Driving Performance Improvement for Hospital-Owned Medical Practices

KEY POINTS:

1) Identifying common mistakes hospitals make when acquiring medical practices and employing physicians.

2) Learning from the past and avoiding the repetition of these mistakes.

3) Developing the strategies and tactics to position medical practices for success.

4) Employing the processes and tools for medical practice financial viability.

Medical practice financial viability is dependant upon physicians being engaged at the practice level and at the network level.
1. **What are the common mistakes hospitals make when they acquire medical practices and employ physicians?**

   - Hospitals acquiring medical practices and employing physicians are making the same mistakes today as they were in 1994 during the first round of physician employment by hospitals.
   
   - These factors are the basis for our “Twelve Mistakes Self-Evaluation” questionnaire that we use with new hospital clients.

2. **When structuring the acquisition of a medical practice, how do we determine the balance between fair market value and goodwill?**

   Paying significant amounts for goodwill in a practice acquisition has a negative impact on ___medical_____ ___practice income statements____ and frustrates both ___physicians_____ and ___board members____.
In the second cycle of physician employment, some hospitals are committing an even more insidious error by paying specialty physicians **unsustainable** salaries in order to protect hospital service lines.

Compensation stays with us potentially for the long term!

**NOTES:**

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3. **From a strategic point of view, what are the most important factors we should consider in our primary care and specialty care physician recruitment efforts?**

*Performance expectations* combined with a realistic understanding of the **commitment the hospital is making** are two of the most important factors.

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and **keeping** the very best providers and staff require an investment, which inevitably provides an **excellent return** in physician productivity and clinical care quality.
If we employ the right physicians, treat them like “partners,” and follow the correct operating principles for medical practice success, we can usually create a viable hospital-owned physician entity.

- When we help our clients purchase an established practice, we expect that practice and the employed physicians to remain financially viable from the start.

- When we help our clients start a new practice, we anticipate that the practice will experience losses for anywhere between six and twenty-four months, depending on the specialty and market circumstances.

- “______Cold_______ start” refers to a practice started from scratch.

- “______Warm______ start” refers to adding a physician to an established practice.

- We call these new practices ______investment_______ practices, because they require operating capital to cover losses during the start-up period.

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4. When developing our market penetration strategy, what tools are available to accurately determine if physician capacity already exceeds the demand for services?

- The tools and process for evaluating a potential market for services are described in *The Primary Care—Market Share Connection* in Chapter 7, pages 100-105.

*The Primary Care—Market Share Connection: How Hospitals Achieve Competitive Advantage*

- Retail analysis requires:
  - understanding the population within our targeted market
  - analyzing competitors’ retail penetration
  - obtaining supply and demand data for each primary care specialty

- The objectives of retail analysis in the targeted area include:
  - whether additional PCPs are needed
  - what type and how many additional PCPs are needed
  - where additional PCPs are needed
  - when they will be needed
  - development of tactics to address identified opportunities for services
5. Based on your experience, what are your thoughts on whether hospital-owned medical practices should maintain ancillary services?

When hospitals strip out existing ancillary services or fail to add ancillary services usually found in small primary care and specialty group practices, two significant problems are created:

1) We disappoint our____________customer____________, who expects these services.

2) We remove ______15-30%______ of net revenue coming from procedures and ancillary services.

NOTES:
6. Over the years, physician productivity in many of our hospital-owned medical practices has jeopardized the practices’ financial viability.

What understanding can you provide on this subject, particularly as it relates to productivity incentives and compensation models?

- ___________ ___________ productivity__________ is the key driver of revenue and ultimate success in a medical practice.
- The ___________ compensation__________ model__________ is the main driver of physician productivity.

- Physician productivity is also heavily influenced by what happens in the “productivity zone,” which includes the examination rooms, the nurse’s station, and the physician’s workstation.

- It is crucial to remove everything from the productivity zone that does not enhance physician and nurse productivity.

- Physician compensation needs to include four factors. It must:
  1) Involve significant financial risk.
  2) Reward productive behavior quickly.
  3) Emphasize productivity.
  4) Be sustainable.
Those who have followed our recommended best practices have been successful in motivating their physicians to higher levels of productivity and income.

Our approach uses **Work Relative Value Units** (Work RVUs).

- **Rate paid per Work RVU** is a function of a market rate of pay for the specialty and what the practice can afford.

- **Base pay** is determined by taking 50% of the last 12 months of Work RVUs multiplied by the rate per RVU.

- **Production component** is determined by taking 50% of Work RVUs generated during the most recent three months and applying the same rate per RVU.

- The most important driver of practice success is
  - __________ revenue.

- __________ Productivity is the key to revenue.

- __________ Compensation is the key to productivity.

NOTES:
7. How is the way to performance improvement in a hospital department different than the way to performance improvement in a medical practice?

- In a hospital department, variable expenses can account for 50% of the cost structure, allowing short-term financial performance problems to be resolved through cost cutting.

- In a medical practice, 70% or more of the cost structure consists of physician and support staff labor costs, which are largely “fixed” costs in the short term.

- Cutting labor costs in a medical practice will frequently decrease performance, service quality, and clinical quality, making financial performance even worse!

NOTES:
8. What are some of the less obvious pitfalls to performance improvement of practices?

1) Additions to employment costs.
2) Additions to occupancy costs.
3) Inadequate management talent/experience.
4) Inadequate systems and management tools.
5) Misunderstanding the basics of physician integration.
6) Thinking to “make up” the losses with downstream revenue.
7) No accountability.

NOTES:
9. What specific recommendations can you provide for structuring operational governance of hospital-owned medical practices?

When physicians are viewed as employees rather than business partners, they disengage and become technicians working for a paycheck rather than feeling ownership in the success of the enterprise.

Operational governance must occur at both the ______practice_______ level and the ______network_______ level.

**Operational governance includes responsibility to ensure the development of strategies in support of the larger organization’s mission, strategic objectives, and performance objectives.**

- Operational governance also:
  - includes development of performance standards
  - includes establishment of performance improvement initiatives
  - includes review or financial operating performance throughout a medical practice network
  - holds a management team accountable for implementation of network-wide and site-specific policies, tactics, and initiatives
  - involves approval of operating policies and procedures affecting the business and clinical sides of affiliated practices
  - includes recommendations on issues like budget and physician compensation
Operational governance is best provided through a ____________________ ____________________ model.

- The Network Operations Council (NOC) includes the physicians and executives who make network-wide decisions, establish policies, and hold a network executive accountable.

- A Practice Operations Council (POC) at every practice site includes physicians and other providers assigned to the location and the network executive.

- Because council members participate in the decision-making process, they are in a perfect position to become “sustaining sponsors” as changes are implemented within their areas of responsibility. (Conner, D. 1992. *Managing at the Speed of Change*. New York: NY. Random House, Inc. 116.)

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10. Can you describe your best practice management infrastructure?

Managers are ___________ implementers ___________ and should support the council model.

- Management infrastructure needs to match operational governance.
- The Network Executive is responsible to ensure the effective implementation of network-wide initiatives approved by the Network Operations Council, which includes policies and procedures that affect multiple practices or all practices in the network.
- Network Executives must ensure that every practice location is assigned a competent practice manager.

*Practice managers need to be provided with tools, taught correct principles, and coached in their implementation from a network level.*

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11. What are the results that Halley Consulting Group’s clients are experiencing from implementing the counsel you have provided us today?

The following positive effects are realized as we work with networks to implement the compensation model as well as the governance-model operating councils:

- **Significant improvements in physician productivity and income.**
- **Significant improvements in physician morale and quality of care.**
- **Financial performance improvements, including collected cash.**

These effects lead to financial viability of owned medical practices!

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