

Physician-Hospital Alignment Isn't Just About Playing Good Defense

Dennis Kennedy, for HealthLeaders Media, March 30, 2009

There are many good reasons to pursue better physician-hospital alignment, such as ensuring an adequate physician supply, enhancing service quality, improving customer service, and improving relationships among providers. When it comes to their position in the marketplace, hospitals often look at physician-hospital alignment as a defensive strategy—as a way not to lose their current referral base and market share. However, not only is physician-hospital alignment an essential strategy to improving market position, it is an imperative in these trying economic times that are impacting hospitals and physician practices alike.

Four steps will make sure physician-hospital alignment strategies lead to growth:

1. Identify opportunities for improving market position
2. Rigorously assess these opportunities
3. Categorize and match real opportunities with the "right" physician-alignment strategy
4. Implement and then monitor and report ongoing performance

Identify opportunities

Identifying opportunities might seem obvious, but many healthcare organizations do not systematically explore and identify opportunities to work with physicians to enhance the market performance of both parties. Leading healthcare organizations identify opportunities by combining a top-down and bottom-up approach.

In the top-down approach, hospital leadership uses market research and intelligence to seek out service line and/or geographic targets of opportunity. The foundation for physician-alignment strategies for many healthcare organizations is medical staff development planning. A good medical staff development plan will identify opportunities to grow by recruiting additional physicians (whether already in the community or new) to address insufficient market supply, enhance access, and/or enhance clinical capabilities. This top-down plan should be supported with traditional market planning analyses; e.g., demographic forecasts, market share trends, environmental changes, etc.

In the bottom-up approach, hospital leadership uses many of its physician-alignment vehicles—physician advisory councils, board representation, one-to-one communication efforts, etc.—to bring to light opportunities from the physicians themselves. One of the reasons to nurture good physician-hospital relationships and communication is so that physicians will come to the hospital first with new venture or technology opportunities to pursue jointly rather than to go to competitors or third parties.

Culturally, some organizations tend to be aggressive in pursuing opportunities, while others are somewhat reluctant. Though no organization needs to be constantly "wheeling and dealing," combining a top-down and bottom-up approach will in all likelihood uncover a steady stream of opportunities.

Assess opportunities

Not all opportunities are, in fact, growth opportunities. Neither do they all have the same potential. The first screen an opportunity must pass is consistency with the overall strategic direction of the organization. In our experience, very few not-for-profit healthcare organizations will pursue any opportunity that is not aligned with its mission just for the sake of growth. The next step is to assess opportunities by developing high-level business plans with market share and financial projections.

The following two key points need to be made regarding these assessments.

- First, the organization must not fall victim to "analysis paralysis," particularly if working with physicians. Nothing frustrates physicians more than having administrators/planners study a concept they think is "hot" for months without deciding anything. If you wait for perfect information to make a decision, you'll wait a very long time.
- Second, conclusions drawn from the results of the analyses should enable the organization to identify whether an opportunity will, in fact, lead to growth. Healthcare organizations have limited capital and energy to invest today just to maintain current operations and "keep the lights on." Only a portion of this financial capability can they afford to invest specifically for future growth. And the funds they do invest must produce a return. For example, the decision to employ a loyal physician who comes to the organization and wants to be employed might be important to protect existing volumes, but this decision should not be construed as one that will lead to growth.

Categorize and match opportunities

Not all opportunities are alike, and this fact has important implications on the types of physician-alignment vehicles used to pursue them. Not every type of opportunity lends itself to every physician-alignment vehicle, and vice-versa.

Most opportunities will fall into one of four general "buckets:"

- Opportunities to grow existing inpatient and outpatient services by re-positioning yourself vis-à-vis local hospital competitors in your existing markets and services
- Opportunities to develop new services
- Opportunities to expand into new geographic markets
- Opportunities to capture volumes lost to third-parties and/or physician competitors

When trying to grow existing services in existing markets, particularly in more competitive markets, the focus is generally on winning over physician "splitters." In these cases, pursuing non-economic alignment vehicles can be very beneficial. Using communication and technology vehicles to address issues or obstacles and tighten linkages with physicians, enhancing ease of use to improve physician productivity, and developing centers of excellence that deliver superior quality of care can all be effective vehicles for increasing market share. Economic vehicles can also be very effective, with the caveat that organizations must be careful not to buy back what they already have.

When looking to develop new services, non-economic vehicles can be very effective in identifying services and communicating the "whys and hows" of service development. Existing non-economic vehicles, such as technology and centers of excellence, can often be leveraged to provide the platform/infrastructure to facilitate internal development of a new service. Economic vehicles can also be effective. To the extent a service/capability is truly new, incremental market position can be achieved through both joint ventures (even after "splitting the pie") and employment.

When trying to develop new markets, non-economic models are more limited in effectiveness. With the exception of developing true centers of excellence that can pull patients into the hospital, non-economic models are often insufficient because distance will most often trump convenience for the physician and for the patient. Many economic models are also limited. In our experience, employment and placement of physicians in new markets yields mixed results, as there is often inadequate local infrastructure to support employed physicians (e.g., physicians see patients but use competing imaging centers because there is no local hospital presence). The classic strategy for growing in new markets is a joint venture. Healthcare organizations access new markets without cannibalizing existing volumes or threatening current relationships, and physicians gain access to the hospital's capital.

When trying to capture volumes and market share from non-hospital third-parties and/or physician competitors, economic alignment vehicles are much more likely to succeed. While it is true that focusing on communication and improving ease of use will help maintain relationships and may have some beneficial impact on referred volumes, they ultimately do not address the real issue, which is economics. It is the potential for needed revenue streams to augment real or perceived declines in their practice income that lies at the heart of physician competition with hospitals. Pursuing economic alignment vehicles, such as real estate investment, joint-venturing, and/or employment, is not only necessary, it is the only way to realistically capture these volumes.

Implement, monitor, and report on ongoing performance

The final step, once the appropriate growth opportunity/alignment vehicles are pursued, is to monitor ongoing performance. Most healthcare organizations do not adequately optimize their investment in growth by demanding tracking of these results and reporting them to the physicians involved. Healthcare organizations that achieve growth through physician alignment are much more likely to monitor and benchmark the performance of their joint ventures, even if they are not the majority owner or managing partner.

When it comes to growth and physician-hospital alignment strategies, one size generally does not fit all. Successful healthcare organizations match opportunities with the most appropriate vehicles. While some vehicles lend themselves better to some opportunities, and vice-versa, the most effective vehicles will always be the ones that the hospital and the physicians learn to mutually trust by recognizing the mutual benefits provided to both parties.

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