Hospitals Wise Up When Adding Physician Practices

They’re avoiding the mistakes of the ’90s, with clearer goals and smarter integration strategies

BY GERI ASTON

Hospitals and health systems recognize that they have to have a very strong partnership with physicians in the clinical enterprise of managing the care for a population of patients,” says John R. Combes, M.D., American Hospital Association senior vice president and leader of its Physician Leadership Forum.

The changing payment model makes hiring primary care physicians a top priority for hospitals and health systems, notes Laura Jacobs, executive vice president of the Camden Group, a health care management and consulting firm. “In an ACO world, if a hospital doesn’t have a broad base of primary care physicians, it probably doesn’t have a big enough population that it can manage, because that population is driven by the patients who belong to the primary care physicians,” she says.

Illustration by James Steinberg
Wanted: Both PCPs and specialists

Banner Health, a Phoenix-based system, is growing its three-year-old Banner Medical Group, primarily by hiring primary care physicians, says Anne Folger, senior director of talent acquisition and physician recruitment. “As we look at the model of the future, which is not a volume-based model, we look to what we need to do to build the foundation for that,” she says. “Obviously, that is related to primary care.”

The strategy has allowed the system, which owns or operates 23 hospitals in seven states, to build health centers in several of its communities. For example, the system built a health center in Maricopa, Ariz., outside of Phoenix. The nearest hospital is 25 miles away, and the community had little access to care, Folger says. “The center serves the patients directly, creates a presence of health care in the community, and supports the Banner facilities because, ideally, those patients would come into the facilities if they needed hospital care.”

Hospitals also be hiring specialists on board to drive quality improvement and improve costs for key service lines or to bolster service lines and add new ones, Jacobs says.

The financial pressures on physician practices make doctors more interested in employment than in the past. Many younger physicians opt for the more predictable lifestyle and compensation that employment promises. Established physicians, even in such specialties as cardiology, are finding it more difficult to keep practices afloat because of stagnant payments and because payers are focusing on reimbursement for ancillary services like imaging, Jacobs says.

Understand the goal

Given the new realities in the health care field, many hospitals are adapting their physician management practices as they employ more doctors, health care consultants say.

However, too many hospitals are buying physician practices because the doctors want to sell or because they fear a competitor will snatch them up, cautions William F. Jessee, M.D., senior vice president at the health care consulting firm Integrated Healthcare Strategies and former president and CEO of the Medical Group Management Association.

“The key question that any organization has to think about — whether they’re just getting into the integration world or are already in the thick of it — is: ‘What is the strategic objective they are trying to achieve?’” Jessee says. “Once it’s clear what the strategy is, then you can figure out which practices fit into that strategy and decide if buying or another way of aligning is best.” He recommends involving physicians in setting hospital strategic goals to promote their engagement in the organization and their buy-in on its goals.

When developing their physician strategy, four-hospital CoxHealth looks five or six years down the road to predict how many physicians it will need to meet its goals, says David Taylor, vice president of CoxHealth Regional Services, which includes 57 clinics in southwest Missouri and 180 employed physicians.

The employed medical group has doubled in size in the past decade, and the system continues to hire primary care and specialty physicians to meet the demands of its growing market, Taylor says. This summer 30 to 40 new physicians will come on board, he adds.

True integration: What it takes

When acquiring physician practices, hospital officials should not assume that employment guarantees that doctors are aligned with the organization’s goals. Employment is the relationship model between hospitals and physicians, Combes says, while integration is the philosophical and cultural approach to delivering integrated care.

“A lot of organizations now are looking at how do we build on the group practice culture in these one-off acquisitions?” Combes says. “How do you pull this all together into a finely honed system of care, not just a continuation of the old independent model where there is lack of communication, coordination, consultation? It’s a real challenge, but the success of these acquisitions is going to be determined by whether you can create that environment.”

Hospitals and health systems are using several tools to encourage physician alignment. One is modifying the compensation model. Hospitals learned from the 1990s not to guarantee a physician’s salary. Instead, physicians typically are paid a base salary with productivity incentives. But as payment shifts from the fee-for-service model toward payment for value, hospitals increasingly are offering bonuses to physicians who meet quality and patient satisfaction goals.

“You want physicians to care about the overall performance of the practice,” Jacobs says. Hospitals are taking a gradual approach by increasing the quality and patient satisfaction set-asides over time as payers begin to reward value instead of volume, she adds.

Practices should get regular feedback on their financial and clinical performance, Jacobs says. Individual physicians should be able to compare their performances with their colleagues. Electronic health records make this data easier to collect, but the way data are shared also is important. “There should be easy-to-follow, clean, clear met-
clinical management

A role in governance through such avenues as physician leadership councils, which participate in hospital strategic planning and take responsibility for overseeing physicians' clinical performance. "This allows the physicians to have a vested interest in the future of not only their organization, but how it ties into the future of the entire system," Jacobs says.

The link between physicians and hospital governance is essential to making sure clinical goals are consistent across the organization and to achieving those goals, Jacobs says. For example, if an objective is to reduce readmissions, the physician group would look at how it could redesign care delivery to decrease rehospitalisations.

At CoxHealth, clinical goals are established at the system level, and physicians are involved in the effort, Taylor says. The organisation not only has a physician advisory board but also a joint operating committee that includes four doctors from the employed physician group, four physicians from the Perrill Duncan Clinic, a CoxHealth partner, and four from hospital administration. The committee tackles such decisions as which group will provide a new service line, what the physician compensation plan looks like, the physician recruitment strategy, and which EHR platform to use, Taylor says.

In terms of practice management, many hospitals are using the dyad model, in which a physician leader and an administrative leader are paired and held mutually accountable for

Less Independence: INDEPENDENT PHYSICIANS AS A PERCENTAGE OF TOTAL PHYSICIANS

Source: Authors. "Pathways to Improved Physician Performance." Health Affairs 2006;25(6):w150-w162.
the group’s performance.

In the past, the administrative and clinical sides of hospitals were separate, Combes says. The administrative side handled such duties as facilities maintenance and materials acquisition. The clinical side was basically one patient at a time with one physician. Now, however, “the external forces of health care reform and the country’s financial problems are forcing those two to merge into one clinical enterprise that is focused on the health of the population,” he says. “When you get to that level of clinical enterprise, you need expertise in one locus in both management and clinical care so you can effectively manage the clinical care.”

Hospitals shouldn’t repeat the mistake of the 1990s and assume hospital administrators can fold physician-practice management into their jobs. “Physician practices have their own regulations. Billing is different. It’s a small business. Every penny counts. You really need dedicated managers and physician leaders to run them well,” he says.

To have strong physician leaders, hospitals will have to invest in developing and training them.

“Give them the opportunity to understand what it means to be managers, send them to conferences, have them participate with hospital leadership in management training programs,” Jacobs says.

**Ensuring a proper fit**

As hospitals carry out their practice acquisition strategies, they need to be discerning about which practices they acquire. Conducting due diligence is an absolute necessity. This includes evaluating the financial health of the practice and determining whether any potential liabilities exist.

The cultural fit of the practice also should be a factor in the decision. From the start, hospitals should make clear their philosophies on practice management, expectations for physician engagement, goals for the service line, and measurement of financial, quality and patient satisfaction performance, Jacobs says. The two parties should reach agreement before negotiations begin so neither is surprised later in the process.

Banner Health uses a rigorous screening tool to vet physician candidates, Folger says. The system is looking for physicians who are open to change, adaptable, and can work collaboratively with staff and other physicians.

“We are going through a tremendous amount of change, and we are adapting to the needs of the market to better serve the patients and remain viable,” Folger says. “We need physicians to be arm and arm with us to get that done.”

For example, if a team is looking to standardize sutures or knee implants to decrease costs while maintaining quality, the system wants physicians who are willing to partner with the organization to make that happen, she explains.

**Are you physician-friendly?**

Hospitals seeking to attract physicians should build a reputation for being physician-friendly. Compensation is one part of that effort. It should be fair and the structure should be transparent, Jacobs says. Having a shared leadership structure is also important. Physicians want to remain participants in the practice and have a voice even as they’re giving up some independence on the administrative side, she says.

One way Banner Health is working to make itself the system of choice for physicians is by “providing them with an opportunity for a long-term journey within Banner,” Folger says. If a physician joins the system in Arizona but has a long-term goal to work in one of its Colorado facilities, the idea is to help the doctor manage the path to get there, she says. “We think flexibility is key to attracting physicians.”

Part of CareHealth’s physician strategy is to grow its own doctors, Taylor says. Its family physician residency program graduates eight doctors each year. This year, six residents already have signed with the system and a seventh might do so.

Because most practices in the area already have aligned with a hospital system, CareHealth typically recruits new graduates or physicians from outside the area. “Mostly the people whom we interview are looking for an employed model or being part of something larger,” Taylor says.

**Executive Corner**

- **Have a strategy**
  
  Too many hospitals are buying physician practices because the doctors want to sell or because they fear a competitor will snatch them up, says William F. Jessee, M.D., senior vice president at the health care consulting firm Integrated Healthcare Strategies. Set a strategic objective, whether it’s starting a new service line or expanding market share, and then acquire practices that fit that strategy.

- **Give physicians a voice**
  
  Involving employed physicians in decision-making promotes their investment in the overall organization, says Laura Jacobs, executive vice president of the Camden Group. Having a link between physician and hospital governance is essential to making sure clinical goals are consistent across the organization. At the practice level, assign a dedicated manager and a physician leader and hold them jointly accountable for performance.

- **Pay for performance**
  
  The shift from the fee-for-service model toward payment for value is spurring hospitals to introduce bonuses for physicians who meet quality and patient satisfaction goals. As payers begin to reward hospitals for reducing unnecessary hospitalizations, preventing readmissions and managing patient population health, hospitals will start to evaluate physician performance in much the same way. Move in step with payers, or value creation will help them but hurt the hospital’s financial viability, Jessee says.