



health inventures™

# CRITICAL GUIDANCE FOR INTEGRATING INDEPENDENT PHYSICIANS

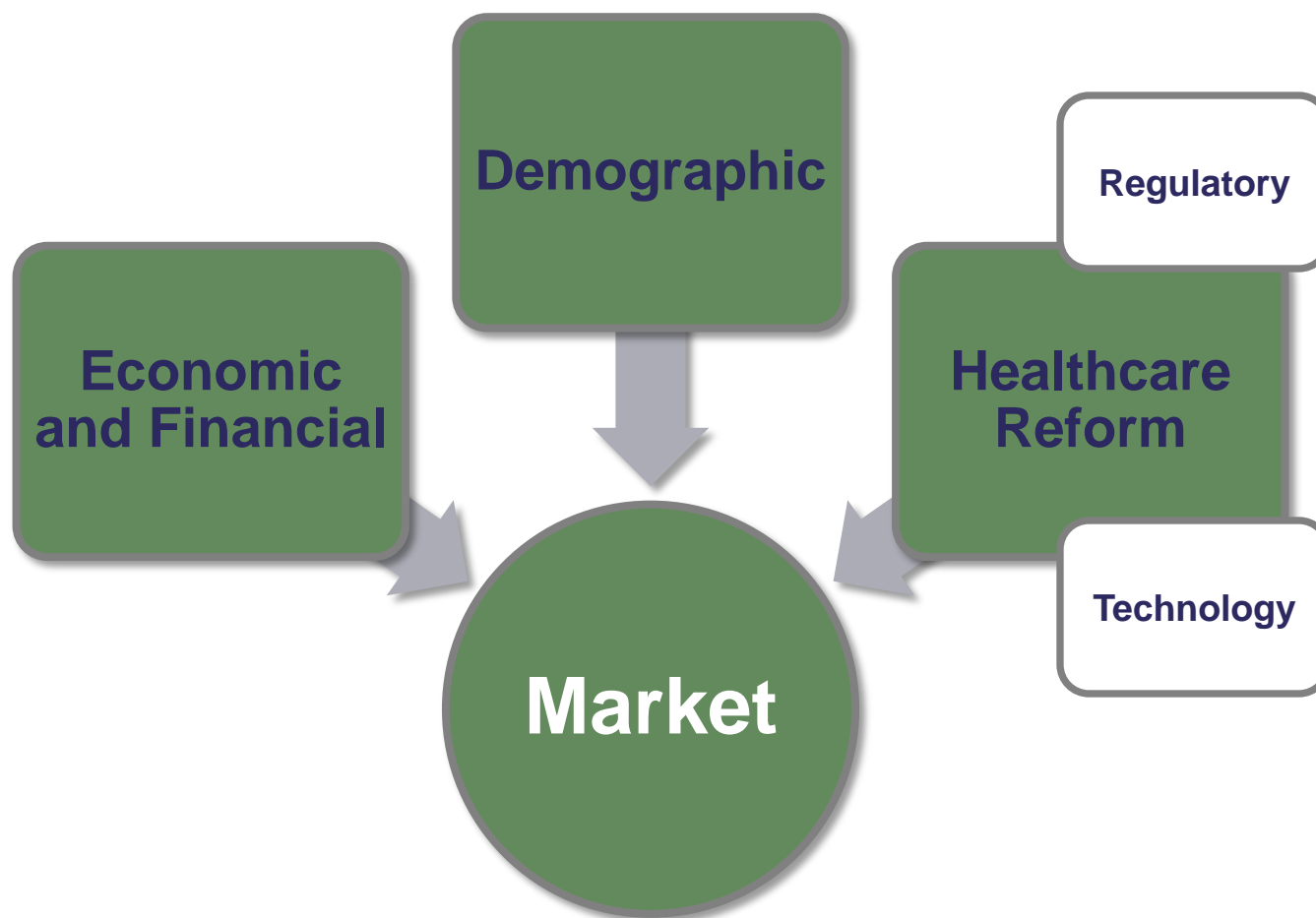
# Agenda

- The dynamics driving the physician market place
- Practical models for achieving physician alignment
- Guidance for ensuring success
- Q & A

# THE DYNAMICS DRIVING THE PHYSICIAN MARKET PLACE



# It's Never Just One Thing...



# Demographic Drivers

- Increasing population of the U.S.
- Aging population and the increasing needs of the Baby Boomers
- Aging physician workforce decreasing the future supply of doctors
- Generational and gender shift of physicians are driving changes in the workplace
  - ✓ Greater focus on work-life balance than professional attainment

# Healthcare Reform

- **Healthcare reform (payment reform) has created a “burning platform” for action and has challenged the status quo**
  - ✓ Advanced care delivery models (ACOs, PCMH, bundled payments, clinical integration etc...) are all motivating physicians and hospitals to align themselves. To date, largely through employment arrangements
  - ✓ The stick and carrot drivers of the HITECH Act have compelled physicians to evaluate their financial and operational abilities to comply and survive under the associated regulations
  - ✓ Healthcare reform has the potential of adding 32M additional “covered lives” to the provider demand pool

# It's The Economy Stupid

- **The Great Recession has called forth the Depression Era traits of our family history**
  - ✓ Stability, Stability, Stability
  - ✓ Saving to recapture our decimated “201(k)” plans
  - ✓ Uncertainty about the future
- **The cost pressures of running a medical practice are straining the private practice model**
  - ✓ Decreasing reimbursements
  - ✓ Increased operating costs
  - ✓ Declining incomes

# The Upshot...

- The U.S. is projected to have a shortfall of approximately 124,000 to 159,000 physicians by 2025 (AAMC, 2008)
- The challenges and promise of Healthcare reform are compelling physicians and hospitals alike to join hands
- Personal and professional financial circumstances are straining the private practice model

- In 2008, the number of medical practices owned by hospitals exceeded those practices that were physician-owned
- In 2010, the number of new physicians that joined hospital practices surpassed those joining physician-owned practices

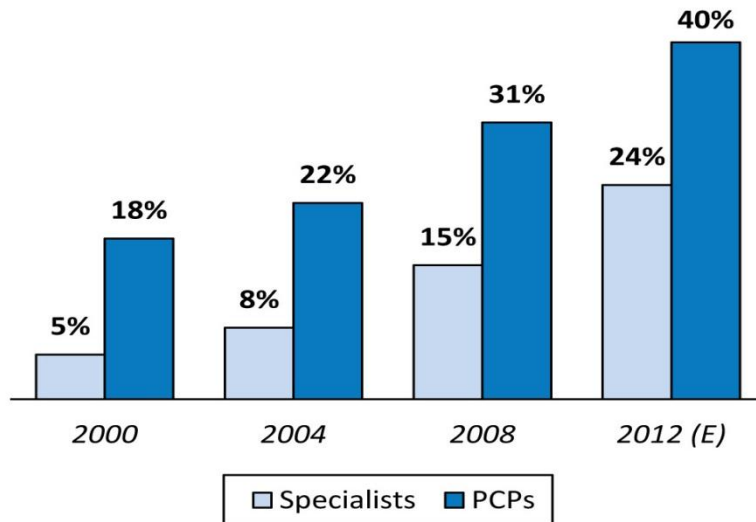
Source: MGMA





## Small Independent Practices on the Decline

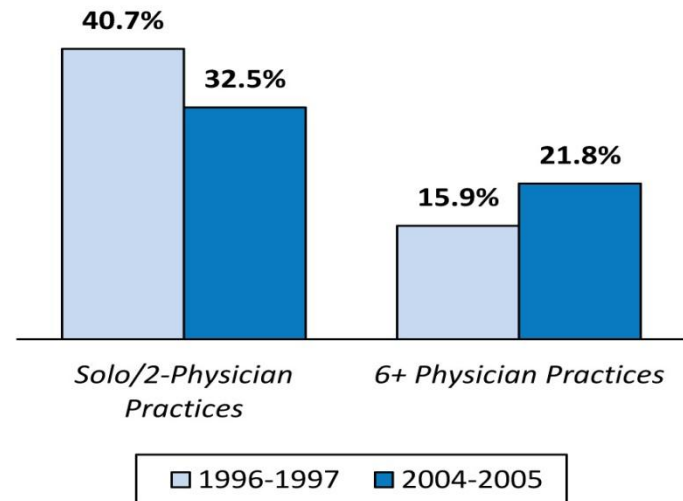
**Percentage of “Active” Physicians Employed by Hospital**



**Physician Practice Size**

*All Physicians*

n = 6,611



**49%**

Physicians hired out of residency or fellowship placed in hospital-owned practices

**(2%)**

Annual decline, over past 25 years, of number of physicians who own at least part of a practice

# MODELS FOR ACHIEVING INDEPENDENT PHYSICIAN ALIGNMENT

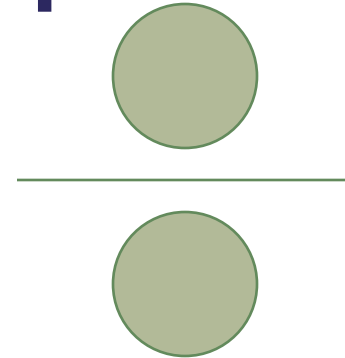
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# Organizational Design Options

## > Superior - Subordinate

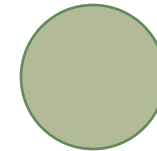
- ✓ Hierarchy of authority
- ✓ Top down approach
- ✓ Control oriented



### EMPLOYMENT

## > Solely independent

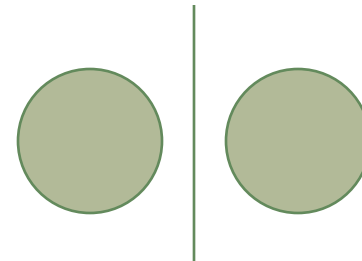
- ✓ Singular approach
- ✓ Autonomy oriented



### INDEPENDENCE

## > Collaboration

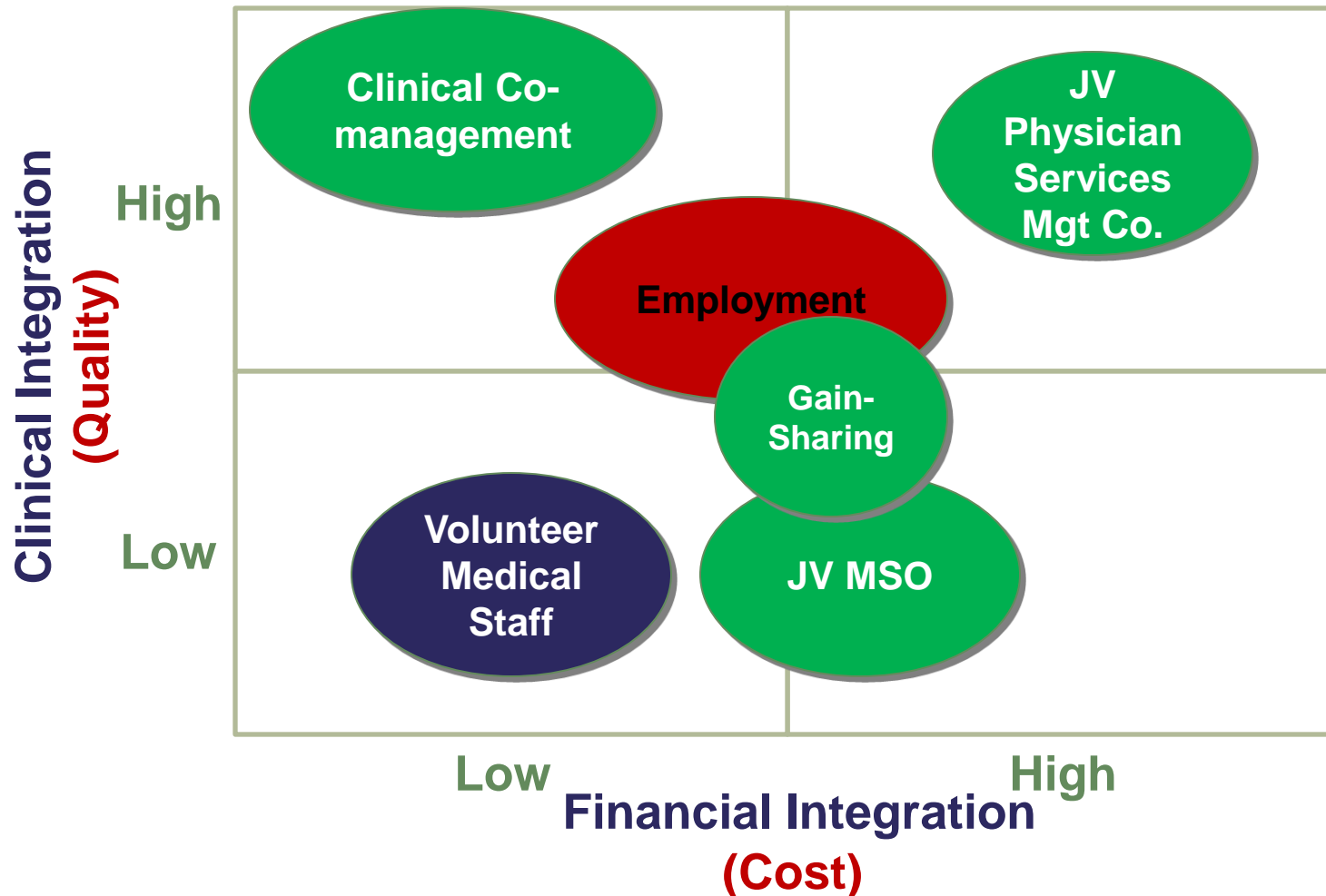
- ✓ We work together
- ✓ Multi-directional approach
- ✓ Cooperation oriented



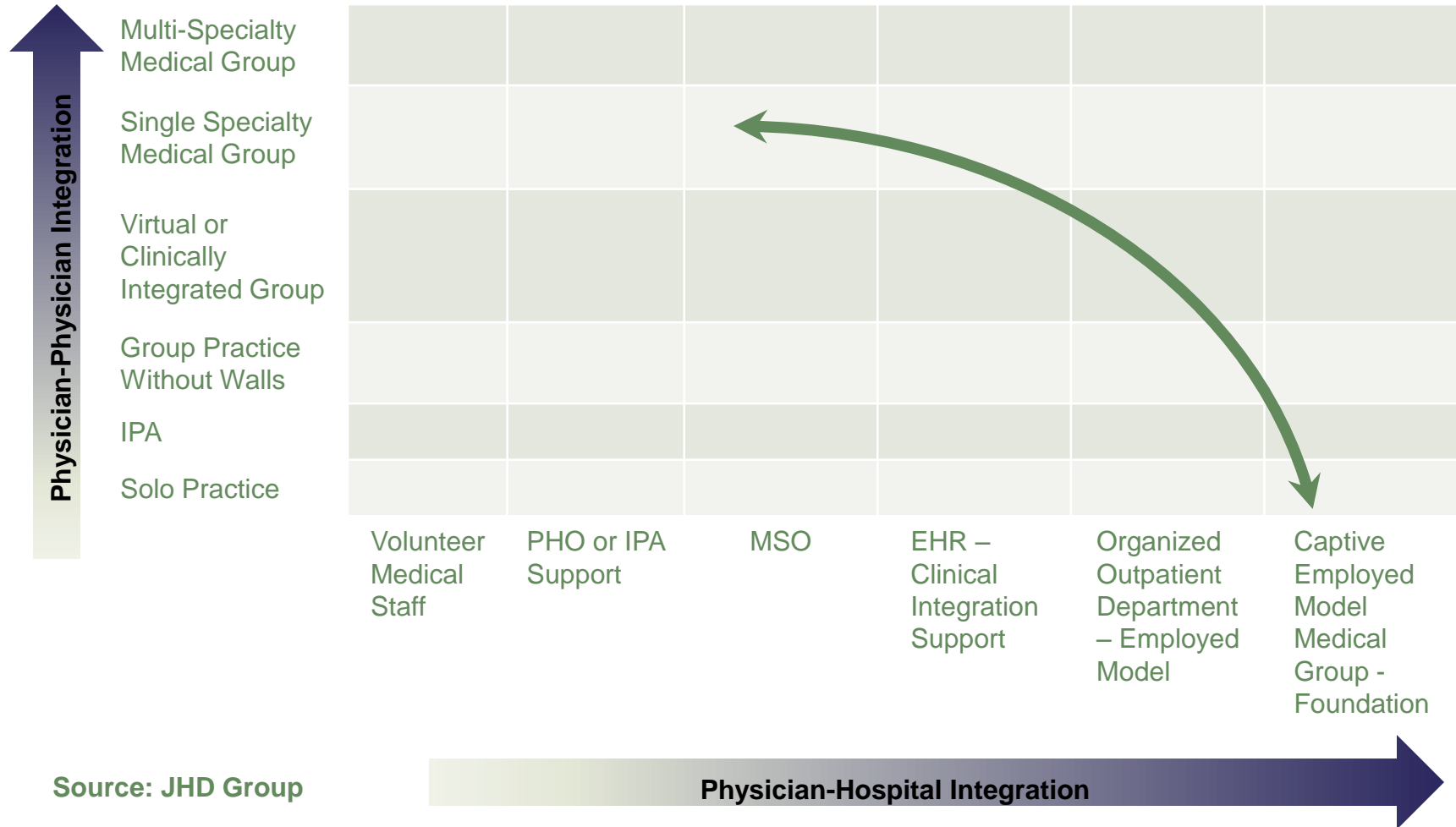
### PARTNERSHIP



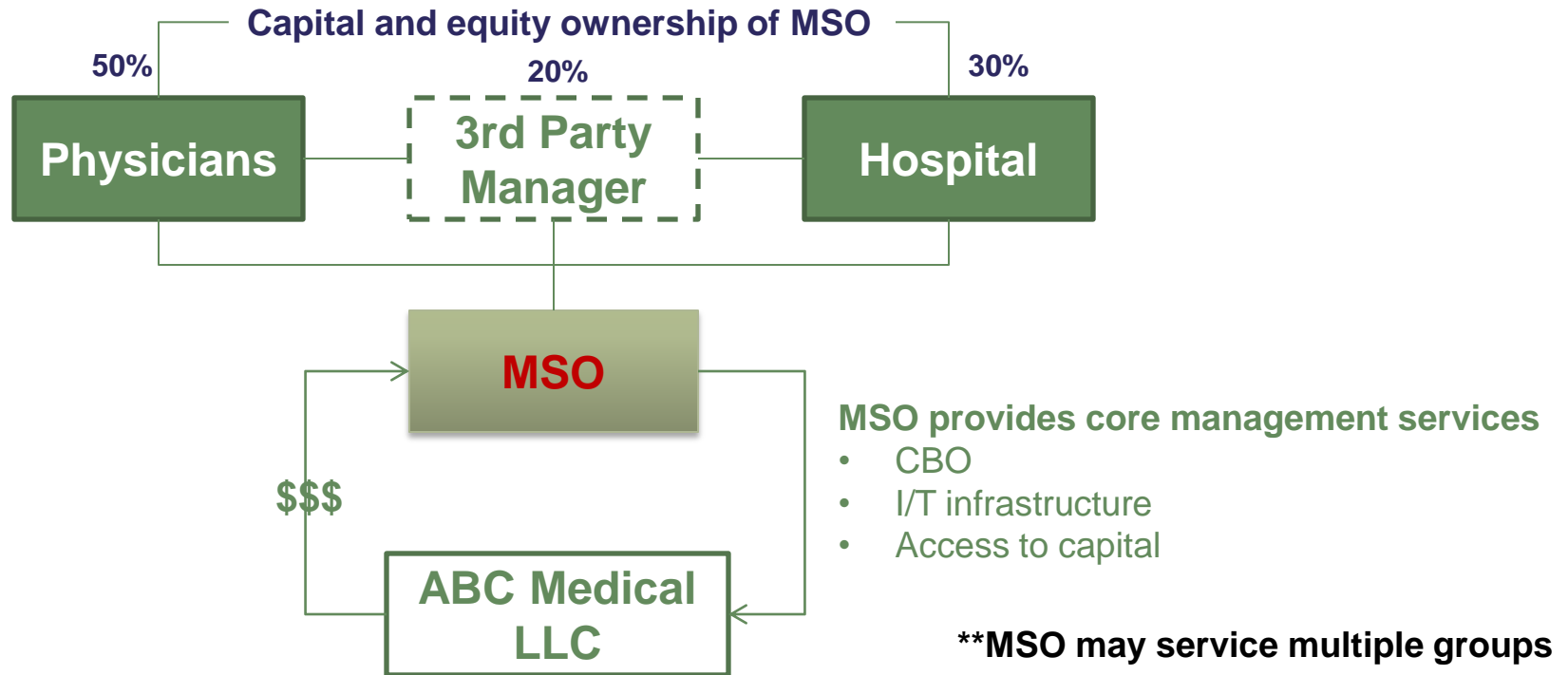
# Serving Two Masters



# Range of Integration Options



# Option #1: JV MSO



## ABC Medical composition

- Roll-up of community-based practices
- Physician owned
- Single or multi-specialty
- May or may-not include ancillary ownership

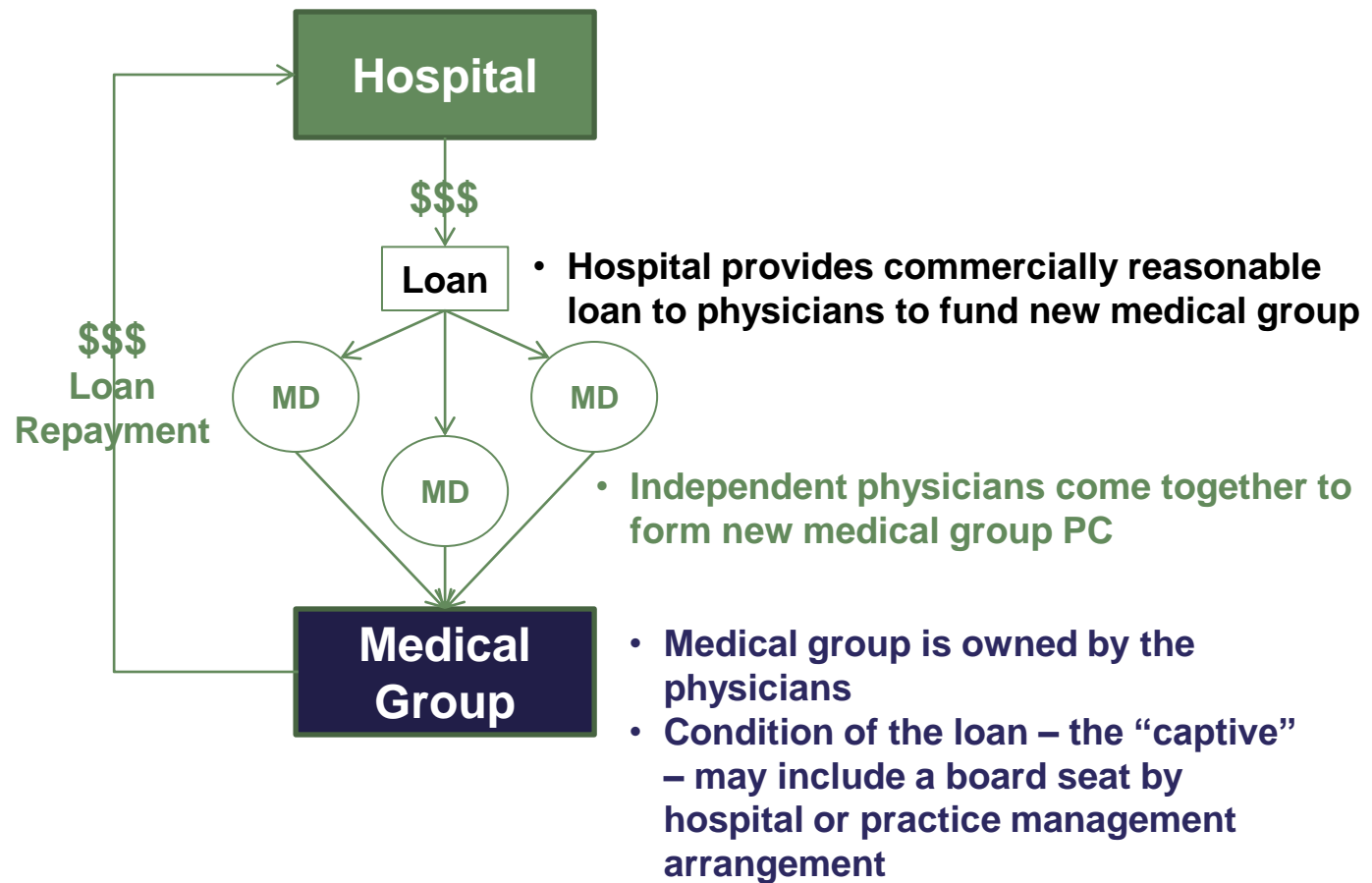
## ABC Medical responsibilities

- Group governance
- Clinical oversight
- Contracting authority
- Employs staff

# JV MSO – Key Features

- Meets an immediate and real need of independent physicians to secure and stabilize medical practices
- Provides a vehicle to align physicians with hospital
- Incorporates third-party expertise; 3<sup>rd</sup> party also fulfills role as relationship buffer
- Precursor to enabling multi-specialty relationships through a common platform

# Option #2 – Captive Professional Corporation

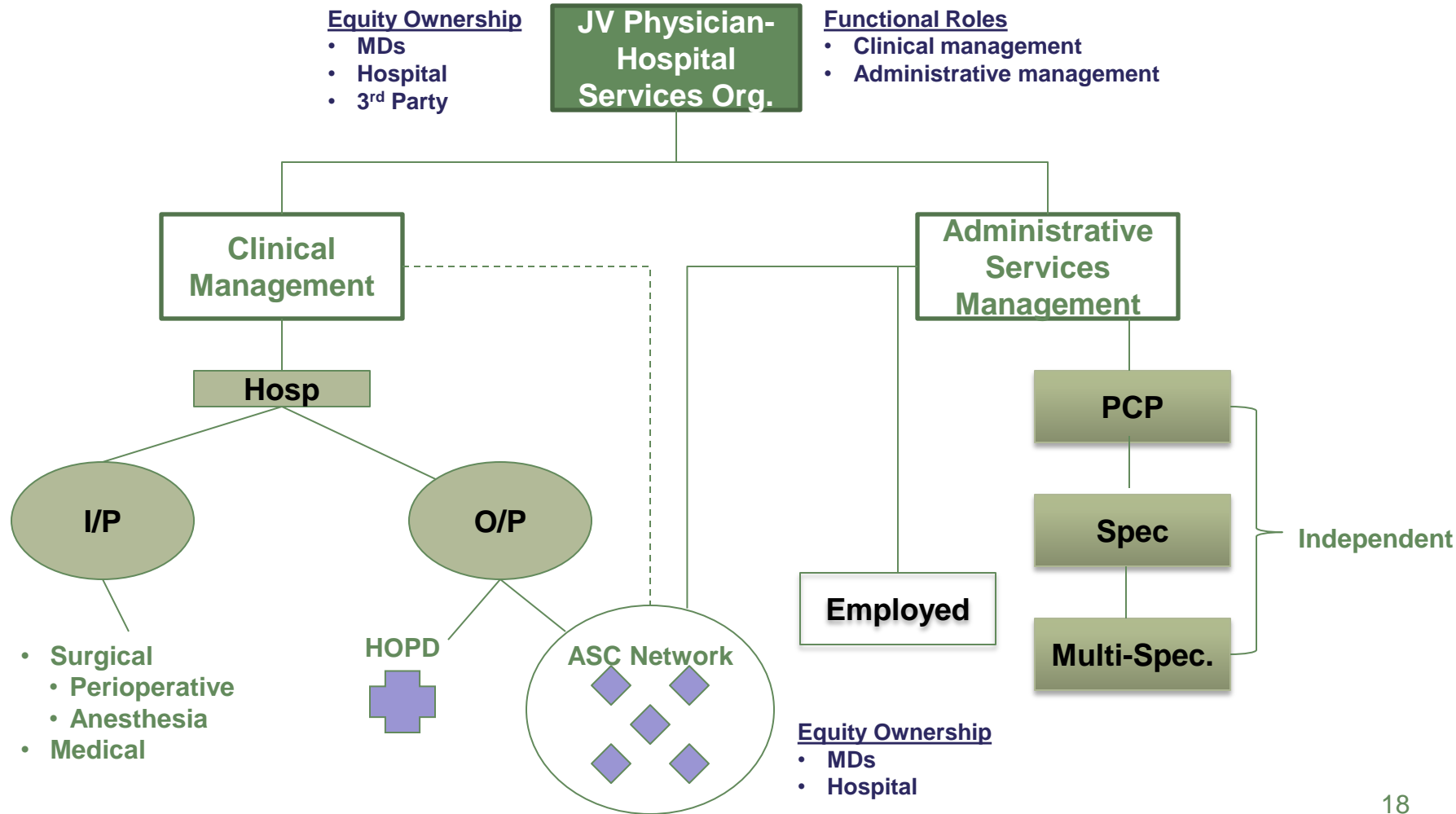




# Captive PC – Key Features

- Meets a need of many physicians to retain their autonomy and independence
- Enables independent doctors to consolidate and gain strength in group size
- “Loose-tie” strategy between hospital and physicians through the captive arrangement
- Ability to also include an EHR and/or MSO strategy with captive PC and hospital

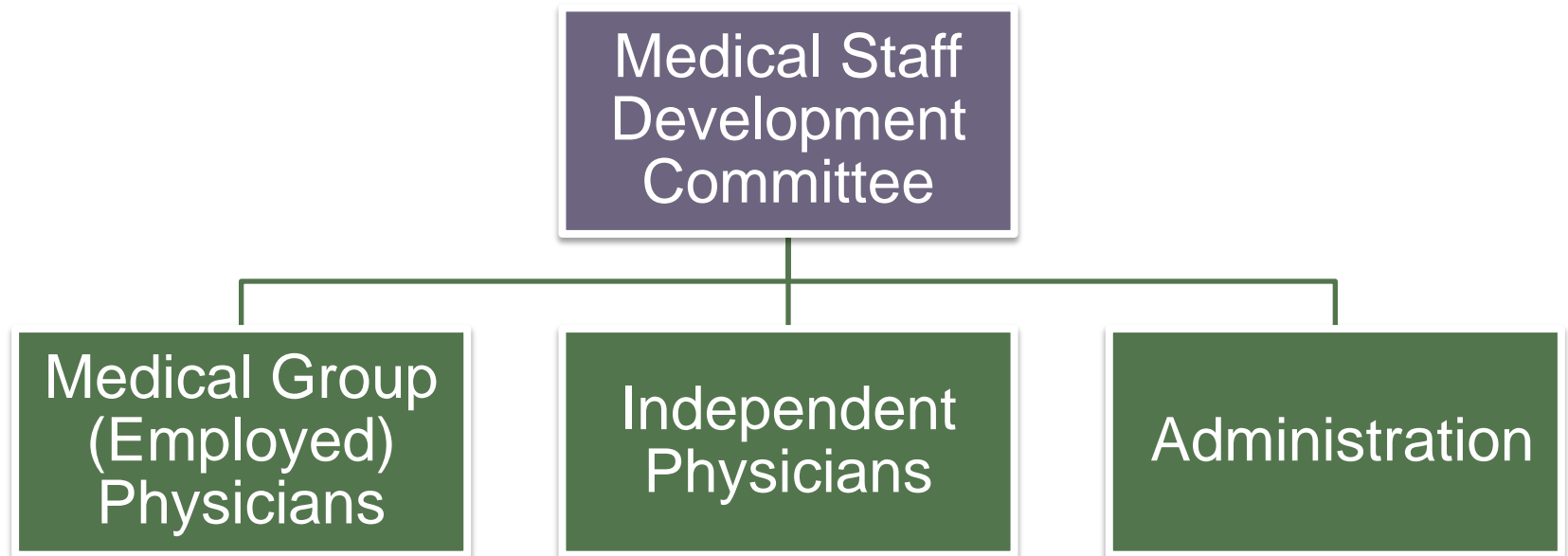
# Option #3: JV Physician Services Organization



# JV Phys. Services Organization – Key Features

- Building block to ACO formation
- Provides immediate need to independent specialists and PCPs: **revenue augmentation**
- Aligns physicians and hospital on the Clinical and Financial fronts
- Brings interdisciplinary skills together for clinical co-management

# Integration of Independent and Employed Physicians



# **GUIDANCE FOR ENSURING SUCCESS**



# Key Attributes of Success

- The “right” strategy
- The ability to fully execute the strategy
- The “right” culture – open and transparent
- Flat organizational structure with streamlined decision-making
- Level 5 leadership



# Keys for Successful Integration

- 1 Know What You Want and Why
- 2 Communicate, Communicate, Communicate
- 3 Pee Wee Rules: “Everyone Plays”
- 4 Adhere to “The 5 Musts”
- 5 Maintain Aligned Incentives
- 6 Get the Basics Right
- 7 Standardization Matters
- 8 Understand the Price of Equity
- 9 Culture Trumps Strategy Every Time
- 10 Don’t Make a “Mess”



# 1. Know What You Want and Why

- “We need a physician practice department in the worst kind of way”....is exactly what you’ll get
- Defense is not a strategy that will guarantee you get what you want
- **The objectives/purpose of the physician enterprise must be crystal clear to all parties**
  - ✓ What assets or capabilities are being contributed by each participant?
  - ✓ How are the combined assets greater than the sum of the parts?
  - ✓ What can the new entity accomplish together that individuals can’t accomplish apart?



## 2. Communicate, Communicate, Communicate

- The surest way to torpedo your physician enterprise is to miss on communication
- Nothing is trivial – communicate on all fronts and on all matters
- Sometimes you need to go to the Mountain

# 3. Pee Wee Rules: “Everyone Plays”

➤ **The most successful medical enterprises are those that find opportunities to harness the talents and input of its members**

- ✓ Engage as many as possible
- ✓ Utilize formal and informal leaders to LEAD
- ✓ Rotate players
- ✓ Opportunities
  - Board positions
  - Committees
  - Advisory panels
  - Practice pod leaders
  - Service line leaders

## 4. Adhere to “The 5 Musts”

### ➤ **Physician services MUSTS:**

1. Must be operationally competent
2. Must be honest
3. Must be transparent
4. Must be factual
5. Must deliver results

**Accomplish these musts and you will earn the trust of the physicians with whom you're collaborating**

# 5. Maintain Aligned Incentives

## ➤ Dimensions of physician motivation

- ✓ Basic human drivers (Employee Motivation: A Powerful New Model, Nohria, N.)
  - Drive to acquire: material and intangible
  - Drive to bond: concept of homophily
  - Drive to comprehend: making sense of the world, fulfill a purpose
  - Drive to defend: “fight or flight”, sense of fair play and justice
- ✓ Higher order needs (Cornerstones of Career Satisfaction in Medicine, Lepnurm et al)
  - Inherent dimensions
    - » Doctor-patient relationship
    - » Diversity of patients
    - » Interactions with other physicians
    - » Career advancement
  - Performance dimensions
    - » Achievement
    - » Responsibility
    - » Competence

## 6. Get the Basics Right

- **Most acquired practices were profitable prior to acquisition. What went wrong?**
  - ✓ IR vs. CBO at PhyCor
  - ✓ It's NOT another department of the hospital
- **The basics of physician practice management**
  - ✓ Productivity/revenue-based model
    - Proper compensation plan (Incentive alignment)
    - Patient experience (Customer intimacy)
    - Scheduling (Demand management)
    - Billing and collection (Revenue cycle)
    - Expense management (Cash management)

# 7. Standardization Matters

- ③ Too many practices are sacrificed at the altar of accommodation
- ③ Not much room in a low margin business for customization
- ③ What needs to be standardized?
  - ✓ Information systems
  - ✓ Practice policies and procedures
  - ✓ Staff compensation
  - ✓ Financial and performance reporting

## 8. Understand the Price of Equity

### ➤ There's a world of difference between a successful medical group and a group of successful physicians

#### ✓ Price of Equity

- Collaboration vs. Collegiality
- Bound by common vision, mission and business purpose vs. by professional background and socialization
- Accountability to the group vs. you do what you want and I do what I want
- Integration and interdependence vs. autonomy and independence

# 9. Culture Trumps Strategy Every Time

## Physicians

- Doers
- 1:1
- Reactive
- Immediate Gratification
- Deciders
- Independent
- Problem Solving/Solo
- Business Owners
- Value Collegiality

## Administrators /Managers

- Planners
- 1:N
- Proactive
- Delayed Gratification
- Delegators
- Participative
- Problem Solving/Team
- Business Stewards
- Value Collaboration





# “Those That Fail to Learn From History Are Doomed to Repeat It” – Winston Churchill

## ➤ Avoid repeating history by adhering the following guidelines

- ✓ Any model can work – it’s about alignment and determining what’s best for the whole
- ✓ Alignment needs to include:
  - Organizational alignment
  - Constituent alignment
  - Business model alignment
- ✓ Keep the patient at the center of every decision

# QUESTION & ANSWER



# Contact Information

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