Envisioning a more balanced approach to alignment

When it comes to the relationship between physicians and hospitals, the bottom line for hospital CEOs is clear: Only physicians can admit patients—and without aligned physicians, there are no admissions.

So it’s not surprising that hospitals are looking to employ more physicians. The number of physician practices owned by hospitals or integrated delivery networks increased from 16.3 percent in 2007 to 20 percent in 2014.¹

However, according to the Medical Group Management Association, 68 percent of its members’ medical practices remain physician-owned and 20 percent are part of a hospital or an integrated delivery network (Figure 1).¹ In its 2014 survey findings, the association reported that within the next two years only 3 percent of physician groups intend to fully integrate with a hospital or integrated delivery network (Figure 2).¹

Clearly there is room for alignment between physicians and hospitals, but what form it will take and when it will happen are still in question.

Figure 1. Physician practice ownership in 2014

<table>
<thead>
<tr>
<th>Ownership Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physician owned</td>
<td>68%</td>
</tr>
<tr>
<td>Hospital or integrated delivery network</td>
<td>20%</td>
</tr>
<tr>
<td>Other</td>
<td>7%</td>
</tr>
<tr>
<td>University</td>
<td>5%</td>
</tr>
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</table>

Source: Reference 1.
Building strong physician relationships is essential to the growth and performance of health systems. Whether an organization seeks to influence implant selection, ensure that patients get post-discharge appointments, or provide the ambulatory care needed to prevent an avoidable admission, it is dependent on physicians.

However, it’s also time for a more balanced approach—one that recognizes physicians’ central role as part of an integrated enterprise and engages them in all aspects of care delivery and performance improvement.

1. Shift to high-integration strategies

From both physician and hospital perspectives, multiple forces are driving alignment. To meet rising performance standards, a new level of collaboration will be necessary. Physicians will look to hospitals for support as they face increasing practice costs, rising malpractice premiums, continuing reimbursement pressures and more stringent quality standards.

Hospitals should focus on integration opportunities that engage physicians more formally and ensure more long-term physician loyalty and alignment (Figure 3). This focus is critical for success as new risk-based payments, such as bundled payments, take hold.

Key strategies

- Conduct an alignment assessment to determine both hospital and physician objectives, identify the appropriate level of integration and choose the appropriate structure.
- Explicitly define roles and decision-making processes and create an accountability structure that supports them.
- Choose metrics to evaluate performance, use benchmarks to identify potential gaps and make adjustments as needed.

Bottom line: Future success in quality, cost and service performance requires high integration with the physician workforce.
The biggest shift taking place in the health care industry is the transition from a hospital-centric business model to a network that spans the System of CARE (Clinical Alignment and Resource Effectiveness). In the traditional hospital-centric model, admissions are king, with the physician as gatekeeper. Viewing the business as a System of CARE network that serves many consumer and patient groups reveals many additional channels for reaching new patients. For example, many health systems have long used the emergency department as a feeder channel to their primary care networks. But in recent years, systems and consumers alike have discovered new feeder channels such as free-standing emergency departments, urgent care centers, retail clinics and employer clinics. These new care sites can attract patients without a physician, creating completely new channels to boost patient volume.

Key strategies
- Organize around the patient. Focus on delivering results across the entire care process, coordinating seamlessly across locations and providers.
- Align economically. Physician compensation should be based not only on productivity but also on improvements in the quality, service and financial performance of clinical care.
- Focus on performance. Physicians and the hospital are a single entity and should be unified in all aspects of process improvement, care delivery and innovation.

Bottom line: Physicians aren’t the whole System of CARE. They are just one access point among many to improve care and increase value.
### Table 1. Types of physician alignment structures

<table>
<thead>
<tr>
<th>Structure</th>
<th>Description</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bundled payment</td>
<td>Coordinated care and aligned incentives among caregivers based on cost, quality and episodic efficiency</td>
<td>Improves economic alignment through the emergence of new payment structures</td>
</tr>
<tr>
<td>Gainsharing agreement</td>
<td>Program that engages physicians in optimal utilization of high-cost supplies and other direct costs</td>
<td>Encourages product standardization and cost savings</td>
</tr>
<tr>
<td>Co-management and service line agreement</td>
<td>Contractual alignment that engages physicians to provide certain services for a fixed fee and agreed-upon quality metrics</td>
<td>Engages physicians more directly in service line growth and quality improvement</td>
</tr>
<tr>
<td>Professional services agreement</td>
<td>Exclusive or nonexclusive arrangement between the hospital and a group of physicians who deliver all services for a specific specialty area in the hospital</td>
<td>Ensures coverage and the availability of services</td>
</tr>
<tr>
<td>Joint venture</td>
<td>Partnership between physicians and the hospital to create a company that provides specific services lines</td>
<td>Offers opportunity to increase market share and retain income</td>
</tr>
<tr>
<td>Employment agreement</td>
<td>Direct employment of physicians by the hospital or a subsidiary company</td>
<td>Provides greater control of physicians’ practice and referrals</td>
</tr>
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</table>

### 3. Choose from multiple alignment options

Hospitals can choose from multiple structures to strengthen alignment and engage physicians. They should rethink the employment equation and consider a range of alignment options—from low-integration strategies, such as medical directorships and gainsharing agreements, to high-integration models that include employment and joint ventures.

As hospitals and physicians navigate these new opportunities, it’s essential that they understand the types of structures that are available and the various benefits and challenges associated with each (Table 1).

Hospital leaders must identify where along the continuum they wish to be (Figure 3). Will a contractual agreement, joint venture, employment agreement or some combination of these best fit the needs of the organization and the physicians in the market?

**Key strategies**

- Determine what types of physicians and how many are needed. This determination is based on market demand and service line needs.
- Understand what types of alignment structures are available in the current landscape. Every market is different, so keeping abreast of market trends and knowing the legal options are critical.
- Realize the mutual benefits of alignment. Many physicians are facing declining reimbursements, changing payment mechanisms and increasing overhead costs, while hospitals are focusing on patient satisfaction and quality scores in order to receive reimbursement under value-based care.

**Bottom line:** Determining which structures are most appropriate requires careful examination of current physician relationships, changing market conditions and the support of key physician leaders.

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4. Find the right physician partners

Aligning with physicians clinically, economically and structurally is a prerequisite to succeeding in an increasingly value-driven payment system. Physicians are still one of the most important referral channels for health systems—and the single most important player in delivering excellent clinical care. Being selective about the deals that are struck and the physicians to partner with has never been more important.

Hospital leaders must continually assess performance in core service lines to identify new opportunities for strengthening physician alignment. Cultivating a pool of highly engaged physicians devoted to developing leading practices, driving performance improvement and spearheading culture change is key to successful alignment.

**Key strategies**

- Select leading physician practices that demonstrate the ability to manage multidisciplinary care teams, integrate specialists across service lines and manage multiple locations of care.
- Choose physicians who have a record of performance improvement through process redesign, technology adoption, ongoing measurement and outcomes tracking.
- Gain medical staff support in order to build consensus and momentum for change.

**Bottom line:** Carefully design an approach to attract the right physician partners, establish trust and create a winning relationship.

5. Establish trust with the right agreements

Successful integration engages physicians in all aspects of care delivery and performance improvement: strategy, planning, operations, policy decisions and governance. Hospitals should consider involving an independent third party to help strengthen communication and collaboration with physicians while agreements are drafted.

Prior to entering into a formal agreement, it’s important for both physicians and hospitals to estimate fair market value for compensation and practice assets and determine the governance structure and other key terms. An outside consultant well versed in market conditions and contract structure can be beneficial in agreement negotiations.

A well-written agreement includes careful analysis of economics, physician workforce dynamics and compliance with regulatory standards defined by the Stark law, anti-kickback statute and Internal Revenue Service. Legal counsel should be involved in all discussions about potential alignment structures and in all phases of agreement development.

**Key strategies**

- Transparency: Collaborate with physicians on key quality, performance and compensation metrics. Getting agreement upfront is crucial to long-term success.
- Communication: Make sure physicians are informed about clinical utilization, staffing or any patient care decisions.
- Governance: Commit to transparent decision-making processes and ensure that physicians have a voice in care management decisions.

**Bottom line:** Well-structured agreements support physician alignment, retention and engagement in organizationwide performance improvement.
Conclusion

Hospital-physician relationships are entering a new era because changing market conditions require a new level of differentiation based on performance. To succeed in an increasingly competitive marketplace, hospitals must have the right physicians engaged, the right alignment structures in place and the right leadership and culture for effective execution.

Future success in quality, cost and service performance requires strong integration with the physician workforce. As hospitals and physicians navigate these new opportunities to strengthen ties with one another, it is essential that they understand the types of structures that are available and the various benefits and challenges associated with each.

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