

Four Reasons Sanford-MeritCare Merger Provides a Blueprint for Accountable Care

Philip Betbeze, for HealthLeaders Media, December 11, 2009

A model of the health system of the future has come screaming out of the Dakotas like a winter blizzard. Who would've thunk it? Sanford's superstar CEO Kelby Krabbenhoft thunk it, that's who.

It's being called the largest rural healthcare system in the country, and is well on its way to being fully integrated—a term that means physicians and management are on the same page regarding financial and quality goals. Sanford Health-MeritCare will operate in six states: North Dakota, South Dakota, Minnesota, Iowa, Nebraska, and Oklahoma, with 17,400 employees and more than 800 physicians, 70 specialty areas in medicine, and 29 hospitals over 1,600 beds serving more than 2 million people in the service area. The combined annual net revenue is \$2 billion.

As such, it's well-prepared for the future of healthcare reimbursement and accountability. For someone with such clout, Krabbenhoft is unassuming and humble about his role. In a physician-driven leadership team, he is among very few non-physicians in those roles at the institution, and he likes it that way.

I spoke with Krabbenhoft recently, and as I reviewed the interview, I came up with four reasons the merger should pave the way for a more accountable healthcare if other systems can follow Sanford-MeritCare's lead.

- **Integration**

Its focus on an integrated model (that is, a largely employed physician staff) will give it leverage and the integration needed to achieve ambitious quality targets.

"I've lived as the CEO of a system that didn't have any aligned physicians. None. And I would go farm rather than go back there. It's like trying to get anything done through the United Nations. Building the integrated model in its purest form, as we've tried to do, perfectly situates us for any reform, because we're going to be able to answer their questions, whoever 'they' are—major payers and government. We can speak to quality, amalgamating outcomes on any platform, whether it be by DRG, case, or by procedure. We can speak economically and clinically with a united physician backbone in the organization. Being that large and covering that many patients has put us in a great position to talk of reform where it's not a battle with reformers. We can produce value that from a payment standpoint, which they'll be appreciative of," says Krabbenhoft.

- **Physician leadership**

Other than Krabbenhoft, physicians control most of the leadership positions. Some 93-95% of its revenue comes from employed physicians.

"When a physician joins, they understand our expectations, but we also have a physician covenant designed by the doctors, which forces all to share responsibility on quality. They hold up their end of the bargain, and we'll provide all the institutional and technological support they need. The docs are fully capable of governing themselves and enforcing quality better than any management person," says Krabbenhoft.

- **No JVs, period**

Sanford-MeritCare refuses to do joint ventures, making sure the docs are on a level playing field within the organization.

"If someone doesn't want to play our kind of team ball there are plenty of options out there. Free agency is alive and well in medicine, but I believe those days are coming to an end. Our goal is to be one of the best institutions in the country, and none of those, whether it be Kaiser, Johns Hopkins, Cleveland Clinic—none of

those do joint ventures, carve-out deals—none of that stuff, he says."

- **Huge size, huge goals**

The sheer size of the new entity will give it further negotiating clout with insurers and economies of scale. The merger didn't require antitrust review, because the two service areas do not overlap. Health system CEOs should keep that in mind for future acquisition strategies.

"Once a legal team figures out the core business and the relationships between docs, they really start to serve as an M&A center. Our growth has really taken on meteoric proportions lately and it's because the whole team has growth on its agenda," he says.

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