In today’s ultra-competitive marketplace, both hospitals and physicians are increasingly seeking practical ways to align with one another. An ASC partnership may be the answer for physicians set on retaining their independence.

Need for Partnership
Changing market forces in the healthcare industry has created an environment where physicians and hospitals need each other more than ever in order to survive and thrive. The ambulatory surgery center (ASC) space is no exception.

In what has historically been a physician-driven industry, the growth of ASCs has slowed in recent years to a virtual halt. The market is mature and fragmented making it ripe for consolidation. Well-funded management companies that are publicly traded or backed by large financial institutions are aggressively seeking partnerships with physician-owned ASCs in order to fuel their growth requirements. With aging medical staffs, reimbursement pressures, increased regulatory requirements, uncertainty of the future, and high valuations, ASC physician owners are often willing sellers. But are large management companies, whose behaviors are driven by their owners’ growth requirements, the best partners for physicians looking for future stability for the ASC they developed and want to see continue to prosper? There is likely a better alternative with the very institutions from which physician entrepreneurs fled in order to develop ASCs in the first place: their local hospital.

With some exceptions, hospitals have essentially been on the sideline as the ASC industry has grown, focused more on maintaining their hospital franchise than developing forward-looking partnerships more suited to the evolving market demands. That attitude among hospital executives is slowly changing as the demands of healthcare reform and increased consumerism is forcing health systems to develop closer relationships with physicians and increase access to care in low cost, non-institutional settings in the community. With significant excess capacity and the opportunity to legally partner with physician stakeholders, ASCs are a perfect solution to meet a hospital’s needs in the surgical service line.

Physician-hospital partnerships have the genes that lend themselves to a long, prosperous life. All healthcare is local. With very few exceptions, that continues to prove true over time. Unlike national companies driven by shareholder expectations, physicians and hospitals are local institutions that are vested in the communities they serve and the communities are vested in them. Strategic decisions by local stakeholders are driven by their local perspective and what it takes to meet the needs of their local customers. Individually, hospitals and physicians groups are not going anywhere and therefore, neither likely will the ASC that they own together.

Motivation to Partner
In order to form a successful joint venture, both physicians and the hospitals must have tangible benefits from doing so.

For physicians, the benefits of partnering with a hospital on an ASC are the following:

- Increase the likelihood of attaining a Certificate of Need (CON). Obviously, this is not applicable everywhere. Twenty-six states still have CON requirements. Hospitals tend to wield a lot of
political clout in states with a CON. Having a hospital onboard when changing ownership of an existing ASC or developing a new one usually enhances your likelihood of success.

- **Greater negotiating strength with insurance companies.** In Health Inventures’ experience, reimbursement can be 25-35% higher for ASCs that are contracting as part of a larger hospital or health system portfolio of services.

- **Eliminate a competitor.** By partnering with a hospital, a physician-owned ASC has in essence eliminated a competitor.

- **Assistance with physician recruiting.** One of the greatest challenges for mature ASCs is growth. Some have estimated that only about 20% of ASCs continue to grow after year six of operation. A lot of that challenge lies with recruiting new physicians. The number of available physician investors per ASC has steadily decreased due to the glut of ASCs with physician ownership and it will continue to decrease with growing trend of physicians becoming hospital employees. Hospitals are always recruiting physicians and can be a source of new business for the ASC.

- **Secure market position in accountable care networks.** Hospitals are leading the charge in most markets around establishing provider networks to coordinate care for populations and take risk. Hospitals are highly likely to include ASCs in which they are an owner, and by default, their physician partners in the ASC. The key for physicians will be selecting the strongest hospital partner it can to ensure you are on the winning team.

Hospitals are likely to benefit from physician-hospital joint ventures in the following ways:

- **Gain or regain market share in outpatient surgery.** Most outpatient surgery done in ASCs was once done in hospitals. Partnering with existing physician-owned surgery centers gives hospitals an opportunity to get back some of that business. It also can be a good entry point into a new geography. These new physician relationships can also impact their inpatient services in certain cases.

- **Expand surgical capacity at a reasonable cost.** Hospitals are preparing to provide surgical services to more insured patients as a result of the Affordable Care Act. Buying into physician-owned ASC’s enables hospitals and health systems to expand quickly and more affordably than building new hospital-based OR capacity.

- **Improve physician relations, recruitment and retention.** Nothing facilitates a stronger working relationship than being in partnership. Effective working relationships among providers are going to be essential to future viability and success.

- **Aligned incentives with physicians.** Being economically aligned with physicians creates a new level of focus by physicians on every aspect of operations in the ASC. Often times, this new operational focus carries over into the hospital operating room environment. ASCs are a good physician alignment vehicle for those physicians that wish to remain independent.

- **Keep new competitors from entering the market.** Publicly traded or private equity backed ASC management companies are aggressively trying to grow through acquisition. If successful in acquiring a local center, they will improve its competitiveness and expand its physician ownership to others on a hospital’s medical staff.

**Creating a Successful Partnership**

Just as good genes are no guarantee that someone will be a great athlete, there is no guarantee that you will have a successful partnership. Physicians and hospitals are not natural bedfellows. They approach nearly everything from different perspectives. In fact, physician-hospital partnerships are usually fighting an uphill battle of a long history of distrust between the stakeholders. Most ASCs were formed as a result of physician frustration with hospitals. In order to take advantage of this unique opportunity that exists for partnership it takes good coaching, hard work, dedication, and open and honest communication.
Following are seven keys for creating a successful physician-hospital joint venture:

1. **A good, thorough, upfront planning process.** Effective planning will significantly enhance the likelihood of future success and should be led by a steering committee mixed of physician leaders and hospital executives. Running a feasibility assessment to determine physician and hospital objectives; volume and case mix based on local practice patterns and not just demographics; and the right-sized facility for projected volume and organization/ownership options, including legal risk and reimbursement analysis. In addition, the planning process should take into consideration the choice of potential partners, the location and services mix, capital requirements and financing options, any financial impacts on the hospital and of course a timeline for implementation.

2. **Form a relationship with an outside professional.** This is not something to cut your teeth on. Form a relationship with an outside professional that has experience in this process, be it an ASC management company, an independent legal counsel or a valuation firm where necessary. Engaging experienced industry professionals will provide an independent, unbiased leader for the project that can assist in determining what is in the best interest of the new venture. Furthermore, this specialist will prevent the venture from “recreating the wheel,” which can lend insight on previous positive and negative experiences and shorten the project timeline. You will typically save much more than you will spend on these services.

3. **Strong physician leadership. Successful ASCs are physician led.** There is nothing more important than having strong physician leadership. Physicians, whether they are owners or users, are an ASC’s customers. You want to make sure the physicians that are structuring your partnership are representative of their peers. In addition, physicians are the best sales people with other physicians. If they are committed and vested to the direction of the initiative, they will bring their colleagues along.

4. **An active, committed hospital partner where key executives are involved in decision making processes.** The hospital has to be equally committed to the venture, should be active in governance, but leave operational management to a third-party management firm and physicians, and should be open to the concept of physician leadership. Hospital representatives on the steering committee must be key leaders who are empowered to make decisions on the hospital’s behalf which shows their commitment to the venture. The hospital must also do all it can to assist in the ASC’s success by providing payer contracting support, opening up relationships with vendors, providing marketing support and assist in physician recruitment.

5. **Open and honest communication.** There can never be enough communication. Both entities must be willing to deal with the tough issues and historical baggage up front to allow for the creation of trust among the partners. The partners, including the management firm, should ensure a clear understanding of the expectations of one another. The hospital carries community presence, a brand name, a PCP/payer network, long-term commitment and financial strength, whereas the physicians hold the necessary

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**About The Author:**

Christian Ellison, Senior Vice President of Business Development of Health Inventures, is responsible for the company’s corporate growth initiatives. Christian has previously served as Managing Director of Health Inventures’ European-based subsidiary, where the company made significant contributions to groundbreaking service delivery changes within the National Health Service in the United Kingdom. In his 20 years of experience Christian has formed numerous physician hospital joint ventures and has also focused on physician practice formation and acquisition, business planning and operations improvement.
clinical skills and knowledge, have the surgical volume and existing medical relationships and the necessary entrepreneurial spirit for investment. The management firm has ASC operations experience and expertise, understands the ASC culture, has experience in building and managing joint venture relationships and has successful business and industry knowledge. Each stakeholder needs to follow through on their commitment to bring the value they represent to the venture.

6. **A deal structure that can best accommodate existing stakeholder needs, but can also anticipate future events and occurrences.** The deal structure must accommodate the stakeholders’ objectives, work within the legal and regulatory framework and must be effectively prepared for future events affecting the relationship. The deal must address hospital ownership and control, fraud and abuse and Stark Law considerations, capital structure, eligible investors, non-compete provisions, unit transfer, redemption terms and capital calls. This document will rarely be referenced if a strong enough partnership is created through dealing with the issues initially in the venture formation process. However, all partners have to know how certain events may play out if challenges arise in the future.

7. **Decisions made for the long-term as opposed to strictly short-term gain.** Short-term factors, such as financial impact to the hospital of losing a share of outpatient surgery, often drive decision making around whether to do a joint venture or how it is structured. While immediate impact of a joint venture to the different stakeholders is certainly important, the focus needs to be on the future value this venture will drive and how to structure the venture to best derive that future value. A management company can assist in keeping the parties’ decision making focused on the best interest of the ASC rather than individual interests.
The Role of Management Companies

A management company can bring significant value to an ASC. The unique value that a management company typically brings is in the form of experience managing ASCs, entrepreneurial leadership, independent third-party focus on the ASC (no conflicting interest), industry knowledge from other markets, supply chain management, revenue cycle management, and physician development. Combining physicians, hospitals, and a management company into a joint venture is a powerful business model that benefits from the value that each stakeholder brings and ensures that each party’s incentives are aligned around shared risk and reward.

In the past, management companies have required controlling positions in ASCs. Today, management companies are more willing to take a minority position (sometimes as low as 10%) in order to keep most of the ownership in local hands. The management company’s ownership usually is directly in the ASC or in a joint venture with the hospital or health system, which in turn invests in the ASC. Having a third party manager often helps the physicians get past the historical distrust or low performance expectations of hospitals.

In summary, the current market changes are forcing new partnerships. The most important partnerships will be those formed between physicians and their local hospitals and health systems. ASCs create the perfect vehicle for hospitals to partner with the specialties that are historically very independent and least likely to seek health system employment in the short-term in most markets. It creates an equity partnership around a service line which will be a central part of service delivery into the future. The historical distrust and underperformance of hospital surgical services will need to be overcome when trying to develop a successful long-term partnership. The key to success is to look forward not back, recognize the other party’s perspective, and have open and honest communication about the issues to ensure that the new partnership is structured in a way that is fair to all participants and effectively aligns everyone’s incentives for future success.

Health Inventures is a surgical and physician services company driving clinical and financial performance through physician hospital partnerships. Founded in 1995, the privately held, Colorado based company has guided hundreds of clients through the complexities of launching new ventures, improving teamwork and workflows, controlling costs and increasing efficiencies, and achieving well-defined clinical and financial goals. Health Inventures provides a variety of interconnected client solutions, such as ASC and surgical hospital development and operations, physician practice management, hospital perioperative and anesthesia performance improvement, and human resources advisory and employment services.