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Business Tips for Cardiac Services Joint Ventures

By Susan Heck

"Sometimes, the best deals made are those in which both parties feel as though they have left something on the table." To quote a healthcare attorney who had just inked a deal between a hospital and a group of physician investors for the development of a heart hospital, this was his perspective, and quite possibly, the right one to have when developing physician-hospital joint ventures. It is not to imply that either party should enter into a joint venture arrangement with deceit or unwillingness to share in the business partnership. Rather, both parties need to apply sound business acumen to ensure long-term successes for their joint venture arrangement.

While joint ventures can take on many forms...from very detailed legal entities to management agreements to a gain-sharing arrangement...the premise is the same. In the cardiac care arena, both physicians and hospital providers have felt the pressures of reduced revenue streams, increased reliance on expensive technology, and intense competition. Such pressures have resulted in decisions to come together, which were previously considered to be taboo.

In some markets, cardiac services-related joint venture relationships between physicians and hospitals are in an infancy stage. However, in markets such as Milwaukee and Indianapolis, competition is fierce and sometimes described as hostile, bringing about a multitude of new physician-hospital models for providing heart care. As we travel the country and work with cardiac programs of all sizes and shapes, we have examined what has worked well in the development of successful physician-hospital relationships. Based on this experience, Corazon offers the following information about hospitals that have incorporated key business principles in the development of several varied venture relationships with their physicians.

A Management Service Agreement: Working to achieve a 'win-win' proposition

A Corazon client in the South used sound business principles to develop a management service agreement for same-day catheterization services. This concept was applied to the management of this patient population as a means to align physician focus and commitment with operational performance improvement targets.

Under this type of management service agreement, hospitals generally choose to contract with an outside entity to provide a variety of management functions that can include any or all of the following:

- Day-to-day operations oversight and control *
- Professional physician services and staffing
- Case Management*
- Utilization Review
- Quality Assurance*
- Medical Directorship*
- Clinical process improvement*
- Program development*
- Payor/employer relationships

Our client negotiated a management service agreement for the services indicated by an asterisk (*) with the Cardiology group providing services at their hospital. This negotiation process was successful because of a focus on developing a 'win-win' proposition for all parties.

Key to the contract development and ongoing viability of this model's success was the spirit of trust and honest, respectful dialogue on both sides of the negotiation table. Also our client took care to validate a fair market annual fee paid to the physician group providing the management services.

A bonus structure was also developed with payouts tied to the achievement of credible clinical outcome measures and demonstrative operational and management goals. Key to this process was the development of objective measures to provide a baseline and ensure compliance with pre-set bonus thresholds and information systems that track these measures. Legal experts caution close scrutiny of goals for assuring that they are not a proxy for referrals.

A Freestanding For-Profit Heart Hospital: A bold move in a competitive market

Corazon assisted a client in developing public offering documents seeking investors for a freestanding for-profit heart hospital in the Midwest. The ownership structure for this facility was based on the premise that equity is equal to contribution and return is commensurate with investments. Reimbursement, which in such cases can be different than traditional methods, was examined carefully.

The governing body of the venture was structured to assure parity and timely decision-making, and perhaps most importantly, to avoid deadlock should a contentious issue arise. A board was structured with a community presence to assure that the venture provided a value to the community as well as to the shareholders.

A joint venture relationship such as this is complex and requires that all parties involved maintain legal and business counsel well-versed in physician-hospital relationships, which will ensure that the appropriate legal and business structures are employed. Joint ventures always carry some risk of legal violations. Participants must decide whether the risk of dissolution and penalties is outweighed by potential gains from the joint venture.

A Joint Venture Catheterization Lab: Carving out a piece of the pie

Corazon assisted a West coast client in developing a framework for a joint catheterization laboratory. Our research and experience indicated that a facility contiguous to the hospital offers the best advantage in patient triage, operating costs, and convenience to the physicians and hospital staff. The movement of patients from the for-profit catheterization laboratory can be quite complex and requires vigilance to assure a separation of the two operations. This is essential to protect the tax-exempt status of the non-profit hospital entity.

These examples highlight business principles and key features that we believe are paramount for a successful joint venture. They certainly do not cover every relevant issue in evaluating the business aspects of any particular joint venture, as each situation must be analyzed individually.

Regardless of how you collaborate with your physicians to expand market share and develop your cardiovascular service line, the most integral component is a solid relationship in which both parties work toward the same outcome. Thus, defining the common goals of the hospital, health system, and key physicians should be the first step in creating any joint venture.



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