

HS&S Strategy OUTLOOK

Spring 2005 Volume Eight, Number Two

Physician-Hospital Relationships: How Hospitals Can Move From Being Adversaries to Allies

Nationally and locally, the evidence mounts. Tension between hospitals and physicians is at an all-time high, leading to physician separation and independence from hospitals and systems in many markets, and all-out war in others. The battleground between health care organizations and physicians is focused primarily on the provision of ambulatory care services.

Hospitals and health systems that historically were the key providers of ambulatory care now face direct competitive threats from physicians and well-funded proprietary organizations that develop health care services independent of hospitals, such as freestanding imaging centers and ambulatory surgery centers. Many of these physician-owned ventures excel at efficient, convenient, low-cost, patient friendly care in easily accessible facilities—features that have eluded many hospitals.

Competitive stand-offs between physicians and health care organizations have left many local markets in chaos. Examples of typical competitive dynamics at the local level include:

- 25 physicians and a national surgery center management company establish an ambulatory surgery center that competes directly with a local community hospital
- A freestanding center offers imaging, CT, and MRI less than one mile from the local hospital, which handles an unusually high level of uninsured ED patients
- A freestanding sports medicine center is located in the middle of town, offering a



wide range of wellness programs, diagnosis and treatment services, and exercise facilities

- Cardiologists provide diagnostic tests within their offices

The Future of Physician-Hospital Relationships

As physician initiatives flourish, the chasm between hospitals and physicians widens. What does the future hold for physician-health care organization relationships? Are there viable options beyond head-to-head competition and wasting valuable community resources on the pursuit of redundant, competitive offerings?

Despite the gloomy outlook, hospitals and systems have opportunities to develop substantial collaborative and collegial relationships with loyal, aligned physicians. That said, in some markets, contentious relationships with physicians that undertake competitive initiatives may be unavoidable. Hospitals and systems facing these circumstances will need to

pursue strategies, in partnership with aligned physicians, to secure their market position and financial performance so that the hospital or system can effectively compete with adversarial physicians.

Partners or Competitors?

Hospital and system leaders are likely to ask these questions when evaluating their options for future physician-hospital relationships:

- Where do we start?
- With whom do we partner?
- How do we establish priorities?
- What is the process for categorizing physician practices as potential partners or competitors?

One starting point is to identify physicians on the medical staff who are likely to be allies, and focus efforts on partnering with these physicians rather than concentrating on physicians who are adversarial.

Guidelines for Partnerships between Hospitals and Physicians

Hospitals and systems should establish guidelines for creating and fostering a collaborative environment with physicians. In most situations, guidelines are endorsed by hospital boards and hospital-affiliated physician organizations (e.g., the medical staff, large affiliated multispecialty groups) and establish parameters for collaborative working relationships. They will serve as guiding principles for the development of collaborative arrangements and are best developed during a calm period when the overall environment is collegial. Guidelines can establish a context for determining generally whether to pursue

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collaborative working relationships, or whether a competitive posture will be chosen.

The following guidelines can serve as a starting point for hospitals and systems to develop a framework for evaluating potential opportunities for physician collaboration or partnership:

- Enter into arrangements to share risk and reward through selected joint ventures, joint program development, and other partnerships with physicians whose goals are consistent with those of the hospital
- Use affiliations and partnerships with physicians to help position the hospital or system to expand markets and grow services proactively
- Pursue competitive strategies for some services and against specific physician practices to protect service lines and thwart competitor initiatives
- Engage in a limited number of partnerships each year, typically about three to four
- Prioritize collaboration with those practices and service lines where the hospital and physician partners have the best opportunity to grow and increase market share, where the hospital is most vulnerable to outmigration of ancillary services, where provision of patient care can be optimized, and where financial contributions are (or could be) the highest
- Measure and monitor results versus identified needs and performance targets
- Structure partnerships using a limited term, typically three to five years
- Ensure commitment by requiring both hospital and physician investment
- Consider the inclusion of non-compete clauses and/or out clauses (e.g., 60 days, 90 days, etc.) in partnership contracts

Evaluation Criteria for Hospital/Physician Partnerships

In addition to the adoption of general guidelines or guiding principles, hospitals and their medical staff organizations should develop specific criteria to evaluate individual opportunities for physician partnership or collaboration when they arise. As with the guidelines above, these criteria should be objective and applicable to a variety of situations, opportunities, and initiatives.

Once the criteria are selected, hospital managers should consider communicating

them broadly to all members of the physician community to avoid being perceived as playing favorites. In a similar fashion, the members of the medical staff organization may want to develop their own evaluation criteria to evaluate their desired position relative to a particular hospital or system.

Most health care organizations have a variety of potential physician partnership options for consideration. Some are jointly initiated by the hospital and physicians, while others are proposed by the hospital as a defensive strategy in cases where physicians are known or perceived to be considering a competitive initiative.

Criteria for evaluating physician-hospital affiliations typically include the following considerations:

1. Strategic alignment. Does the potential partnership further the health care organization's mission, vision, and goals? The physician practice's mission, vision, and goals? Do hospital leaders and physician practice leaders have a shared vision?

2. Precedent. Is the partnership likely to set an acceptable precedent for working with any physician practice in a similar arrangement in the future? Alternatively, is the partnership so unique that it will have neither relevance nor applicability to future partnerships? Worse yet, does the partnership establish a bad precedent that may make future similar situations difficult to address?

3. Market position. Is the hospital-physician partnership in a particular service line likely to improve the quality or outcomes of that particular service, and increase volume or market share?

4. Return on investment. Does the partnership provide adequate return on investment in time, effort, and financial return?

5. Reasonableness of hospital and physician partners. Are hospital and physician practice leaders trustworthy, do they have realistic expectations, and are they considerate of each other's goals and concerns?

6. Likelihood of threat. How high is the probability that physicians will develop the service independent of the hospital?

7. Magnitude of threat. Is the potential erosion of hospital ambulatory services volumes, market share, and/or financial threat significant if physicians develop service independent of the hospital?

Adversarial Response Tactics Used by Health Care Organizations

When collaboration efforts with physicians fail and competition appears inevitable, some hospitals and systems have resorted to the following tactics in response to competing initiatives by physicians:

- Exclude physicians with conflict of interest or competitive investment interest from the medical staff or severely limit their privileges
- Discontinue or divest select services
- Develop a hospital-owned practice in the same specialty
- Enter into price competition (i.e., offer lower prices to insurers, private pay patients, etc.)

These tactics serve as a clear deterrent to affiliated physicians who may desire to compete against the hospital or health system, but they carry risks as well. Potential alienation of other affiliated physicians is possible and some degree of legal risk may be involved.

Tense relationships between hospitals and physicians show no signs of abating, especially as the economic pressures to carve out a bigger piece of the pie are felt full force by hospitals and physicians. Nonetheless, opportunities to develop collaborative working partnerships exist if the proper framework and realistic expectations are in place. Progressive hospitals and physicians will pursue collaborative opportunities that avoid duplication of services and resources, enhance operations and systems efficiency, improve quality and outcomes, and achieve other synergistic benefits. These efforts will serve as a platform for significant and lasting economic partnerships that address the health care needs of the communities served without wasting valuable health care resources.

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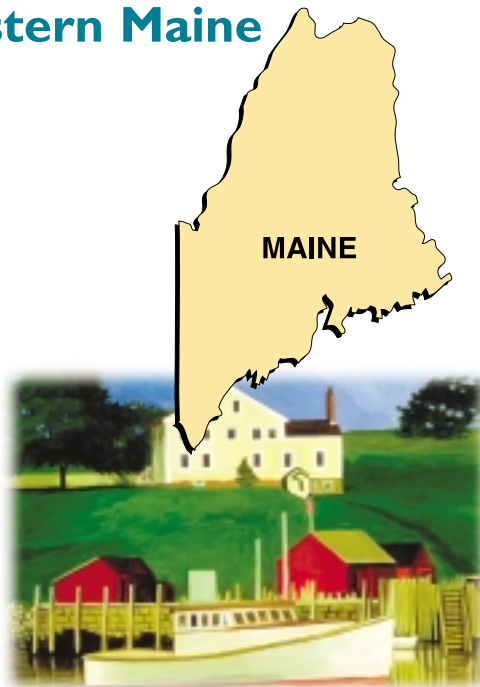
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Client Spotlight: Eastern Maine Healthcare Systems

The Project

Earlier this year, Health Strategies and Solutions worked with Eastern Maine Healthcare Systems, headquartered in Brewer, Maine, to plan their future role in a state that was rolling out health care reform legislation. HS&S consultants identified and evaluated health care delivery redesign models across the country, analyzed lessons learned from attempts at population-based health care delivery in other states, and facilitated discussions about how Eastern Maine could best respond to and possibly participate in health care reform initiatives.



The Challenge

Like many other states, escalating expenditures, increases in employer health care premiums, and a growing number of uninsured are pressuring the state of Maine and leading to legislative activity. Oregon, Maryland, and Tennessee had all experimented with reform initiatives before Maine, but with mixed results for providers. While there was a modest reduction in the rates of the uninsured and some decrease in charity care for hospitals, unintended side effects occurred as well. Hospital reimbursements were negatively impacted, and garnering support from the business community proved to be difficult. Also, some programs enacted as part of reform initiatives struggled to maintain a positive fiscal performance.

There were several lessons learned by providers from these health care reform efforts:

- Flexibility is important, as individual initiatives rarely have the impact that was originally intended.
- Although there is much talk about quality-based initiatives, cost control is the most important factor.
- Reforms typically take a very long time to play out.
- The biggest challenge is balancing the traditional care system with the reformed system, which exist in parallel.

In their attempt to control rising costs of insurance premiums and achieve universal access to health care within five years, Maine passed the Dirigo Health Reform Act in September 2003. The uninsured, small businesses, self-employed, and other individuals would have access to affordable health insurance through DirigoChoice, a new insurance product. There were some successes in the first year, but not without difficulties. Maine was able to successfully negotiate with Anthem Blue Cross of Maine to sell DirigoChoice, although they were the only bidder. Due to high costs to provide the DirigoChoice benefits package, copayments and deductibles were set at a higher rate than expected. As a result, enrollment has lagged behind projections, too.

The Solution

During a retreat conducted by HS&S, discussion questions were posed to Eastern Maine representatives concerning the degree to which health care reform would affect their

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On the Dais

Upcoming Presentations

American College of Healthcare Executives

Alan Zuckerman: "Strategic Planning from Formulation to Action," June 22-23 in Cape Cod

American College of Healthcare Executives Online Seminar

Alan Zuckerman: "Strategic Planning from Formulation to Action," September 7 to October 19

World Research Group's Building and Integrating Spine Centers of Excellence Conference

Christie Markham: "Nuts and Bolts of Developing Spine Centers of Excellence," September 14 in Las Vegas

Society for Healthcare Strategy and Market Development Annual Educational Conference and Exhibits, September 15-16 in Chicago

Craig Holm and Lou Glaser: "Your Tax-Exemption under Fire: Learning How to Operate Consistent with Your Charitable Requirements"

Christie Markham and Dean Kaster: "Impact of Clinical Technology Innovations on Service Line Growth"

Off the Press

Recent Articles

"Annexing the Neighbor's Backyard: Increasing Service Area" by Alan Zuckerman, April issue of *Healthcare Financial Management*

"Is a Joint Venture Right for You?" by Craig Holm, Lou Glaser, and Alan Zuckerman, April issue of *Managing the Margin*

"Creating Competitive Advantage: Product Development" by Alan Zuckerman, June issue of *Healthcare Financial Management*

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Client Spotlight: Eastern Maine Healthcare Systems continued

services, and how vulnerable they were to the full effects of reform initiatives. Eastern Maine representatives were also asked to think about distinctive competencies that could help them respond effectively to different scenarios that might emerge, given the current and potential future state health care reform.

The retreat yielded a tangible set of strategies that Eastern Maine Healthcare Systems can use to position itself for the future. The Eastern Maine project is an example of how providers can proactively address and manage substantial changes in health care financing and take charge of their organization's future.

Save the Date

Society for Healthcare Strategy and Market Development Annual Educational Conference and Exhibits, September 15-16 in Chicago



Above l to r: Robert Hill, Christine Markham, Keith Pryor, Tracy Johnson, Craig Holm, Alan Zuckerman and Hugo Finarelli

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Health Strategies & Solutions, Inc., is a national management consulting firm dedicated to helping organizations discover innovative strategies and

solutions for today's complex health care challenges. Our staff has enabled hundreds of health care organizations across the country to address complex issues, make decisions that achieve lasting results, and set courses for success.

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