

Other-than-Economic Models for Physician–Health System Partnerships

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In the last physician issues column, economically grounded models of physician-hospital partnerships were discussed. In this column we will present models that, while grounded in economic realities, pursue initiatives with other goals for the relationship. We will also describe evaluation criteria that should be used to develop and assess the effectiveness of the partnership models.

As discussed in previous columns, one of the failures of physician-hospital partnerships has been relationships characterized as “all or nothing” or “all or minimally integrated,” such as the practice acquisition and employment model or independence. A second common reason for failure is the inability of partnerships to meet expectations. From the physician perspective, affiliations with hospitals often fail because demonstrated economic benefit or improved practice viability—explicit goals of most established partnership models—is not achieved. From the health system perspective, inordinate sums of money have been spent to achieve only marginal improvement in relationships with the medical staff. Also, the execution of partnership models rarely results in improved competitive position relative to other health systems or payers. In other words, physician–health systems partnerships in many markets are a zero sum game because no net change in physician relationships or health system competitive position is achieved.

Therefore, before any model is implemented, whether the model is an economic one or has other goals, it should be scrutinized with evaluation criteria. The same criteria should be used to reevaluate the performance of the model periodically. A scoring system is often used to quantify the summary performance. Example criteria and a scoring system are displayed in Figure 1.

As hospitals and physician explore affiliation opportunities, they should consider adding other-than-economic partnership models to their list of options. Figure 2 presents some, but not all, of the options available to providers. Those models presented are being used successfully in today’s market.

Often the models presented are described as starting points for establishing some level of a relationship with a private practice physician. Although these models clearly involve less economic interdependence than economic models, the participants have the potential to achieve common financial objectives and eventually move toward a more economically grounded affiliation, such as shared ownership of facilities or ambulatory services.

FIGURE 1
Sample of Evaluation Criteria and Performance Scoring for Practice Marketing and Promotion

Evaluation Criteria	Score (1-5)* by Physician Practice	Score (1-5)* by Health System
Maintain/improve competitive position	5	1
Maintain/improve payer position	5	1
Improve patient care	1	1
Improved relationships between medical staff and health system	4	5
Economic benefit	4	5
Other (e.g., eliminate hassles of practice management)	1	1
Total	20	14

*1 = low value; 5 = high value.

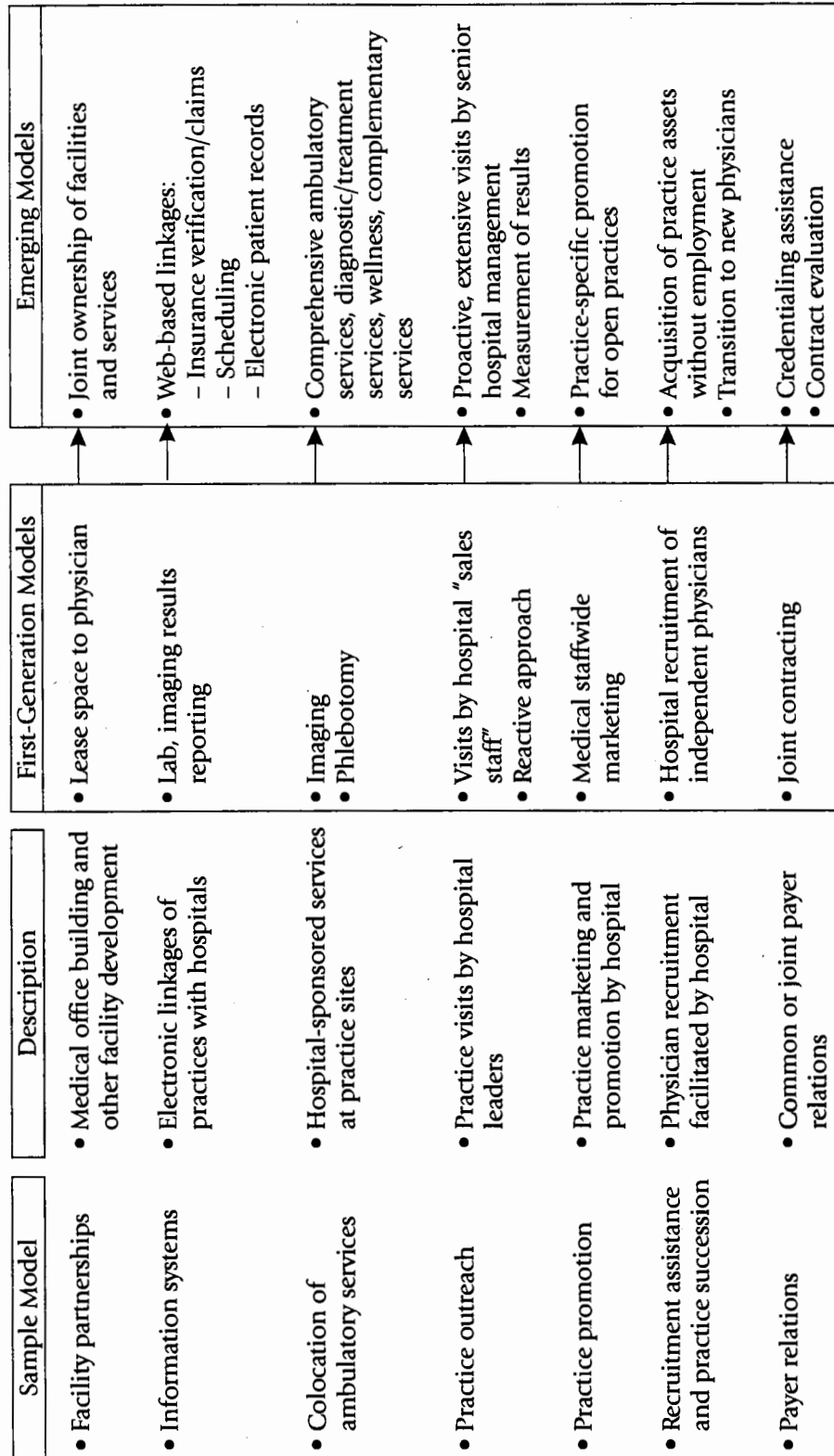
The Northwestern Medical Faculty Foundation (NMFF) in Chicago is a physician organization affiliated with Northwestern Memorial Hospital and Northwestern University. NMFF has participated in a number of partnership arrangements with Northwestern Memorial Hospital, including a unique facility partnership. NMFF is the owner of seven floors of the new Galter Outpatient Pavilion, a facility that houses a comprehensive array of hospital-sponsored diagnostic and treatment services, private physician offices, a pharmacy, retail businesses, and other amenities. The arrangement is unique because NMFF is an owner—not a tenant—of almost one-third of the total space in this ambulatory care center.

NMFF needed to meet several milestones to solidify this unique facility partnership:

Financial resources. Capital financing of \$70 million was secured through a tax-exempt bond issue. NMFF needed a strong financial position and long-term stability to secure financing for the facility. The physician organization elected to exercise the financial discipline necessary to retain earnings rather than pay out all earnings of the organization, as would typically occur in a private practice professional corporation. Adequate financial reserves placed NMFF in a position to pursue substantial financing, and, in turn, enabled NMFF to assume significant ownership and input into the future use and control of the ambulatory care center.

Confidence that the investment would pay off to the strategic benefit of NMFF. NMFF demonstrated faith in the evolution of the market and the likelihood that the ambulatory care center would become a viable entity that would enable NMFF to repay its loan. NMFF explored the possibility of establishing a distributed

FIGURE 2
Other-than-Economic Physician-Hospital Partnership Models



network of ambulatory care centers, but eventually decided to support one centralized location.

Central leadership and vision. Following through on confidence and faith requires financial investment and forward-thinking leadership that is committed to seeing a vision through to reality.

Confidence in the hospital partner. After self-evaluation of the hospital's financial position and likely future viability, NMFF was comfortable and confident about the financial and strategic position of its hospital partner.

By 1995 financing for the facility was secured. In 1999, the new ambulatory care center opened its doors for business. To date, from the perspective of NMFF, the facility has been a success in several areas:

- Volumes have exceeded forecasts. A 10 percent to 25 percent increase in visit volumes (depending on the specialty) has been realized; most of the increase is attributed to the attractiveness of the facility. Volume increases are also attributed to the positive effects of the integration of clinical services.
- The facility is a tangible symbol and constant reminder to the physician organization and the hospital that they have entered into a long-term partnership and have a sense of shared destiny. The partners understand that they must pursue any means possible and necessary to resolve differences that may arise.
- Space was designed to be flexible enough to enable space reallocation as programs grow or change in scope. For example, hematology/oncology growth has exceeded expectations and NMFF is considering allocating additional space to this service.
- The collocation of hospital and physician services has had a positive and complementary marketing and promotions effect. The hospital's promotion of the diagnostic and treatment services in the ambulatory care center results in a beneficial "halo" effect on NMFF physician practices and vice versa. Further, the collocation of services creates opportunities for achieving economies of scale and improved patient convenience.

Although this facility partnership is relatively new in its formation, the early feedback from NMFF is positive. Not only is the facility partnership functioning effectively in its early stages, but it can serve as a foundation for future partnerships between NMFF and Northwestern Memorial Hospital.