

Marc Halley Offers 15 Best Practices for Hospitals on Acquiring Physician Practices

Written by Leigh Page
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Marc Halley, CEO of Halley Consulting Group in Westerville, Ohio, has worked for many years with hospital-owned medical practice networks across the country, facilitating financial turnarounds, organizing effective governance between employed physicians and hospital executives and developing methods to improve medical practice operations. He offers the following 15 best practices for hospitals interested in or planning to acquire physician practices.

1. Don't be discouraged by past attempts to hire physicians. In the 1990s, hospitals hired primary care physicians to be "gatekeepers" so the hospitals could work with HMOs. Then HMOs never materialized or faded away. Hospitals couldn't manage employed physicians and they lost millions on them. But hospitals still need physicians. Their referrals are the only way patients come through the door, except when they enter through the ED. Instead of vowing never again to employ physicians, hospitals need to do it right.

2. Don't get pulled into bidding wars over a physician. When hospitals compete for practices, acquisition payments and physician compensation can get bid up to ridiculous levels. Consult a legitimate valuation company, stay with the determination they provide on fair market value for the practice and make sure physician compensation can be justified by production.

Remember that a lot of physicians today actually want to be employed by a large organization. Younger doctors in particular seek improved quality of life and more security than their predecessors. Even some successful group practice physicians are seeking hospital employment for those same reasons and because of the capital opportunities associated with hospital ownership.

3. Know when to buy. Timing is everything. For example, a hospital may want to acquire primary care practices before competing hospitals acquire those practices and capture their market share. A hospital may also need to invest in practices if the balance of market power is shifting to larger medical groups or insurance carriers.

4. Keep the right mix of generalists to specialists. Unlike the primary care practice acquisitions of the 1990s, hospitals are hiring specialists as well: cardiac surgeons, cardiologists, ENTs and orthopedic surgeons who can bring high-ticket procedures into the hospital. But hospitals need to have the right primary care-specialist mix, with a solid base of generalists referring to the hospital's employed and affiliated specialists. A common rule of thumb is 60-70 percent primary care physicians versus 30-40 percent specialists.

5. Learn the business of managing medical practices. Successful hospital executives have learned and applied the rules for success in the hospital business, but success in the medical practice business requires a different set of principles. Medical practices are not hospital departments.

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- 6. Don't manage practice receivables out of your central business office.** One of the lessons learned in the 1990s was that medical practice accounts receivable couldn't be successfully managed out of the hospital's business office. Ambulatory medical claims are totally different from inpatient claims. While claims processing should be centralized, most billing errors can best be corrected and prevented at the practice site, where they occur, rather than at a remote business office.
- 7. Placement of physicians is key.** It can make a lot of sense to place physicians in distributed locations in or near neighborhoods where patients live, but practice volume needs to be adequate to support these offices.
- 8. Don't try to boss physicians around.** One fundamental mistake inexperienced executives make is thinking that once they've hired doctors they can boss them around. Physicians may make terrible "employees," but can make great business partners, even when on the hospital's payroll. They work better when you engage them in furthering the success of the enterprise rather than telling them what to do.
- 9. Build trust with your doctors.** The hospital C-suite needs to continually work at eliminating the seeds of mistrust that can grow between physicians and hospital administration. This means establishing direct contact between the hospital CEO and physicians on a regular basis to better understand the challenges they mutually face. It means solving those challenges together.
- 10. Work with full-time practitioners.** Engaging physicians who practice full-time in operational governance enhances your credibility as a hospital executive. Practicing physicians have more clout with their peers than administrators, even physician administrators, because they face the same clinical and business challenges as other physicians.
- 11. Don't try to copy cultures.** Very successful integrated systems like the Cleveland Clinic, Mayo Clinic, and Geisinger Health System maintain cultures that can't necessarily be replicated by other hospitals. It's misleading if a hospital CEO says his or her organization is "physician-led" when actually the CEO is the board-appointed fiduciary and is responsible for running the show. But the hospital CEO can still involve employed physicians in decision-making.
- 12. Engage in 'relationship management.'** Referrals grow out of relationships among physicians and between physicians and the hospital. All relationships atrophy over time, so proper care and feeding of these relationships is essential. CEOs once did this by walking down to the medical staff lounge, but many primary care physicians aren't there anymore. This means the CEO needs to go out into the community on a regular basis and meet face-to-face with physicians, particularly primary care physicians.
- 13. Be a listener, not a salesman.** Drug representatives also visit doctors' offices, but they have something to sell. Your job, in contrast, is to listen. Learn to read between the lines. Physicians don't always tell you when they need help. If competitors sense their needs before you do, they can peel physicians away from you.

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14. Use liaisons to help you. CEOs have only so much time, but they still need to build strong relationships with their doctors. One solution is to work through a liaison. A liaison can visit four or five practices for every one the CEO visits. This person should report directly to the CEO or at least be linked to the CEO through a closely related department such as business development.

15. Help orchestrate relationships. A primary care physician may be having trouble relating to a specialist in the hospital or accessing imaging, labs and other hospital services. Clearing up these problems helps ensure that the physician stays in the hospital's orbit.

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