

## Physician-Hospital Alignment: Finding the Sweet Spot

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Many group practices, specialists and primary-care physicians are having their practices assessed in order to determine whether the practice should: (a) remain independent; (b) merge with another practice; or (c) agree to become employed by a hospital.

We believe that these alternatives widely miss the mark. In order for a medical practice to navigate successfully in today's economic mean streets, you have to reprogram your GPS: your "destination-goal" is no longer simply whether to stay independent, merge or seek hospital employment, since these are now just short-term decisions, and none will determine whether your practice will flourish over the long term.

Here are the better questions: Is our practice positioned to remain independent and/or be sold to a hospital and then be spun off again as an independent practice, depending upon down-the-road conditions in our service area? In other words, does our practice create value in any business combination? Depending upon the changing economies in our service area, will we remain desirable either as independent, or employed in a co-management service-line agreement? Are there other partnering motifs we should explore?

We all know the shibboleths that drive our health-care marketplace: physicians and hospitals compete for a shrinking reimbursement dollar, compete for patients and offer competing medical diagnostic services. However, we often overlook that there are symbiotic opportunities as well: many community hospitals, in particular, need employed physicians to provide in-hospital care, are willing and able to buy the newest generation of expensive testing equipment and may be a good partner, depending...

The point is that the partnership, or employment relationship, may not be forever, and, in these changing economic times, will likely not be for a long span of years, so you have to plan for the merger and the possible spinning off.

There are three separate, yet overlapping, criteria that your practice must assess in order to prepare for near-term challenges and position yourself for long-term survival. First, you have to know your practice, then your service area, and then

your hospital(s), since it is the only way to find the "sweet spot" where your practice's goals, your community's needs and the hospital's interests best align.

First and foremost, we suggest that you have an unvarnished review of your practice. Here's a quick checklist of what must be reviewed:

1. Your shareholders' agreement, demographics of members, lifestyle issues, etc., all need to be analyzed, since physicians rate income and satisfaction as their key issues.
2. Pro-forma of the practice: Review income and reimbursement issues (to include changes in professional and technical fees, the impact of e-prescribing, quality reporting and pay for performance). Improve infrastructure and streamline operations.
3. Market drivers: These include consumerism, aging population and workforce shortages (and changes in technology), which may improve infrastructure and streamline operations.
4. Assess alignment opportunities: Are there mutually beneficial opportunities to partner or merge with other practices or partner with your local hospital? What is the long-term viability of other physician groups and the hospital? Is there a strong cultural and financial match?
5. Patient satisfaction, quality of care and opportunities for growth are key areas as well.

As you can see from the aforementioned, a practice review is one part hard economics and one part prognostication (*i.e.*, studied guesswork), given the fluid state of our medical marketplace.

Once you feel comfortable with your practice's analysis, you need to focus upon the marketplace, your competition and then the hospitals in your area. If your goals (and strengths) match a nearby hospital's needs, then an alignment based upon *mutuality of opportunity* may become a viable course of action. A medical practice aligning with a hospital to achieve mutually-beneficial goals can create short-term comfort for both and the platform for future realignments based on future conditions and the needs of both parties as they emerge over time.

Your goal should be to find areas of symbiosis to balance areas of competition. For example, a physician's long-term goal is to be in a group practice of like-minded practitioners, have access to the latest technology and enjoy a healthy income. Quality of patient care, independence and collegiality are important as well.

Hospitals have similar long-term goals— quality of care for patients, financial viability and community service — but neither physicians nor hospitals have prescient strategic plans that can anticipate and prepare for all of the changes in reimbursement, technology and health-care policy.

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So, isn't it possible that both physicians and hospitals can find shared comfort in dealing with these uncertainties? A well-drafted physician group-hospital *Purchase and Employment Agreement* can give voice to the many ways the parties can deal with the known and unknown uncertainties. For example, from the physicians' point of view, if the timing is right, a sale of assets, coupled with an employment agreement, may make "dollars and sense," and some years later, from the hospital's point of view, it may make sense to transfer the financial responsibility of physician production and income back to physician ownership to refocus its balance sheet on hospital operations.

The point here is to consider independence, co-management, employment and the option to return to independence as a continuum of alternatives for physicians and hospitals. This provides the flexibility to respond to changing market dynamics and the recapitalization of the physician practice. For too many years perhaps, Stark laws have contorted the economic models that have been created, and these challenging times give us the opportunity to use a number of new criteria and strategies.

Pay for performance, for example, when combined with the expected funding and emphasis on electronic medical records, will create ways for physicians and hospitals to use care models to create shared income and to work more closely together. In certain markets, the best way to work together may mean a full employment relationship. In other markets a different approach may be warranted.

A recent *Officer of Inspector General Advisory Opinion* (Advisory Opinion 08-16) illustrates why keeping an open mind about independence versus employment is a good idea. This opinion is a periscope into the future of hospital-physician alignments, since it points the way towards a joining of quality and financial pay-for-performance initiatives.

The government's earlier fumbling of "gain-sharing" proposals has been overcome: this *Advisory Opinion* enables a hospital to enroll participating physicians in a professional limited liability corporation (PLLC), and distribute monies paid to the hospital through pay-for-performance programs of third-party payers. Participating physicians agree to practice in compliance with hospital quality targets and provide specific quality-related services by, for example, developing policies and procedures, ensuring adequate peer review if targets are not achieved and auditing medical records to track compliance with the quality goals.

With the federal government promising to commit funds to implement electronic medical records, the reduction of medical errors and quality-of-care improvements as near-term policy goals, the line between independent physicians and hospitals will be further blurred. Never forget that the typical patient doesn't

care whether the physician works for the hospital or is independent, so long as the patient's health-care providers — plural — work together to improve quality of care in the patient's community.

It is likely that this health-care model, near-term, will reinforce the patient's perception that the providers are working cooperatively. There will be electronic sharing of medical information amongst providers, e-prescribing and compliance initiatives across practice groups to monitor/audit evidence-based practice parameters. Hospitals and medical practices both have to analyze their individual and community needs in order to determine what realignments are necessary to best position themselves to work together on quality of medical delivery goals, and how best to realign those relationships to achieve financial and econometric goals.

The bottom line is that you must be prepared to be flexible. Your GPS will still get you there if it is reprogrammed and updated. Most health-care executives agree that strategic planning is mostly a misnomer, in that a 10-year strategic plan often changes, and that planning within a 2-5 year envelope is closer to reality. Thus, "flexible" does not mean that you have to compromise on your goals of quality of life and quality of patient care, only that you may have to be prepared to make in-course adjustments to achieve them.

Additionally, the complexity of the current practice environment should give one pause to reflect on career and personal options. The above discussion reflects the fact that a spectrum of business formats exist for your practice — that spectrum runs the gamut from *status quo* to alliances, joint ventures and a variety of employment and new career choices. The corollary to these "business options" is the inevitable personal inner tension that is aroused in anyone when confronted with important decisions that have individual and professional consequences. The consequences of this tension are an inevitable unsettling of one's inner equilibrium, such that there is frequently a questioning of the professional purpose and meaning of one's career. One is reminded of the words of Viktor Frankl in his book, *Man's Search For Meaning*: "It is a peculiarity of man that he can only live by looking to the future — *subspecie aeternitatis*." And this is where one should focus as medical professionals in the most difficult of business and professional environments — a future that will continue to evolve and present new challenges, new requirements, new solutions and new opportunities.

*"People are always blaming their circumstances for what they are. I don't believe in circumstances. The people who get on in this world are the people who get up and look for the circumstances they want, and, if they can't find them, make them."*

— George Bernard Shaw