

# As seen in managing the margin

## Win Hearts through Partnering

By Karen Hartman and James Burns

With declining third-party payments and mounting malpractice insurance costs, physicians are looking for other avenues to supplement their income, such as cardiac diagnostic and catheterization services, once considered the sole domain of hospitals.

As these physicians add cardiovascular services to their individual practices, invest in diagnostic or ambulatory service clinics, or even become part owners of specialty hospitals, hospitals' need for finding partnering opportunities to compete becomes imperative.

### What Can You Do?

The first approach for any organization is to initiate an open dialogue with physicians. Forums, such as advisory committees built around a service line, keep physicians and administrators talking through the tough issues and provide a means to discuss opportunities that can be developed in cooperation with the hospital. This open communication will go a long way in securing loyalty and steering all parties toward a common vision.

Exploring partnering opportunities is also important. Even with the multitude of options and the number of physician investors on the rise, hospitals taking a proactive role in partnering with medical staff are few. A recent Corazon survey of 101 hospitals showed that less than 10 percent of hospitals surveyed had a joint venture with their physicians in cardiovascular services. The chart illustrates the areas, if any, where survey respondents have entered into sharing arrangements with their medical staff.

A common misconception is that few partnership options are available. In fact, multiple opportunities exist.

**Financial Joint Ventures** These controversial arrangements include capital investment in the partnership with profits of the venture shared among the investors. Joint ventures can vary in size from a "center" to a specialty hospital. As with all joint ventures, there are legal restrictions and payment implications, and they can be very costly and complex to implement.

**Medical Directorships** These hospital-based positions empower physicians to be accountable for the quality outcomes and clinical performance within hospital departments. Such positions are often compensated and require detailed job descriptions with listed responsibilities.

**Gain Sharing** This type of program is designed to allow both physicians and hospitals to standardize supplies and share in the savings. Gain sharing requires a benchmark of the current costs and a mechanism to measure changes. It is important to seek outside counsel to ensure compliance with

legal requirements and to clearly define the process for the return of the plan. Currently, the OIG is reviewing these arrangements.

**Management Agreements** This option involves less capital risk for the involved parties than the others. The hospital contracts with physicians to provide oversight to departments within the organization. This option empowers physicians to make decisions and effect change in terms of operational efficiencies and supplies. Typically, the contract will provide compensation based on the associated job description and possibly a provision for additional compensation if certain goals are met or exceeded.

### Considerations

A successful partnership requires a relationship of trust and the potential to provide a new business approach to the current services. In the initial stages of evaluating a venture, a business plan must be developed to determine the feasibility of the venture. This plan would include an assessment of the current situation, a market demand study, an operational review, and the associated financial analysis. During the planning process, the following key points should be addressed:

**Market** What is the current market for the business to be shared? Will spreading this market to physicians broaden the facility's reach or increase its overall market share? Can this approach be an avenue to attract other services?

**Recruitment and Retention** Will this agreement keep physicians committed to the organization, or will it prolong defection? Can the agreement be a means to recruit additional skilled clinicians? Will this offering alienate other medical staff members who are not included?

**Capacity** What will happen to the facility infrastructure with the loss of caseload? Will there be enough business remaining to support costs?

**Profitability** What will happen to the service line with sharing profits from higher margin procedures? Will the arrangement cause an adverse effect on tax-exempt status? Who will foot the bill for equipment and facility improvements? How can we get out of the venture if necessary?

**Management** Who will oversee and manage the venture? What percentage of the venture does each partner require? Is each party prepared to work and negotiate with a partner?

**Operations** Does this arrangement create the opportunity for new and improved processes? What effect will it have on other departments?

It is important to carefully review the information found through business planning activities before entering into serious discussions regarding partnering. Each party should not make any promises at the table until the venture has been fully evaluated. If promises are made too soon and cannot be fulfilled, mistrust can result.

Once internal issues are discussed and resolved, hospitals and physicians considering a partnership should direct attention to external implications before making any final decision.

Over the past year, the federal government and some state governments have been evaluating joint ventures—specialty hospitals in particular and their ownership by physicians. In April, the General Accounting Office (GAO) presented a preliminary study and released the final report in October. This report identified 100 specialty hospitals, or 2 percent of all hospitals in the United States, currently open. Over 90 percent of them are for-profit, and 70 percent have physician ownership. December's Medicare legislation included language that forbids physicians from making new investments in specialty hospitals for 18 months, while federal officials study their impact.

### A Competitive Edge

There's no denying competition for providing cardiovascular services is growing. Although there are many complex steps and decisions involved in the partnering process, a proactive stance can place your organization one step ahead of the competition.



**Karen Hartman** is President of Corazon Consulting, Inc.



**James Burns** is a Vice President at Corazon.

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