

## Getting to Win-Win: Best Practices for Physician-Hospital Partnerships

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### Straight Talk about Hospital JVs

As case volumes continue to shift to outpatient environments around the country and across many surgical specialties, many ambulatory surgery centers (ASCs) are being developed as joint-venture (JV) businesses between hospitals and surgeon groups. Such businesses will become more prevalent in the coming years. Physicians will continue to seek their own ASCs to gain more control over operating rooms, more predictability in their schedules and a reliable source of ancillary income. Hospitals will want to participate in ASC projects so they can counter the loss of cases from their ORs, improve relationships with surgical staff, and have “a seat at the table” as the industry evolves.

But just because JVs are becoming more popular doesn't mean they are easy to develop or manage effectively. There are many stories about battles for control and unprofitable projects that lead to more conflict between surgeons and hospitals. In other words, there are significant risks.

However, in my experience, both hospitals and surgeon groups can realize significant value from JV businesses only if they:

- Are brutally honest with themselves and each other about the prospects for the business,
- Communicate openly about individual goals and objectives (which are likely to conflict),
- Clearly outline specific obligations and responsibilities in developing the project, and
- Structure the business around properly aligned incentives.

I feel well qualified to discuss both the risks and benefits of these projects for several reasons. Since the day our surgery center opened in partnership with a community non-profit hospital, clinical outcomes have been excellent and patient satisfaction very high.

In terms of the business, however, we failed to meet our financial goals for the first few years, but now operate profitably. See *Saving Our Center*, an article written by my colleague Mark Beaugard, M.D., for a full discussion of how we turned the business around.

### Understand Your Motivations

Surgeons, for all their feelings of being aggrieved by hospitals and legitimate complaints about inefficient ORs, must resist the notion that hospitals are the enemy if they want to build a successful JV with them. Surgeons must be honest with themselves about why they want an ASC, and their willingness and ability to develop one. Of the 20+ surgeons we interviewed to validate and gauge interest in our idea, every single one of them cited “quality of patient care” and “better quality of life” as their top concerns. Obviously, we didn't want to lose money on our ASC, but making more money wasn't our primary motivation. In our case, the “greedy doctor” label – where physicians are accused of seeking to develop their own ASCs for strictly financial reasons – did not apply.

Improved patient care and convenience can be common ground for partners who otherwise have different incentives in developing an ASC. Indeed, once we opened our center (after two years of planning and development) patients loved it. Everyone agreed that the facility was gorgeous and convenient. We were proud to treat patients there. The outcomes and quality of care metrics were all outstanding, too.

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### Understand the Hospital View

Physicians should have their eyes wide open to the reality that hospitals have fundamentally different incentives and opinions about physician-led ASCs. First and foremost, hospitals fear losing cases, especially profitable ones. Secondly, many hospital executives may want to maintain control over surgical staff. That's why hospitals often demand to be majority shareholders in ASC joint-venture projects. There are likely to be plenty of strings attached, and hospitals may be inclined to "play hard ball" in negotiations as they're accustomed to being in charge. Many meetings and a great deal of communications may be necessary to move past these challenges, but our experience proves they're not insurmountable obstacles.

When we first started to plan our ASC, we approached the hospital where many of us operate and where I served as chief of surgery. Our thinking was that the hospital executive team could provide business acumen and management oversight in the proposed partnership. Theoretically, that's true, but hospital staff may not have specific expertise in the unique details of running an ASC business. And we wanted to do the right thing; this was a community, non-profit hospital and we wanted them to participate. The hospital could also provide capital, saving the physicians in our group from having to write big checks upfront.

We expected some initial resistance and understood the fear of losing cases. But, we believed that it was inevitable that ASCs were going to be built on our area, so why not do it together?

They would benefit from expanded capacity. They could focus on a few special projects (like a cardiac center of excellence, a joint replacement program, a spine program and a vascular center. Improvements in OR efficiency and scheduling would lead to a better overall patient experience).

### Take on an Equity Partner

Another key for us in developing the project was to bring in the right partner to provide management and development support, though we didn't start with the right one. We initially hired a fee-only consultant for the project, as opposed to bringing in a development or management partner with an equity stake in the business. We didn't want to dilute our shares, but this decision was a mistake. The consultant wasn't incented to objectively and rigorously assess the prospects of the business, only to complete the assessment. For instance, the consultant also didn't validate some of our group's overly optimistic and inaccurate projections for case volume.

Bad contracts with the managed care payers didn't help matters. Everyone loved our center and our OR was busy from day one, but the balance sheet said we had to invest more money. The hospital executives might have taken a more active role, but our ASC project was just one of many major initiatives they were managing.

We eventually brought in Blue Chip as a new partner-owner, with responsibility for managing the business. Their people started by recalibrating our case volume projections and renegotiating payer relationships. Not only did Blue Chip's team deliver better managed care contracts, they also helped rectify costly coding errors and negotiated badly needed contracts for "carve-outs," implants and supplies.

As an equity owner and an experienced player in the ASC industry, Blue Chip was ready, willing and able to handle these details. They are beholden to both the doctors and the hospital, and objective in dealing with both partners. As a result, trust and commitment among partners have been strengthened, and the business has begun making money.

***Successful JV surgery centers have strong development and management partners.***

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### Clarify Roles, Align Incentives

JV surgery centers raise many operational questions. For instance, who will provide anesthesia services and who will be responsible for hiring administrators? These may sound like small details but they are critical questions to the health of an ASC. Clearly defining the best interests of the business (as well as understanding the interests of all parties) will help ensure the right answers are found. Again, in our case, we made some bad decisions that hurt our performance.

Today, however, we have established clear lines of accountability. Blue Chip handles all the important operations for the ASC business, including staffing, contracting, billing, accounting, claims management and other logistical areas that had caused problems. Initially, we thought the hospital and consultant had the expertise and resources to take care of these things; that's why we wanted to partner with them in the first place. But hospitals are huge complex organizations and the ASC project may not be a top priority. As for consultants, these items are simply tasks to be checked off a list or things they'll call someone else to handle. For Blue Chip, however, they're integral to the success of the business, in which they have a vested interest.

Perhaps the most important change was to re-align incentives (including non-financial benefits) and properly balance risk and reward. Blue Chip convinced the hospital that having a smaller share in the business would free up their management time and still give them a seat at the table, which was their top priority.

### Be Creative

Our successful turnaround came largely through creativity in restructuring our relationship. It's a very unconventional structure, with the physicians owning the biggest stake, Blue Chip holding 20% and the hospital only a fraction of the business. Some of our colleagues express shock that we were able to negotiate it, but it makes sense for everyone.

At first, some of our surgeons argued for kicking hospital representatives off the board of our center, since the hospital now owns such a small stake. But, with Blue Chip's guidance, we saw that it made much more sense to keep them involved. By keeping the hospital involved they have less fear, collaborative efforts are possible and they know what's going on their "backyard." They don't want to control everything, as some surgeons fear.

### The Bottom Line: Getting to Win-Win Partnerships

This creative structure taught us that, ironically enough, ASC joint ventures are not mainly about the money for hospitals either. That's especially true for large hospitals. When hospital accountants first look at the numbers, all they see is cases going out the door. But there are many high-value intangible benefits, like improved relationships with existing staff, a stronger competitive position, and a nice recruiting chip to offer younger surgeons. Potential financial gains include increased capacity in some specialties and the ability to develop an off-balance sheet asset. Yes, hospitals will lose some revenue as cases migrate to outpatient facilities, but other strategic objectives may then be within reach.

It's clear to us that joint ventures between hospitals and surgeons will become more common. We're even optimistic that, as more of these partnerships achieve success, each party will cease viewing the other as the enemy. The result – better care and a quality patient experience – is something surgeons and hospital executives can agree on.

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