

# Accountable Care NEWS

## Keys to Successful Physician Practice Acquisitions

By Kevin P. Forster and David A. Wofford

**T**he resurgence of hospitals acquiring physician practices is putting pressure on organizations to move quickly, but to achieve long-term success, organizations need to take the time to establish a strong relationship between the hospital system and the practice.

Often, too little thought is given to the non-transactional elements of physician integration. The focus is on the deal – the financial analysis, document preparation, legal transactions and “day 1” operational considerations. However, the non-transactional elements such as operational implications and a sound messaging plan are vital in order to establish the long-term relationship needed between the hospital and physician practice.

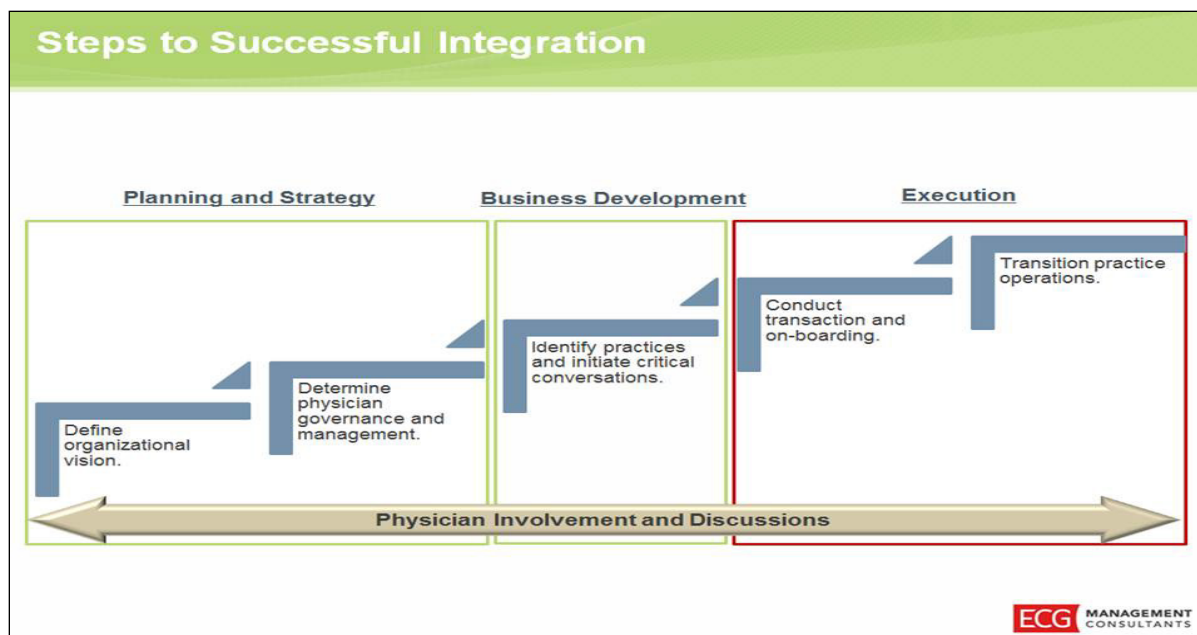
Unnecessary conflicts result from both the failure to discuss needs and expectations in advance and the hospital's lack of preparedness to be a good partner. Without addressing expectations and establishing guidelines, conflicts can arise over operational issues, such as spending decisions, performance expectations, the balance of power, and differences of opinion over decisions that the two organizations must make jointly. By properly preparing and focusing on the underlying issues, these conflicts can be avoided.

This article presents the critical elements and decisions within the planning and business development stages that are often given too little thought or priority when hospitals acquire physician practices.

### Steps to Successful Integration

The typical path to integration usually (and incorrectly) starts with the acquisition instead of the planning. A more successful design begins with planning and strategy, followed by business development and execution (see Figure 1).

**Figure 1**



**Step 1 – Define Organizational Vision: Ask Key Questions.** The first step in creating a successful partnership is to ask key questions about what the integration needs to be successful. Work together as partners to clearly define your goals and determine what you want to achieve. It helps to think about concepts such as performance under risk-based contracts, geographic expansion, community needs for specialty-specific services, succession for aging physicians, strengthening of market position, and stabilization of the medical community.

Second, determine the extent of integration with physicians. Will you be working with physicians on an opportunistic basis only, as a key feature of your strategy, or will they be a defining part of who you are as an organization? How will the network be organized and governed and what specific roles will the physicians have in that leadership. And finally, establish the yardstick against which you will measure your partnership. Is success defined as a growth in physician recruitment and retention or expansion of services? Or is it an improvement in clinical quality measures? A properly developed and well-communicated strategy is the most important key to a successful long-term relationship.

**Understand Impact on Operations and Finances.** It is also important that hospitals have clear and realistic expectations of how their business will change after acquiring physician practices. Operational and financial changes are a reality of physician integration and planning for this in advance will ease the transition. Physicians' payer mix is likely to be less favorable post-acquisition as independent physicians often close their practices to Medicaid and uninsured patients. If the employment arrangement does not address financial performance factors (e.g., productivity, clinic overhead), practice economics will need to be managed closely. The level of physician engagement in the business may also decline for similar reasons.

## **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, on an equal footing with the hospital, not as a sideline or ancillary business. Hospitals and physicians should have a frank discussion about the partnership prior to entering into a relationship. Determine how decisions will be made. Which decisions will reside with the hospital, which ones will be at the discretion of the physicians, and which ones must be made together? Discuss communication expectations and the blending of the cultures. Ask questions in the context of an integrated delivery network, not a hospital-dominated system or a private physician group.

**Understand the Importance of Shared Decision Making.** Hospitals often fail to tap into physicians' knowledge and expertise and instead treat them as rank-and-file employees. They are naturally reluctant to relinquish control to physicians and occasionally receive pressure from medical staff independent members who do not want to see the employed physicians gain too much influence. Hospital leaders are often uncomfortable with the physicians' style of decision making, while failing to recognize that physicians are needed to influence other physicians.

Instead, hospitals should take advantage of physicians' considerable skills and knowledge and leverage the strengths of both clinical and administrative leadership. Doing so facilitates accountability and engagement for physician leaders. Successful physician integration also enables changes in behavior that lead to quality improvements and promotes physician satisfaction and unity. Physicians also need to be willing to accept the complexities of the health system and be willing to change the way they think about how decisions are made. This can be achieved by including physicians in the management and decision making models.

**Define Physicians' Roles in Ongoing Management.** An emerging trend is to pair physicians and administrative leadership in dyad management teams to better integrate the system. While the roles are symbiotic, the theory is that each manager brings a different skill set to the table and manages in a different but complimentary role (see Figure 2).

**Figure 2**



*continued on page 7*

**Create a Forum for Physician Input on System Matters.** There are multiple governing structures that hospitals can implement, but it is important to note that physicians will be much more engaged if they have a forum for providing input on key system-level decisions. This model involves physicians in strategic planning, management selections, budgeting, and balancing physician and executive compensation.

**Get the Right Talent.** Physician practices are a very different business than hospitals. As systems integrate, hospitals must be aware of potential financial vulnerabilities, such as physician compensation levels that become unsustainable or the potential loss of revenue due to improper coding. Physicians will also likely encounter daily operational challenges such as the hospital's lack of understanding of medical practice benchmarks and performance metrics, as well as differences in office-based staffing needs and scope of practice. It is crucial to have experienced leadership managing the physician enterprise.

**Create a Compensation Philosophy.** The organization's philosophy with respect to physician compensation must be determined in advance. Develop a model that meets your goals, whether it is based on median compensation for median work effort, emphasis on individual productivity, payer-neutral compensation, introduction of non-productivity-based incentives over time, income protection for specialties only on an as-needed basis, or a common compensation methodology across specialties wherever possible.

### **Step 3 – Identify Practices and Initiate Critical Conversations**

**Develop Criteria for a Good Partner.** Organizations should develop a set of core criteria for determining whether a physician or practice is a good fit for integration. Consider the quality of the practice through the eyes of the patients and the staff, and the culture through the practice's relationships, both internally and externally. Look at whether the practice has successfully recruited and maintained top talent. Determining your criteria in advance will ensure that you choose the correct partner for your organization.

**Ensure Physicians Understand the Extent of Change.** Physicians' lives will change significantly as a result of integration. Operating in a health system versus a physician practice will require changes in work flow and reporting relationships to which physicians will need to adapt. They will also need to understand new expectations regarding schedules, productivity expectations, and financial performance, not to mention new operating realities like longer decision and reaction times. It is the responsibility of the hospital to develop a clear and open communication plan to ensure that physicians understand the changes.

### **Conclusion**

In the post-reform world, hospitals and physicians must learn to work together to achieve what they cannot accomplish separately. Physicians, hospitals and their respective communities will benefit from the aligned financial incentives, which can result in enhanced care coordination and lower costs. And most importantly, successfully combining systems will drive quality improvement and patient care.

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