HFMA Lone Star Chapter

Physician Integration:
Keeping the Marriage Alive After the Honeymoon Is Over

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Our Speakers

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**Purpose**

*During this presentation, we will be focusing on the critical elements and decisions that are often given too little thought when hospitals acquire physician practices.*

**This presentation is about …**

- Defining a vision for the integrated entity.
- Managing expectations.
- Creating viable physician governance and management.
- Acknowledging the need for compromise.
- Conducting post-transaction planning.
- Setting up the hospital/physician relationship for success.

**It is not about …**

- Defining a physician strategy.
- Understanding the mechanics of making the transaction happen.
- Discussing health reform details.
- Developing physician compensation plans.
- Comparing different models of affiliation.

**“Marriage” of Hospitals and Physician Practices**

The integration of physicians and hospitals is often compared to marriage. The analogy is accurate in more ways than we may care to admit.

**Typical Topics of Conflict**

- What to spend money on (particularly in times of scarcity) and who gets to decide.
- Perception that the other party is not pulling his/her own weight or performing up to expectations.
- Feelings that the balance of power in the relationship is inequitable.
- Differences of opinion over decisions that the two must make jointly.

*In practice acquisitions, as in marriage, one or both parties often feel that the relationship they ended up with was not what they signed up for.*
Underlying Causes of Conflict

- Excessive focus on what they want to gain out of the relationship, instead of what they can contribute to it.
- Naive and unrealistic expectations about how the relationship should work.
- Failure to discuss needs and expectations in advance.
- Not knowing how to be a couple.

Lack of preparedness to be a good partner in a mutually beneficial relationship.

The resurgence of hospitals acquiring physician practices is putting pressure on organizations to get the deal done quickly.

The challenge is to take the time to establish the relationship so that it is successful over the long haul.
Typical Planning Process – The “Tyranny of the Urgent”

Often, too little thought is given to the non-transactional elements of physician integration.

Transaction Elements
(The Deal)
- Financial Analysis
- Valuation
- Compensation
- Due Diligence
- Document Preparation
- Legal Transaction
- Lease/Contract Assignment
- “Day 1” Operational Considerations

Non-Transaction Elements
(The Relationship)
- Vision
- Decision Making
- Management
- Communication
- Culture
- Expectations
- Governance
- Medical Staff Relationships
- Joint Strategic Planning

Many times, these considerations receive the attention they deserve only when it becomes painfully obvious that the organization is in trouble and physician dissatisfaction is high.

Typical Path to Integration
The typical path usually starts with the acquisition, instead of the planning.

Acquisition and Integration
- Identify practices for acquisition.
- Conduct transaction and on-boarding.

Financial Turnaround and Organizational Redesign
- Review practice operations.
- Determine organizational vision.
- Design physician network administrative structures.
- Financial losses and physician dissatisfaction.
Ideally, integration will take place through a thoughtful, stepwise process.

Planning and Strategy
- Define organizational vision.
- Determine physician governance and management.

Business Development
- Identify practices and initiate critical conversations.

Execution
- Conduct transaction and on-boarding.
- Transition practice operations.

Not Covered in Today’s Presentation

Physician Involvement and Discussions

Steps to Success (continued)

Employed physician networks tend to migrate through the four phases shown below. The phase that your organization is in will shape your planning efforts.

Four Phases of Physician Network Evolution

- **Phase 1 – Recruitment**
  - Meet Community Need

- **Phase 2 – Growth**
  - Secure Market Share

- **Phase 3 – Service Expansion**
  - Expand Clinical Expertise

- **Phase 4 – Value-Based Network**
  - Manage Population
Step 1 – Define Organizational Vision

**Ask Key Questions**

*The first step in creating a successful partnership is to ask key questions regarding what you need to achieve to be successful.*

<table>
<thead>
<tr>
<th>Key Question</th>
<th>Potential Answer</th>
</tr>
</thead>
<tbody>
<tr>
<td>What do we want to achieve?</td>
<td>• Performance under risk-based contracts.</td>
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<tr>
<td></td>
<td>• Geographic expansion.</td>
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<td></td>
<td>• Meeting of community need for specialty-specific services.</td>
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<td></td>
<td>• Succession for aging medical staff.</td>
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<td></td>
<td>• Strengthening of market position.</td>
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<td></td>
<td>• Stabilization of the medical community.</td>
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<tr>
<td>How extensively will we employ physicians?</td>
<td>• On an opportunistic basis only.</td>
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<tr>
<td></td>
<td>• As a key feature of our strategy.</td>
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<td></td>
<td>• As the definition of who we are.</td>
</tr>
<tr>
<td>How will the physician network be organized and governed?</td>
<td>• Physician-led and professionally managed.</td>
</tr>
<tr>
<td></td>
<td>• Physician division or enterprise.</td>
</tr>
<tr>
<td></td>
<td>• Provider-based designation.</td>
</tr>
<tr>
<td>How will we define success?</td>
<td>• Physician recruitment and retention.</td>
</tr>
<tr>
<td></td>
<td>• Expansion of services and/or locations.</td>
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<tr>
<td></td>
<td>• Financial performance relative to targets.</td>
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<td>• Improvement in clinical quality measures.</td>
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</tbody>
</table>

*A well-communicated and properly developed strategy is the most important key to a successful long-term relationship.*

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Step 1 – Define Organizational Vision

**Understand Impact on Operations and Finances**

*Hospitals need to have clear and realistic expectations of how their business will change after acquiring physician practices.*

**Practice Revenue**

- Physicians’ payor mix is likely to be less favorable than pre-acquisition as independent physicians refer Medicare, Medicaid, and uninsured patients to employed physicians.
- A loss in physician productivity is common.
- The level of physician engagement in the business may decline.

**Practice Expenses**

- Salaries and benefits typically, though not always, increase.
- Infrastructure requirements are significant and will be higher than in the private practice setting.
Step 2 – Determine Physician Governance and Management

Establish a Vision of Collaboration

The physician enterprise should be regarded as an integral part of the organization and on an equal footing with the hospital, not as a sideline or ancillary business.

- Prior to entering into a relationship, hospitals and physicians should have a frank discussion about their partnership.
  - How will decisions be made?
  - Which decisions will reside with the hospital, which ones will be at the discretion of the physicians, and which ones must be jointly made?
  - What are the expectations regarding communication?
  - How do we blend two well-established cultures?
  - How do we share governance?
- Questions should be asked in the context of an integrated delivery network, not a hospital-dominated system or a private physician group.

Establish a mind-set of “we,” not “me.”

Step 2 – Determine Physician Governance and Management

Understand Importance of Shared Decision Making

Challenges

- Natural reluctance to relinquish control to physicians.
- Risk aversion and discomfort with physicians’ style of decision making.
- Pressure to appease members of medical staff.
- Failure to recognize that physicians are needed to influence other physicians.

Benefits

- Takes advantage of physicians’ considerable skills and knowledge.
- Facilitates accountability and engagement for physician leaders.
- Enables changes in behavior that lead to quality improvements.
- Promotes physician satisfaction and unity.
- Leverages the strength of both clinical and administrative leadership.

A common mistake for hospitals is to fail to tap into physicians’ knowledge and expertise and instead treat them as rank-and-file employees.
An emerging trend is to pair physicians and administrative leadership in dyad management teams.

### Limited Governance vs. Ad Hoc Committee vs. Standing Committee vs. Governance Council

<table>
<thead>
<tr>
<th>Area</th>
<th>Limited Governance</th>
<th>Ad Hoc Committee</th>
<th>Standing Committee</th>
<th>Governance Council</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overview</td>
<td>No established mechanism for governance. Individuals informally consulted.</td>
<td>Formed to discuss specific issues (e.g., new products, workforce planning) as they arise.</td>
<td>Established governance body responsible for wide range of oversight functions.</td>
<td>Council maintains complete accountability for service line performance, reporting directly to health system CEO.</td>
</tr>
<tr>
<td>Strategic Planning</td>
<td>No role.</td>
<td>Informed.</td>
<td>Advisory.</td>
<td>Advice, direction, and approval.</td>
</tr>
<tr>
<td>Management Selection</td>
<td>No role.</td>
<td>Input on hiring.</td>
<td>Input on hiring, performance review.</td>
<td>Accountability for hiring and termination.</td>
</tr>
<tr>
<td>Budgeting</td>
<td>No role.</td>
<td>Occasional advisory.</td>
<td>Advisory.</td>
<td>Advice and approval.</td>
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</tbody>
</table>
Step 2 – Determine Physician Governance and Management
Get the Right Talent

Physician practices are a very different business than hospitals. It is crucial to have experienced leadership talent managing the physician enterprise.

Areas of Vulnerability

Physician Compensation
- Risk of decreased productivity.
- Compensation levels that become unsustainable.
- Compliance risk regarding fair market value.

Revenue Cycle
- Stringent compliance issues regarding billing.
- Potential loss of revenue due to improper coding.
- Lower-dollar physician claims receiving less attention and follow-up.

Ongoing Operations
- Lack of understanding of medical practice benchmarks and performance metrics.
- Office-based staffing needs and scope of practice that are different than those of a hospital.

Step 2 – Determine Physician Governance and Management
Create Compensation Philosophy

The organization's philosophy with respect to physician compensation must be determined in advance. The principles listed below are examples of those that might compose a reasonable compensation philosophy.

- Median compensation for median work effort.
- Emphasis on individual productivity.
- Payor-neutral compensation.
- Introduction of nonproductivity-based incentives over time.
- Income protection for specialties only on an as-needed basis.
- A common compensation methodology across specialties wherever possible.

This philosophy should include criteria for the use of nonstandard compensation arrangements.
Step 3 – Identify Practices and Initiate Critical Conversations

Develop Criteria for a Good Partner

Organizations should have criteria for determining whether a physician/practice is a good fit.

<table>
<thead>
<tr>
<th>Criterion</th>
<th>Topic to Ask About</th>
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<tbody>
<tr>
<td>Quality</td>
<td>• Opinions of medical staff.</td>
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<td></td>
<td>• Malpractice history.</td>
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<td></td>
<td>• Busy or slow practice.</td>
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<tr>
<td>Success in Private Practice</td>
<td>• Unusual staff turnover.</td>
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<td></td>
<td>• Ability to recruit top talent.</td>
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<td></td>
<td>• Terms of payor contracts.</td>
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<tr>
<td></td>
<td>• Compensation levels.</td>
</tr>
<tr>
<td>Citizenship</td>
<td>• Participation in medical staff or hospital leadership.</td>
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<td></td>
<td>• Relationship between physicians.</td>
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<td></td>
<td>• Culture of collaboration.</td>
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<td></td>
<td>• Stubborn or easygoing personalities.</td>
</tr>
<tr>
<td>Strategic Fit</td>
<td>• Strategic need for specialty.</td>
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<td></td>
<td>• Reaction of other independent physicians.</td>
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<tr>
<td>Retirement Horizon</td>
<td>• Timeline for retirement.</td>
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<td></td>
<td>• Succession planning.</td>
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</tbody>
</table>

These criteria should be formally reviewed as part of each practice acquisition.

Step 3 – Identify Practices and Initiate Critical Conversations

Ensure Physicians Understand the Extent of Change

Physicians’ lives will change dramatically and unexpectedly as a result of integration. It is the responsibility of the hospital to make sure that physicians understand what this entails.

Realities of Health Systems

• Changes in work flows, reporting relationships, IT infrastructure, etc.
• Compliance requirements (RAC audits, ADR).
• Expectations regarding schedules, productivity, financial performance, etc.
• Accreditation requirements.
• Longer decision/reaction times.
Conclusion

In the post-reform world, hospitals and physicians must learn to work together to achieve what they cannot accomplish separately.

Physician, Hospital, and Community Benefits
• Quality improvement.
• Aligned financial incentives.
• Meaningful cost reductions.
• Better allocation of resources.
• Physician supply that meets demand.
• Improved population health.

The relationship will be greatly enhanced, and the benefits more readily achieved, if both parties begin with the right expectations and attitudes.