Is a Medical Merger in Your Future?

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Introduction

Medical practice structures have changed significantly over the past fifty years from solo to group practices, hospital-owned enterprises and integrated systems. Physicians have been drawn together through common commitments to improving patient care, but also in search of greater operational efficiencies, political clout and better work-life balance.

The urge to merge has never been more compelling, however, than in the wake of the recent passage of the Patient Protection and Affordable Care Act. The health reform efforts are reshaping the landscape for physicians, challenging their basic historic values about professional autonomy. Doctors are encouraged to rely more on collaborative clinical outcomes research than on individual judgment to diagnose and treat patients. Reformers surmise that autonomous judgment has led to wide variations in healthcare costs and clinical results, fragmenting a delivery system that wastes resources, incentivizes overtreatment and de-emphasizes prevention.

The “new normal” for physicians will reshape referral patterns, force collaboration with hospitals and other physicians to receive a portion of bundled payments, and rely on capital-intensive information technology to make clinical decisions. The financial requirements to participate in this new climate raise the risks for solo practitioners and accentuate the benefits of larger medical groups.

The Case For Working Together

Health reformers are casting a vision that keeps physicians in the driver’s seat for clinical decisions, but encourages them to rely on best practices rather than individual judgments. Best practices are especially important for managing chronic care patients, the most costly constituents in the healthcare system. Careful monitoring of patients with diabetes and heart disease can reduce hospitalizations and readmissions and provide exactly the right care needed at the right time and in the right place. Cardiologists need to work with primary care physicians to identify patients at risk so that together they can prevent the most serious complications of heart disease. Internists need to collaborate with dietitians and others to help their diabetic patients avoid the costly complications of their disease. All the providers need to collaborate when patients are admitted to the hospital to reduce the length of stay, avoid readmission and promptly restore patients to their fullest functioning capacity. The smooth flow of clinical information through electronic health records in office-based settings across the community can also prevent duplication of costly tests and increase communication between physicians in different specialties.

Reformers are setting the stage for collaboration, not just by encouraging these behaviors on grounds of professionalism, but by rewarding them through bundled payments to hospitals and physicians based on episodes of care. That is, insurers may grant a single payment for a single admission to a hospital, but the hospital and the physicians will have to discern how to divide the pie. Likewise, insurers may grant an annual fee to care for each diabetic patient, leaving it up to the...
Physicians who work together to reduce costs and improve the quality of care by following best practices can share the financial rewards.

Accountable Care Organizations (ACOs) provide infrastructure for collaboration...

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Selecting Potential Partners

The first challenge for physicians thinking about merging is to establish selection criteria for potential partners. The path of least resistance might be to seek employment with a local hospital, but as ACOs emerge, market forces are likely to create more options for physician-driven medical groups designed to participate in the new medical economy while preserving the best qualities of professional autonomy.

Selection criteria might include:

- **Specialty Mix**: Accountable Care Organizations are expected to be most successful with a multispecialty mix, built on a base of about 50% primary care physicians.
- **Location**: Market penetration strategies may require groups to place offices in areas that make them widely accessible to the community.
- **Hospital Affiliation**: The management of inpatient and ancillary care will be vital to the financial well-being of physician groups. Identify hospitals with appropriate capabilities, sound management strategies, and strong community reputations.
- **Professional Affinity**: This factor may be the most difficult to quantify, but it is vital for successful and sustainable relationships. In short, find physicians you would be proud to work with.

Merger Feasibility Study

The next step is to conduct a merger feasibility study with interested parties. Outside consultants provide an impartial assessment of the benefits and challenges of a merger. The consulting study should answer the following questions:

- What are the short-term and long-term strategic advantages of joining forces?
- What operational efficiencies might be gained from the merger?
Merging groups will need to continually recommit to the common goals of the merger.

Details can be worked out through subcommittees and support staff.

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- What is the value per physician of tangible assets to be contributed by each group?
- Who should be on the organizing committee?

At the conclusion of the merger feasibility study, each group will have information to discern their commitment to go forward. When commitments are in place, it is time for joint planning.

**Joint Planning: Agreeing to Agree**

The organizing committee will need to commit to regular meetings over several months to craft hundreds of decisions ranging from the valuation of assets, staffing, compensation policies, management and governance infrastructure, and strategic plans. Building trust among committee members will be key. Some decisions will be more contentious than others, and the group will need to continually recommit to the common goals of the merger. By “agreeing to agree,” their trust relationships can enable them to overcome the toughest challenges.

The committee will also need to be transparent with the other members of their respective groups. Frequent communications through newsletters, forums, e-mails and conversations can serve as a vital lubrication to keep the wheels turning throughout the merger process.

**Nuts and Bolts: Key Decisions and Implementation**

The work of the organizing committee may be the most visible part of the merger process, but the heavy lifting will take place through subcommittees and support staff processes. Nuts and bolts decisions will need to be made about some of the following issues:

- What will be our facility requirements and how do we transition to them?
- Which processes should be centralized and which ones decentralized?
- How will we blend our respective support staff members?
- How should we blend benefit packages including retirement plans?
- What information system will we adopt?
- How should we structure the buy-sell agreement, physician compensation plans and representative governing structures?
- How should we select our management team?
- Which hospitals and insurance companies should we affiliate with?
- When should we start the new organization?

**Continuous Improvement**

The decision-making process for a merger can be an intensive experience, but the real work – and the real benefits – of a merger may take years to unfold. Even when merged groups come together in a single facility, it may take time for staff members to be unified without the divisiveness that sometimes comes with long-standing loyalties.

Two key commitments stand out as qualities of successful mergers. First, a physician medical director and a non-physician CEO should lead the new group. Groups that have a highly functioning team composed of a clinical leader and a business leader that complement each other and work closely together consistently outperform groups that are fractured by divisions and operational silos. Leadership is key.
Second, high-performing groups commit to strategic planning on a consistent and continuous basis. They recognize that market dynamics are constantly changing and that the group must change to remain relevant to their markets. The Board of Directors should take responsibility for an annual intentional process that enables them to scan the market, focus on opportunities, mobilize teams to implement appropriate changes, and inspire the whole organization to achieve new levels of clinical and business excellence.

Conclusion

Medical mergers can be difficult and challenging for independent-minded physicians, but the realities of health reform point to the value of collaboration. It is the right thing to do if it improves the quality of care, and it is the wise strategy if it positions groups to thrive in the emerging healthcare delivery system.

About the Author

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