



Integrating Physician Practices and Hospitals: Operations *and* Culture Matter



*Integrated Oncology Consulting Solutions
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Hospitals are seeing an increase in the number of oncology specialists interested in moving from independent practice to employment or in some type of hybrid practice arrangement in order to better manage their economic future. This rapid change is at times overwhelming. The American Hospital Association states that the number of employed physicians has increased 34 percent between 2000 and 2010, with just over 25 percent of physicians currently employed by hospitals or health systems¹. Other relationships, such as group contracts, account for an additional 20 percent of physician employment.

In a recent survey, Accenture reported that in the more than 200 practices queried, the percentage of independent physicians dropped from 57 in 2000 to 39 in 2012². This trend is taking place for PCPs and specialists, including oncology specialists. The American Society of Clinical Oncology conducted a preliminary national census of oncology practices and found that slightly more than half (55.9 percent) of respondents reported that they were private community practices, 12.4 percent reported they were employed in nonacademic institutions, academic practices made up 11.3 percent of responding practices and private, integrated group practices that were part of a large health system were 9.8 percent of respondents. Larger practices said that they were likely to purchase smaller practices in the next 12 months, while smaller practices responded that they were likely to sell or close their practices in the next 12 months.³

The rapid changes in physician practice structure are due to a variety of reasons. Physicians are working harder to maintain their income; there is increasing competition; uninsured or underinsured patients volumes are surging (although there is hope the Affordable Care Act will decrease this); reimbursement for medical and radiation oncology is under attack by CMS and other payors; and there is increased scrutiny by CMS and OIG related to intended or non-intended overpayments. A trend many physician recruiters see is younger physicians often preferring an employment arrangement versus operating an independent practice.

In the article entitled “Physician/Hospital Medical Oncology Alignment Must Focus on Operational Efficiency before the Deal Is Finalized,” written by Joseph Spallina and sent out by The Oncology Group in April, the focus was on operational issues, which are critical. Prior to any physician/hospital alignment, necessary steps must be taken to ensure success.

Alignment discussions typically take up to one year to complete if due diligence is conducted correctly. Not only are the two parties involved in discussions, but legal counsel for each party is critical for compliance with anti-kickback statutes, Stark statutes, tax exemptions issues related to compensation, provider based status rules, fair market value rules and other requirements.

Prior to a hospital and physician practice deciding to integrate, it’s critical that each party is moving into a closer alignment for the same (or similar) reasons and that they both share the same motives. Both parties to any agreement must focus on accomplishing the same goals and have similar cultures. They must have an honest discussion about expectations. Without congruence, they won’t achieve success.

In the past, oncology programs and physicians were able to stay competitive through relationships with referring physicians, subspecialty expertise, technology and facilities. In the future, the value proposition must compete on outcomes, quality and cost. Physicians and hospitals each must choose partners who can compete in these three areas successfully.

How to start?

If a physician practice approaches a hospital seeking employment or is interested in developing a PSA, or if a hospital wants to approach physicians in the community regarding alignment, research is critical. Vital qualitative information to gather includes the oncologists' reputation in the community as perceived by referring physicians, their adherence to recognized standards of care (if known), patient satisfaction and office location.

Approaching the alignment as a business opportunity is also important, so quantitative data is required. Information and questions to investigate may include:

- A careful review of practice financials and what will occur as a result of the transition from a physician practice payment system to the hospital payment structure. This includes revenues, costs and reimbursement. Remember that removing chemotherapy administration and ancillaries may leave an oncology practice losing money, so review several variations of the new financial model.
- What is the level of productivity by physician? Will younger physicians have the same incentive to work hard if partnership opportunities are removed? Will older physicians take the money and then slow down their efforts? Look at patient-specific volumes and don't depend on claims such as "I work the hardest."
- What is the existing staffing model and are there "sacred" employees who cannot be touched if staffing models need to be adjusted?
- How old are physician practice members and how long will each continue to practice once the sale is completed?
- An evaluation of the practice is just as important as a valuation of the practice. Look at the physical plant and facilities; outstanding bills, leases and other financial components; whether key staff are about to leave; morale in the practice and other issues. A financial valuation is key, but it's also important to understand the practice environment before executing a purchase.
- Are there sufficient patients in the market? A market analysis is critical. Include projected cancer cases, movement of physicians (including referring physicians being acquired by competitors), census projections and other numeric components.

As negotiations continue, staffing and compensation will quickly become a critical topic. Are physicians expecting fixed salaries? Will they accept RVU based compensation? What staff do they want to bring and how does that interface with the current staffing in the hospital? How do staff salaries fit in the hospital's salary structure? What support is necessary for clinical trials?

The Oncology Group recommends a formal qualitative and quantitative analysis of the cancer environment as an initial step in any discussion related to practice acquisition. Before approaching any potential physician practices for acquisition or partnership, it is imperative to understand the market, assess the potential for future growth and determine the most logical targets. In some markets, hospitals have declined partnership agreements with existing practices and are moving to hire outside specialists. A better understanding of the local cancer environment will support future actions related to physician engagement and alignment.

The Oncology Group works with clients to review the spectrum of opportunities available in their communities. The Oncology Group, in partnership with our sister company, Revenue Cycle Inc., provides both qualitative and quantitative assessments designed to support successful ventures between hospitals and physicians. If you would like more information about our services, please email us at info@theoncologygroup.com or call us at 512.583.8815.

1) AHA Hospital Statistics, 2012

2) Accenture Physicians Alignment Survey 2012. Online at www.accenture.com/SiteCollectionDocuments/PDF/Accenture-Clinical-Transformation-New-Business-Models-for-a-New-Era-in-Healthcare.pdf#zoom=50

3) Forte GJ, Hanley A, Hagerty K, et al. American Society of Clinical Oncology national census of oncology practices: Preliminary report. JOP January 2013 9(1):9-19.