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Caring for the Hospital-Owned Physician Enterprise

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Many healthcare organizations seem to have short memories when it comes to practice acquisitions and physician employment. In these organizations, board members and even C-suite executives quickly grow impatient with reported losses on new or expanded physician enterprises, forgetting that the original rationale behind the acquisitions was less financial (e.g., contributing direct revenue to the hospital) than strategic (e.g., growing market share and protecting referral sources in preparation for population health management).

What benefit is there in throwing out a sound byte like “Dr. Jones is losing us $250,000 per year”? Does such a figure include corporate overhead or amortized goodwill from the purchase of the physician’s practice? Does it include downstream revenue, which was likely considered when deciding to acquire the practice? Given all the moving pieces, it is entirely possible that three different analysts looking at the same practice could reach three different conclusions: that the practice is carrying heavy losses, that it is breaking even, and that it is making a little money.

All too often, little attention is given to physician integration or practice management after the initial on-boarding. Such inattentiveness is especially common among organizations that promised to be “hands-off” during a heated negotiation process.

As market conditions continue to evolve and the dust kicked up by significant transaction activity begins to settle, there is a significant opportunity for organizations to evaluate and improve the performance of their physician enterprises. Management and board members should put every employed practice under the microscope, asking hard questions such as the following:

To what extent have physician volume, cost of care, and quality deviated from pre-acquisition expectations, and what is the impact of those deviations?

- Are appointment schedules controlled by management, not by physician's whims, to ensure optimized patient volume and throughput?
- Is the physician making in-network referrals whenever it is medically appropriate to do so, thus ensuring the highest level of coordination and management?
- Is the practice taking advantage of the presumably better fee schedules included in the payer contracts held by its parent organization?
- Does the physician's compensation model truly align the physician's behavior with his employer's goals and evolving payment methodologies?
- Has the organization fully engaged the physician so that she fully understands and appreciates her role in achieving the organization's shared objectives?

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In our experience, the most introspective organizations tend to be the ones with the best results. Just as an independent physician practice neglected by its management will not exist for very long, the results are unlikely to differ just because the name on the door has changed.

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