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## Top 10 Factors to Consider When a Hospital Acquires a Physician Practice

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Historically, buying physician practices has not resulted in successful outcomes. Hospital inexperience in managing physician practices and cultural mismatches have led to significant financial losses, resulting in widespread disenchantment and divestiture of owned practices. However, factors promoting hospital-physician alignment have converged in the past five years, and practice acquisitions and affiliations are on the upswing again.

To avoid past mistakes and ensure a successful venture, an exploration of expectations, culture and values, as well as financial and legal issues should be included in any due diligence process. Sometimes, even if economic factors are favorable, differences in values and vision can cast serious doubt about the long-term viability of the relationship. Here are the top 10 factors to consider when a hospital acquires a physician practice.

- 1. Commitment.** Practice acquisition provides a way for hospitals to engage physicians in efforts to improve quality and manage resources. However, running a practice will require the hospital to learn a new business, invest in systems and personnel, and manage people who tend to be fiercely independent. Physicians, on the other hand, are seeking access to technology and economic security but will have to give up some autonomy and deal with additional bureaucracy. Are both parties ready and willing to make the tradeoffs? This will ultimately impact terms of the agreements and ease of unwinding the relationship and requires thorough and frank discussions.
- 2. Ability.** Does the hospital or health system have the expertise, resources, and infrastructure needed to buy and efficiently manage a practice or multiple practices, assess performance, and make necessary improvements? What is the financial stability of the organization? Will it be capable of making investments in the practice to facilitate growth, operational improvement, and clinical integration with the hospital as well as other practices?
- 3. Culture.** A culture can be judged by its heroes. What are the characteristics of each organization's heroes? What behaviors are rewarded? If the hospital is more conservative and values tradition, but the lead physician is highly innovative and pursues more high-risk initiatives, it may not be a good match. One of the greatest challenges for both is blending the autonomous nature of a formerly independent practice with the potential rigidity of a larger organization. Forums and processes for working through these differences will be important to preserving an effective, harmonious working relationship long-term.
- 4. Shared Vision.** A shared vision is critical for a sustainable relationship. What are the medical group's goals for the future? Are those goals consistent with the hospital's goals? How will the acquisition help achieve those goals? Assess whether the acquisition would create any potential barriers to the achievement of either party's desired goals. One of the most important first steps is to identify the agreed upon goals of the combined entity. This will drive compensation methodology, practice operations, and the structure itself.
- 5. Legal and Governance Structure.** The scope of decision-making authority, responsibility for practice oversight, establishment of operating principles, role of physician leadership, and corporate structure all need to be defined for the new entity. Consider precedent: Would either party be comfortable if the agreed upon structure, decision-making authority, and autonomy were offered to other physicians? What authority will this physician group have over the addition of new physicians or groups? What structure(s) will be used as different groups/practices are added in the future?

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- 6. Financial Relationships.** Before initiating discussions, the hospital or health system must identify its policies regarding practice acquisition and the process for practice valuation. Will it pay for fixed assets only, or will consideration for intangibles/goodwill be included? The balance between practice value and compensation structure in the new relationship must be considered (i.e., younger members of the practice will be most concerned about the ongoing compensation structure; older members may be more interested in a larger buy-out). The compensation structure itself is probably THE most telling component of the new structure. It must be designed based on the aforementioned issues of culture, goals, expectations, and financial reality.
- 7. Due Diligence.** The due diligence provides an important reality check for both parties. It will not only assure that sound financial plans can be prepared with full knowledge of the practice's financial condition, but it provides an opportunity to begin a smooth operational transition. The status of information systems, equipment and space leases, employee benefits, and malpractice history will all be reviewed. Impact of potential hospital licensure, if provider-based status is to be pursued, will also be determined. Financial impact of the proposed physician compensation structure can be projected based on historical productivity, payer contracts, and scope of services.
- 8. Quality Initiatives.** The desire to facilitate system-wide quality initiatives is often a motivation for practice acquisition and integration. To judge a practice's quality orientation, it is helpful to ascertain what initiatives and systems are already in place. What data gathering and reporting tools are available to track quality indicators? Does the group have an EMR? How old is the practice management system? What EMR initiatives has the health system already started? How can compatibility and interface between hospital and physician systems be achieved?
- 9. Operational Planning.** First and foremost will be establishing plans to assure that valued practice staff are retained in the new structure. This means not only comparing historical information with proposed compensation and benefits, but evaluating roles and relationships of key staff such as office managers and business office staff. If obtaining new provider numbers is required, adequate pre-planning is required, as is communication with contracted payers. Finally, communication to patients and the general public will be critical to assure that the transition is smooth with minimal disruption to physician-patient relationships.
- 10. Separation.** Inevitably, some arrangements will not work out and need to be dissolved. What will be the notice period for termination of the agreement? Will there be any penalties/ payback or retention of funds from the original purchase? Terms of the non-compete agreement should be spelled out if it is a mutual termination.

The lessons of the past have shown that hospitals should exercise caution when considering the acquisition of a physician practice – just as physicians should when they are considering the sale. A lack of shared goals, unrealistic financial expectations, inexperienced management, and excluding physicians from key decisions can lead to disillusionment and collapse of the relationship. But, with careful consideration and the selection of the correct partner, a mutually beneficial arrangement and true collaboration can be created and fostered. This partnership will not only benefit providers, but patients will be winners too.

For more advice on creating successful physician-hospital relationships, please contact Claire Heideman, Brian Silverstein M.D, or Laura Jacobs at 312-775-1700/310-320-3990 or by e-mail at [cheideman@thecamdenrgroup.com](mailto:cheideman@thecamdenrgroup.com), [bsilverstein@thecamdenrgroup.com](mailto:bsilverstein@thecamdenrgroup.com), or [ljacobs@thecamdenrgroup.com](mailto:ljacobs@thecamdenrgroup.com).