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Alternatives to Traditional Joint Ventures: Promoting Collaboration Instead of Competition

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The concept of joint ventures between hospitals and physicians often brings to mind traditional economic, equity model arrangements, such as surgery center joint ventures. But there are many options for physician-hospital joint ventures beyond the economically focused models. When structured with balance, thoughtfulness, and an eye on the future, these options can be mutually beneficial opportunities to solidify cooperative relationships with providers that could otherwise become competitors.

Let's take a look at 11 less-traditional joint venture options for physicians and healthcare organizations.

Physician Employment and Practice Acquisition

Physician employment and practice acquisition is a prevalent physician-hospital affiliation model used today. It is a model that is becoming increasingly common among subspecialty physicians. Affiliation can include acquisition of tangible assets (e.g., real estate, equipment, etc.) and intangible assets (e.g., patient lists, medical records, telephone numbers, practice name, etc.). Employment or acquisition may be appropriate from a strategic and financial perspective if there are

adequate incremental earnings, such as downstream revenue, to repay the associated costs.

In some instances, physician employment is used as a strategy when a healthcare organization is unable to demonstrate community need, which is a prerequisite for providers offering financial recruitment assistance to a practice. If community need cannot be shown, but the particular subspecialty provided by the practice represents a strategic priority for a healthcare organization—often due to market share growth targets—then physician employment or acquisition may be used.

There are some considerations to keep in mind when evaluating potential physician employment or acquisition. Lower physician productivity due to loss of entrepreneurial motivation often follows employment. Healthcare organizations also may assume that they can manage physician practices more cost-effectively and efficiently than physicians, but that is often not the case. In addition, physicians may not welcome employment or acquisition because they would no longer benefit from the accrual of ancillary practice revenue, usually a key component of a physician practice's operating margin.

A variation of physician

employment is physician leasing. In this arrangement, a specific portion of physician time is leased according to mutually negotiated terms, conditions, and rates.

Medical Directorship Agreement

Medical director agreements include payment for administrative, supervisory, or teaching duties, usually on a part-time basis. Medical director agreements can serve as a vehicle to earn the loyalty of physicians who represent critical practices for a hospital or system.

Payment is typically calculated as a discounted clinical hourly rate for the estimated duties performed. The federal government has issued guidelines for medical directorship agreements as well as a methodology to structure an acceptable agreement.

Recruitment Assistance and Other Practice Support

If community need is determined, hospitals or systems can provide recruitment assistance, such as start-up assistance and a salary guarantee, structured as a loan that may be forgiven under certain terms and conditions.

Other forms of practice support include the provision of practice marketing and pro-

motion assistance such as:

- Advertising and media exposure
- Arranging physician appearances, speeches, and other means of connecting to potential patients and physician colleagues
- Open houses and introductory meetings
- Realtor and employer (new family) connections

Practice assistance can also include payment of recruitment and relocation costs, including real estate down payments and stipends for payment of medical school debt.

Malpractice Relief

Healthcare organizations may have opportunities to relieve some of the malpractice burden facing their physicians. This approach is appropriate in states that have been classified as malpractice crisis states or specialties in crisis. Assistance can vary from malpractice insurance subsidies in medical malpractice states to improved access to preferred rates.

Information System Linkages

The federal government has recently established guidelines for the provision of information systems linkages between hospitals and physician practices. Overall, the feds have tended to be more

lenient about hospitals and systems providing information system assistance to physician practices as long as these linkages lead to higher quality patient care. Information system links for lab and radiology results are now standard, while online access to emergency department records and other services is becoming more common.

Practice Services

Practice support services are an alternative to physician employment, but can represent a substantial form of collaboration between healthcare organizations and physicians. Typically, support services include assistance with office staff education and coding training, compliance with the Health Insurance Portability and Accountability Act and other regulatory issues, and other common issues. In some instances, healthcare organizations provide employee leasing, billing and collections, and purchasing assistance to private practice physicians.

Gainsharing

Recent actions by the Office of Inspector General and Medicare Payment Advisory Commission are likely to renew interest in hospital/physician gainsharing programs, which are designed to align the economic incentives of hospitals and physicians by allowing physicians to share in the cost savings achieved by initiatives aimed at providing cost-effective, quality care. In 2005, the OIG issued six favorable advisory opinions on physician-hospital gainsharing programs, and MedPAC recommended that Congress grant the Secretary of the Department of Health and Human Services the authority to permit and regulate gainsharing arrangements. The recent opinions from the OIG and

MedPAC have spurred many healthcare organizations to place gainsharing back on the list of possible options for collaborating with physicians.

Pay for Performance

Pay for performance is a payment system in which providers are paid financial incentives to achieve defined quality standards. Pay-for-performance programs are intended to provide incentives to encourage the use of evidence-based practices to produce better medical outcomes. Under the current payment system, no direct financial incentives exist to encourage providers to follow clinical guidelines, and the system fails to reward provision of preventive services and chronic care management.

In 2003, fewer than 40 pay-for-performance programs existed throughout the country. Today, according to data presented at a recent pay-for-performance seminar sponsored by the Jefferson Medical College Department of Health Policy, there are approximately 85 pay-for-performance programs, with projections that more than 150 programs will be in place by 2006. The commercial sector in particular is inundated with such programs: Blue Cross Blue Shield has 17 plans in 34 states, with 83 percent of the 93 million Blue Cross Blue Shield members reportedly participating in pay-for-performance plans.

While most physicians are beginning to realize the inevitability of pay-for-performance systems, most remain skeptical and cautious about the impact of pay for performance on their practice patterns and income. For hospitals and systems, pay for performance presents an opportunity to work with physicians to ensure that these systems achieve their intended goal of improving

the quality of patient care.

Real Estate Investment

Collaborative real estate ventures involve the co-ownership of real estate between hospitals or systems and physicians. These ventures can include condominium-style investment or whole enterprise investment, in the form of a real estate investment trust.

Under-Arrangement Transactions

Under-arrangement transactions are a payment methodology in which physicians gain access to hospital or near-to-hospital reimbursement rates for healthcare services, usually involving ancillary services. Many terms and conditions must be met to attain under-arrangement rates, but organizations and their legal counsel may be able to navigate through the requirements, including many regulatory entanglements and concerns.

Block Leasing

Block leasing is a relatively new collaborative approach for physicians and healthcare organizations. Most commonly used in joint ventures for imaging services, block leasing enables physicians to access supplemental income for healthcare services, typically those termed designated health services precluded by Stark regulations. If structured correctly, block leasing can be a viable alternative to traditional joint venture relationships, but it must overcome the perception that it is a loophole for referring physicians to access supplemental income, which is disallowed under many joint venture agreements.

Participating Bond Transactions

Participating bond transac-

tions are an alternative to equity model joint ventures that may reduce the regulatory risks associated with hospital-physician partnerships. In PBT transactions, the entity providing healthcare services is organized as a not-for-profit subsidiary of the sponsoring hospital. The sponsoring hospital remains as the owner of the entity providing services. Participating tax-exempt bonds are used to finance the new entity. Investors, generally physicians, are paid rates that are sometimes significantly higher than traditional tax-exempt hospital bonds.

Viable Approaches for Partnership

These 11 options are just a sample of physician-hospital joint ventures that emphasize the potential collaborative aspects of physician-hospital relationships rather than the strictly economic focus of equity model joint venture relationships. As hospitals pay greater attention to strengthening ties with physicians, these options should be considered along with the equity models as viable approaches for making healthcare delivery a true partnership of physicians, hospitals, and systems. ■

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