quickly, if you haven’t already.

Phoenix Children’s Hospital has taken a novel approach to primary care physician alignment in developing the Phoenix Children’s Care Network. Serving a broad geographic region, the need for primary care alignment has become especially relevant given competitive pressures and the pace of payment reform in the region. The Phoenix Children’s Care Network is a physician-led, pediatric-focused clinically integrated organization that represents an alliance among community pediatrics and subspecialists, Phoenix Children’s Medical Group, and Phoenix Children’s Hospital. With more than 500 physician members, Phoenix Children’s Care Network is the largest pediatric-dedicated clinically integrated organization in Arizona and one of a select few networks of its kind in the United States.

“We really have had to balance the needs of a broad range of primary care practices in our service area, from small private practices to larger groups serving a large range of geographic locations. Our alignment approach takes these factors into account while allowing the independence of private practices.”

– Bob Campbell, Chief Strategy Officer, Phoenix Children’s Hospital
Consolidation across the hospital market has been steadily increasing for the past decade due to the industry’s acknowledgment that reform, in some shape, was expected. The logic is that consolidation and new models of collaboration would be viewed as competitive advantages and could potentially offset challenges, such as access to capital, low margins, and increased competition. From 2009 to 2012, mergers and acquisitions more than doubled. While mergers among mega-systems are declining, according to HealthLeaders Media, the momentum behind strategic alliances between hospitals is unlikely to ease as most hospitals plan to pursue affiliation arrangements in the future.

Using ECG’s work as a market barometer, we can attest to this shift, as the development of integrated networks has now surpassed that of traditional mergers and acquisitions.

For a time, because of their unique mission and stature, children’s hospitals and pediatric providers were somewhat immune to the healthcare system’s shifting dynamics. However, barriers to affiliation and collaboration are steadily dissolving, and we are seeing a new era of nonconventional partnerships and alliances that include children’s hospitals and pediatric providers at the hospital and system level.

The imperative to develop PHM capabilities and capacity is a key driver of much of the more recent affiliation activity. Clinically integrated networks, innovative care delivery models, and value-based contracts are being pursued by local, regional, and national players in an attempt to solidify their market positions. And while many children’s hospitals possess the attributes and competencies for PHM, most do not have any experience in assuming financial risk for their patient populations and are limited in their ability to participate in managing the health of a population past the age of 18. That said, their pediatric focus provides children’s hospitals with a unique position in aligned networks, which are proliferating the United States, and are largely unprepared to address pediatric subspecialty needs.

New Core Competencies Required to Ensure Success

Success under a risk-based, population health-based operating environment requires that organizations be effective in a set of

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2 Stafford presentation containing data from Media Intelligence, M&A: Hospitals Take Hold, January 2012.
Table 3: New Core Competencies

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
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<tbody>
<tr>
<td>Service Distribution Effectiveness</td>
<td>A rational service distribution system that has accessible primary care and easy access (both physically and through referrals) across the continuum of care, delivered in contemporary facilities with state-of-the-art equipment</td>
</tr>
<tr>
<td>Scale and Market Essentiality</td>
<td>Sufficient scale to attract competitive clinical and administrative talent, realize economies, drive marketplace innovation, and be an essential provider to health plans and patients</td>
</tr>
<tr>
<td>Cost Structure Effectiveness</td>
<td>A right-sized, organizationwide cost structure, highlighted by appropriate levels of staffing, capital spending, overhead support, and supply chain costs, consistently reviewed based on comparative peer group studies and benchmarks</td>
</tr>
<tr>
<td>Physician Alignment</td>
<td>A highly aligned medical staff characterized by shared goals, outcome-based contractual arrangements, and significant planning input, adequately represented in organizational governance</td>
</tr>
<tr>
<td>Care Coordination/ Management Capability</td>
<td>Use of care coordination tools and processes by an empowered and integrated provider workforce to meet performance goals that are regularly measured and reported</td>
</tr>
<tr>
<td>Information System Sophistication</td>
<td>An information technology platform that supports clinical decision making, information management, and access by all stakeholders (e.g., physicians, patients) to facilitate treatment and disease management</td>
</tr>
<tr>
<td>Brand Identification</td>
<td>Well-recognized and respected brand that is associated with high-quality care and service excellence</td>
</tr>
<tr>
<td>Payor Relationships/ Contracts</td>
<td>Strong relationships with payors that enable development and implementation of innovative pilot programs aimed at improving care quality and reducing costs</td>
</tr>
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</table>

Full development and deployment of these competencies are not only essential for evolving with the changing payment landscape but pivotal for every organization’s long-term success. For children’s hospitals, their narrow patient scope relative to the broader demographics of the overall population is the major limiting factor in their ability to develop a full range of core competencies, notably market scale and clinical service distribution. But as previously stated, their unique expertise in the under-18 population makes them a critical collaborator for any robust clinically integrated network.

**Developing Competencies Through Network Affiliation**

In developing these new core competencies, organizations have the option of building them internally or establishing them through alignment and affiliations with other market participants. The latter approach is becoming the preferred option, as it is far easier and faster for children’s hospitals to align with adult-oriented organizations than to grow or develop these services themselves. Alignment via network formation has garnered significant interest due to its ability to provide participating organizations with the platform to develop core competencies while in some cases preserving a degree of autonomy.

Participation in network arrangements includes varying degrees of ownership and exclusivity, which in turn offer a degree of flexibility. For some organizations, the goal is to be the network founders, allowing for more participation in governance and setting the direction for the provider network. In certain markets, large networks seek out smaller systems of care to be affiliated with their network. These smaller organizations can nest their clinically integrated system of care within the larger network and benefit from the insurance
Children’s Hospitals as Network Affiliates

As many children’s hospitals are limited in their ability to develop the necessary core competencies to be successful under a risk-based and population health-based environment, they are becoming increasingly proactive in pursuing network affiliate relationships with large adult providers in their local, regional, and national markets.

The benefits of affiliate status for children’s hospitals are significant, in that they allow these affiliates to:

- Share the costs of acquiring skills and resources to manage the demands of the population health imperative.
- Organize to partner with payors and employers on narrow networks and innovative solutions to manage the total cost of care.
- Establish forums to facilitate sharing of best practices irrespective of joint contracting (e.g., quality improvement initiatives, clinical guidelines development, regulatory compliance/survey readiness).
- Partner in the development of new clinical programs, educational endeavors, and clinical trials.
- Boost purchasing power with vendors/suppliers and reduce operating costs (e.g., group purchasing organization [GPO] and non-GPO items, shared corporate/back-office functions).
- Approach strategic planning and capital deployment in a more coordinated manner.
- Operate effectively while limiting capital investment.
- Expand risk across a broader patient population.
- Solidify and/or grow market presence in an era of increasing competition through consolidation.

Recent Examples of Network Affiliations

- University of Iowa Health Alliance
- BJC Collaborative
- Noble Health Alliance
- Together Health Network
- AllSpire Health Partners
- Vanderbilt Health Affiliated Network
- Granite Healthcare Network
- Stratus Healthcare
- Integrated Health Network of Wisconsin
- Initiant Health Collaborative
- Trivergent Health Alliance
- Mayo Illinois Alliance for Technology Based Healthcare

contracts and infrastructure owned by the founding members. The overall aim of the network is to capture the market share of covered lives, develop the physician alignment necessary to manage the care of a population, and bring that population mass to the network organization (see Figure 2).
Insights for Hospital and Health System Affiliations

A candid self-assessment of core competencies is the first step. Increasing focus on PHM is forcing children’s hospitals and pediatric provider groups to assess their ability to develop the core competencies necessary to thrive in a risk-based operating environment.

Children’s hospitals’ unique position makes them both vulnerable and indispensable. Specialty providers for children are not yet equipped to develop additional competencies necessary to manage adult populations. In turn, children’s hospitals must proactively seek strategic partners to strengthen their competitive positioning and PHM capabilities.

It’s important to look beyond your backyard. Affiliations and partnerships may extend to regional or national market players that are aiming to help children’s hospitals leverage existing platforms to create a PHM-ready infrastructure.

Standing still is not a strategy. The historic neutral position that many children’s hospitals have taken with larger health systems will be challenged as more closely aligned system relationships take form and competitive lines are drawn. Quite simply, a wait-and-see approach is not a strategy.

A consortium of nine major health systems and a payor collaborated to form Illinois Partnership for Health, Inc. (IPH), to manage a shared population of Medicaid beneficiaries across Illinois under the Accountable Care Entity (ACE) program. To date, IPH has successfully organized and implemented a network of approximately 8,000 PCPs, OBs, specialists, and facilities, including pediatric subspecialists and pediatric behavioral health providers. As a result, IPH has the capacity to manage up to 126,000 enrollees, including over 71,000 children. The consortium is assisting with the planning required to convert the ACE into a managed care organization, with the associated benefit management responsibilities. The IPH network also includes OSF HealthCare System, which is contracted with the state as a Care Coordination Entity (CCE) for children with complex medical needs. This coordination between the ACE and the CCE (and vice versa) facilitates care transitions between the two entities and improves transitions from pediatric to adult providers.

“We formed this partnership knowing that providing high-quality and efficient care requires input from expert clinicians who serve this population – pediatricians and primary care providers – supplemented by robust information sharing, embedded best practices, and retrievable quality and outcome measures. When the continuum of care moves into specialized pediatric hospitals and facilities, integrated and coordinated care are key elements to assure that treatment plans are carried out, gaps in care are avoided, and the health of the population is effectively managed.”

– Michael Zia, MD, Medical Director, IPH
ACADEMIC AFFILIATIONS

Children’s hospitals have long been conjoined partners with academic institutions. Medical schools benefit from having access to a specialty hospital for teaching, clinical training, and research. Children’s hospitals benefit from their academic affiliations through improved national reputations, secured funding for research and training programs, and attractiveness in recruiting nationally recognized physicians.

In the past several years, the importance of well-functioning academic affiliations has received additional focus as a result of healthcare reform and the dynamics surrounding funding of academic programs – both education and research. In particular, research funding has become increasingly competitive as pediatric programs seek a larger research portfolio amid declining funding, as shown in Figure 3. Additionally, funding for graduate medical education is essentially flat amid subspecialty physician shortages that have resulted in many programs expanding in size and commitment to training programs.

Effective academic affiliation agreements serve to sharpen the strategic focus and balance the financial commitment of children’s hospitals and their medical school partners between the three missions of clinical care, research, and teaching. In top-tier programs, excellence in all three missions results in an organization that is greater than the sum of its parts.

Advanced agreements are driving greater integration of what is often (behind the scenes) a fragmented clinical delivery model and training program. Consideration and alignment of these agreements with the organization’s comprehensive strategy often link research and teaching into the design of PHM.

Revisiting Academic Affiliations

Though affiliations between children’s hospitals and academic partners are commonplace, the strategic value as well as the monitoring and management of these agreements may be an afterthought for the participating organizations. Affiliation agreements, often developed many years before, may have become static documents that are mostly out of place with the monumental shifts toward value-based payments. When these arrangements are reviewed, they frequently reveal affiliations that are loose or assumed rather than formally codified and enforceable.

Considering the environmental shifts and pressure being placed on hospitals and health systems, vast opportunity exists for children’s hospitals to inspect existing academic agreements and revise them to be more nimble and relevant in this era of reform. The existence of informal affiliations usually indicates that the relationship between partners is not mutually beneficial enough to formalize, or it means that there is a historic and valued relationship that has not required a complete definition to date. However, neither children’s hospitals nor academic institutions can afford to have handshake partnerships that hinge on the relationships between each organization’s leaders. Unless the arrangement is clearly defined and the details and benefits documented, new leadership may question the partnership or interpret the relationship differently.

How to Effectively Review Affiliations in Place

If your hospital’s academic affiliation agreements have not been reviewed recently, it is time to dust these documents off and consider these actions:

- Review your organization’s strategy in advance of any discussions or negotiations.
- Align the strategy with affiliation payments and incentives to ensure there are no unintended barriers to realizing its full potential.
• Review legal structure and agreements.
• Check the term and termination sections to ensure documents are current; evergreen clauses should be amended to require review every three to five years.
• Revisit the agreement’s description and purpose and ensure they represent what is currently happening (e.g., a clinical program may transition from its original model over time).
• Compare contracts to current regulatory standards and ensure compliance.
• Determine whether unfunded activity should be funded; all parties to an agreement should understand the value of the affiliation, which in some cases may warrant financial support, such as paying for a faculty member’s hospital administrative responsibilities.
• Review financial support agreements every two years unless there are built-in increases for support.
• Review salary levels and responsibilities for individuals who are specifically identified in the agreements.
• Review the funds flow model, as appropriate, to ensure it complies with current regulations, and amend as needed.
• Review agreements to recognize and reward a party based upon performance or outcomes to see if they align with current strategic goals.
• Conduct a gap analysis with your academic affiliates based upon an inventory of current shared functions, services, or other forms of affiliation.
• Use the gap analysis to identify additional affiliation opportunities that could strengthen your organization’s ability to meet its goals under the valued-based and PHM paradigm.

Insights for Academic Affiliations

Be realistic about how your organization will meet future demand and expectations for care. Children’s hospitals must look in the mirror and give an honest assessment of their ability to recruit and retain pediatric specialists and provide the clinical care that meets community needs. Will they be viable without recruiting support and seeking more tertiary and quaternary care opportunities?

Balance academic pursuits with clinical efforts, and determine priorities and funding sources. Examine how much time your medical staff spends on academic endeavors and clinical efforts and how these activities are funded. A funding mechanism that aligns the interests of all affiliate partners is an attractive option.

Be aware that all needs are not equal. Existing relationships with academic partners might meet some needs but not others. Evaluate opportunities to better support the academic, clinical, strategic, and financial needs of all participating organizations.

Manage the transition to value-based care and PHM.
Determine whether joint efforts are needed to more overtly prepare physicians for the new world order of patient care with the drivers of value and PHM.
The greater Kansas City area has traditionally had two competing pediatric clinical and academic programs – a 450-member department of pediatrics at Children’s Mercy and a 40-member department of pediatrics at the University of Kansas Medical Center. Over the past two decades, these departments attempted to merge on multiple occasions without success, in spite of institutional and community leaders who recognized the short- and long-term benefits of such a consolidation.

When a new consolidation effort was undertaken in late 2012, success depended upon cross-organizational leadership representation and support to establish clear goals for the integrated department. These goals included plans for a new faculty appointment model that took into account the differences in tenure tracks and appointment types, a collaborative clinical care model that leveraged the strengths and capacity of each hospital, and a consolidated teaching program for both undergraduate and graduate students. It was a significant undertaking on the part of hospital, physician, and school leadership, but the resulting department strengthened access to pediatric care and medical education offerings for the entire region.

"Faculty members from both departments had initial concerns about the impact of a potential integration. However, now that the process is in motion, it is clear that all involved parties are stronger for it. We felt from the beginning that an integrated department could lead to improved access to pediatric care throughout the region, while strengthening our research, educational programs, and advocacy efforts. That has proven to be the case.” – Michael Artman, M.D., Joyce C. Hall Distinguished Professor, Pediatrician in Chief, Executive Director of Research Strategy and Implementation, Chairman of the Department of Pediatrics at University of Missouri-Kansas City School of Medicine and University of Kansas School of Medicine

RESEARCH-BASED AFFILIATION ARRANGEMENTS

In addition to the financial and reform-driven pressures bearing down on children’s hospitals, access to research dollars is also being squeezed. Diminished research funding – stemming in large part from ongoing cuts to traditional public funding sources such as the National Institutes of Health (NIH) – is a growing concern for pediatric hospitals and their affiliated AMCs. Many researchers, especially those early in their careers, struggle to compete for external funding, with less than 10% of applicants receiving grants. Funding from the NIH declined from $31.2 billion in 2010 to $28.3 billion in 2013, which increases the financial burden for sustaining research enterprises and supporting young researchers. Instead of waiting for an uptick in public funding, children’s hospitals are alleviating some of their financial constraints by proactively pursuing new partnerships and alliances with nontraditional backing sources, such as pharmaceutical and biotech companies and venture capital firms.

The Financial Squeeze: Impact and Outcomes

The economic recession of 2008 and 2009 affected AMCs in a number of ways. The most immediate impact came as hospitals watched their investment balances dive dramatically, creating great discomfort and many restless nights for CFOs. A more delayed, yet significant, distress was inflicted by the cuts in NIH funding. The effects of these cuts were festering beneath the surface but did not really affect AMCs until years after the market’s nadir.

The 10% drop in available funding was most profoundly felt by smaller research centers as funding was largely funneled toward the big, more established centers. The difficulty for
Private Funding Partnerships

Potential Rewards

- Private dollars will result in a higher degree of accountability, leading to quicker development timelines and increased financial efficiencies.
- Because the private sector has a vested interest, researchers will have access to additional financial support for research that shows particular promise.
- The privatization of discoveries should lead to faster industry adoption, as there is a clear financial incentive to quickly disseminate successful drugs and technology.

Potential Pitfalls

- Research that does not fit an obvious or immediate market need may be passed over.
- The private sector will not seek out unproven researchers or research centers that lack a robust infrastructure. Therefore, smaller centers and young researchers could continue to struggle to access funding, and private dollars could consolidate in large, established research centers.
- Basic science researchers accustomed to a high degree of autonomy could struggle with this new research paradigm.

An Entrepreneurial Approach

Large pharmaceutical and medical technology companies have traditionally operated at a distance from medical providers and basic science researchers, but they have come to recognize the benefits of being integrated with AMCs during the early stages of basic research. In these new academic funding models, companies and venture capital firms act as both angel investors and advisers, identifying promising concepts early and nurturing the research process with the long-term goal of bringing a product to market. In this way, the process mirrors the more traditional business model, wherein heavy investment in many concepts with low success rates is offset by the significant financial windfall of a successful product. The key difference is that investor funding enters the process earlier than public funding normally would in an attempt to maximize the return on investment.

With these partnerships, the onus often falls on the hospital or school to develop a business model that clearly articulates the potential for commercial viability by illustrating how basic science research can ultimately result in a marketable product. Boston and the Bay Area have already emerged as innovation hubs, and across the globe, private pharmaceutical and tech companies such as Pfizer Inc. and Johnson & Johnson Services, Inc., are establishing formal partnerships and taking on early-stage financial risk in exchange for a portion of the intellectual ownership. For example, through its Centers for Therapeutic Innovation, Pfizer has initiated collaborative research partnerships with a variety of AMCs, including Boston Children’s Hospital, to strengthen the relationship between pharma and academia.

While these collaborations become more common, there is often a language barrier between researchers and private investors, since most faculty do not live in the day-to-day world of balance sheets and bottom lines. To address this, some medical centers are investing in entrepreneurship...
High-performing children’s hospitals are strategically aligning with physicians, health systems, academic affiliates, and research partners to accept greater risk and effectively manage the health of children and adolescents across the entire care continuum.

Some Restrictions Apply
In these new arrangements, the relatively fluid and open-ended nature of traditional basic science research is being steered toward quicker and more finite goals, with requirements built into the agreement that hold researchers accountable to a strict timeline. These agreements are also typically more prescriptive when it comes to elements such as trial design. Private funding is usually aligned with processes and goals that fit within the partner’s strategic and operating plans. Both researchers and private partners contend that while relatively new in practice, the benefits of fusing different approaches and matching complementary areas of expertise are proving to be mutually beneficial.

Initially, this “strings attached” and profit-motivated infusion of private funding may cause discomfort among longtime basic science researchers; however, it may be a necessary evolution in how research is conducted, since there is little reason to believe public funding will spike in the near future. As these nontraditional relationships continue to develop and demonstrate value for all parties, the increased familiarity and mutual benefit will result in a sustainable balance between research autonomy and private direction and present ample opportunities for children’s hospitals that are prepared to make these ventures successful.

Insights for Children’s Hospitals Seeking Research Funding
To attract private or nontraditional research funding, children’s hospitals will need to develop and/or maintain the following competencies:

- **Realize that the research partnerships bar will be set high.** Children’s hospitals must be prepared to deliver facilities, low overhead, and established institutional review boards and commit to a stellar reputation and proven record of moving studies quickly from bench to bedside.
- **Protect and nurture your brand.** A powerful regional hospital brand is a prerequisite for research partnerships, as high patient volumes equate to large research patient panels.
- **Be open to new possibilities.** An open mind and an aggressive approach to finding symbiotic partnerships and alignment of missions will jump-start your initiatives and set the stage for achievement of your goals.
THE PARTNERSHIP IMPERATIVE

Transitioning to an environment that prioritizes value and population health has been a challenging endeavor for children’s hospitals and pediatric physicians, particularly given their unique position in the healthcare system. In the midst of uncertainty, however, high-performing children’s hospitals are strategically aligning with physicians, health systems, academic affiliates, and research partners to accept greater risk and effectively manage the health of children and adolescents across the entire care continuum. Collaboration through affiliations and network development better positions children’s hospitals to thrive in the evolving healthcare environment and, more importantly, ensures that their mission of meeting the health needs of their patient population is sustained.

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