

The Board's Increasing Role in Hospital/Physician Relations

Texas Healthcare Trustees

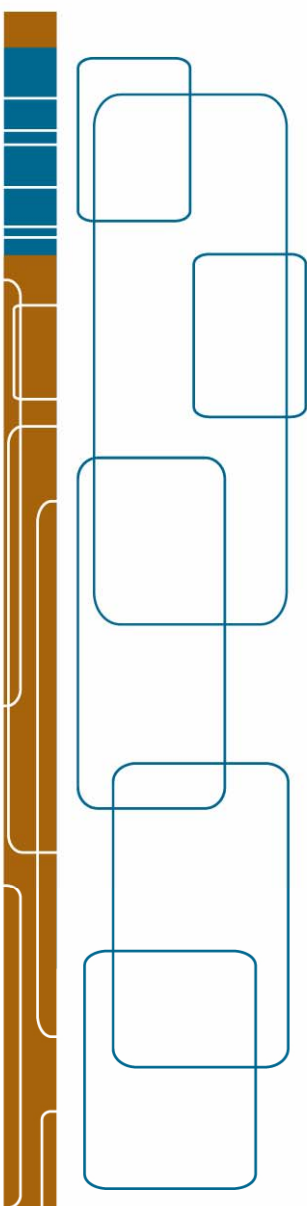
Spring Forum

March 2, 2007



The Harsh Reality of Health Care

- **Considerations**
 - Physicians are emerging as *the* main competitor (some markets)
 - Physicians are under the gun economically and experientially
 - History of mistrust and miscommunication (some markets)
 - Worlds and philosophy must converge for optimal advantage
 - Heavy lifting, major hurdles and high expectations
- **Objective: Distinctive Competitive Advantage**
- **Mind-set first, then the model**
- **The Imperative for Synchronization**



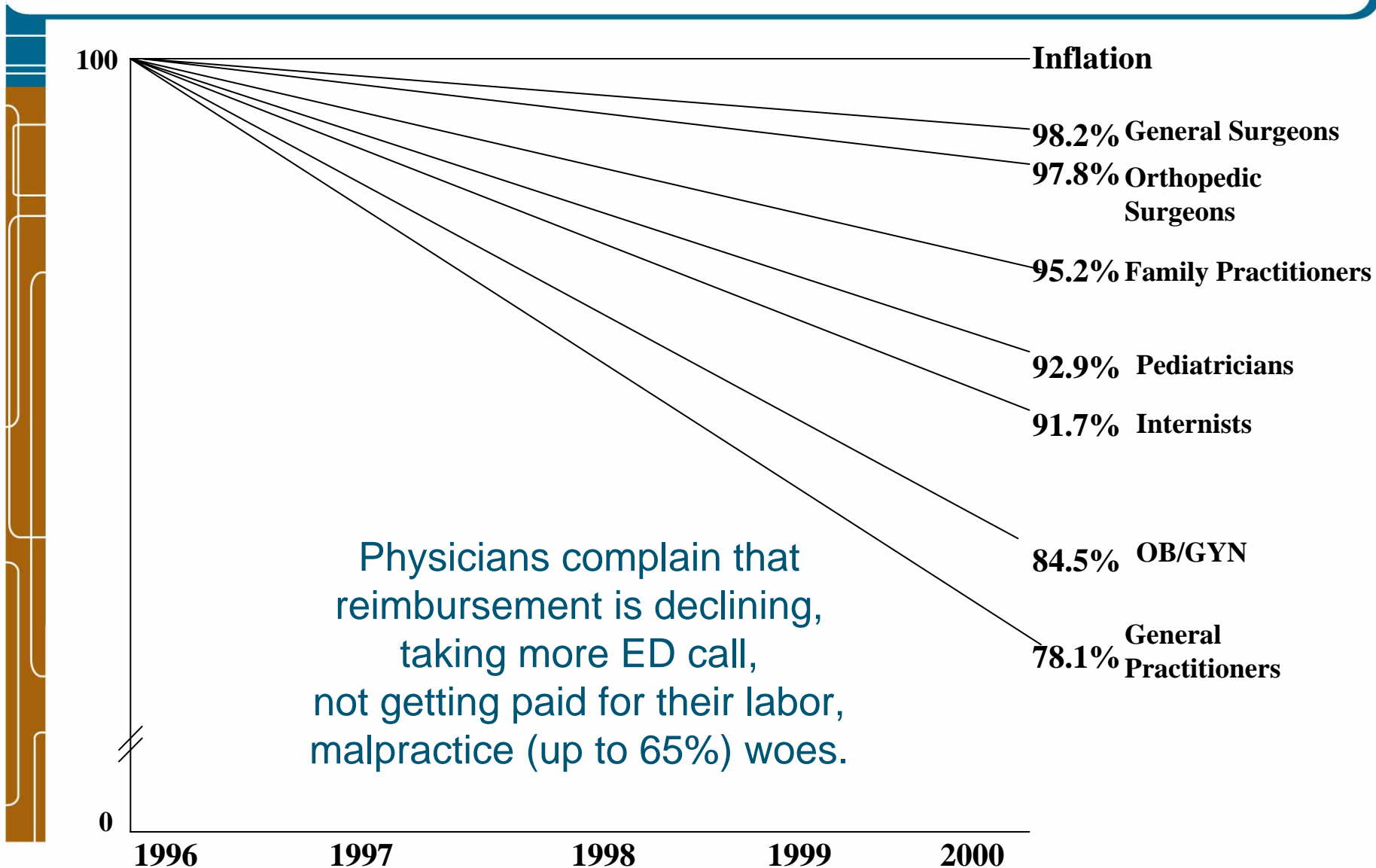
“That phenomenon has sparked a war between hospitals and doctors across the country that is transforming the landscape of the US. health-care system – while not necessarily improving it.”

“The Hospital Wars”
TIME Dec. 05, 2006

- **Not Yesterday's Competition:**
 - Entrepreneurs emerging
 - Migration away from medical campus
 - Retail as the new reality (i.e. Minute Clinics and Big Box)
 - Understanding the consumer and market orientation
 - Battling within family with Barbarians at the gate
- **What is on the Horizon for Healthcare**
 - Increasing emphasis on performance for payment
 - Technological interdependence and integration
 - Transparency and connectivity
 - Universal coverage – fractionated or coordinated

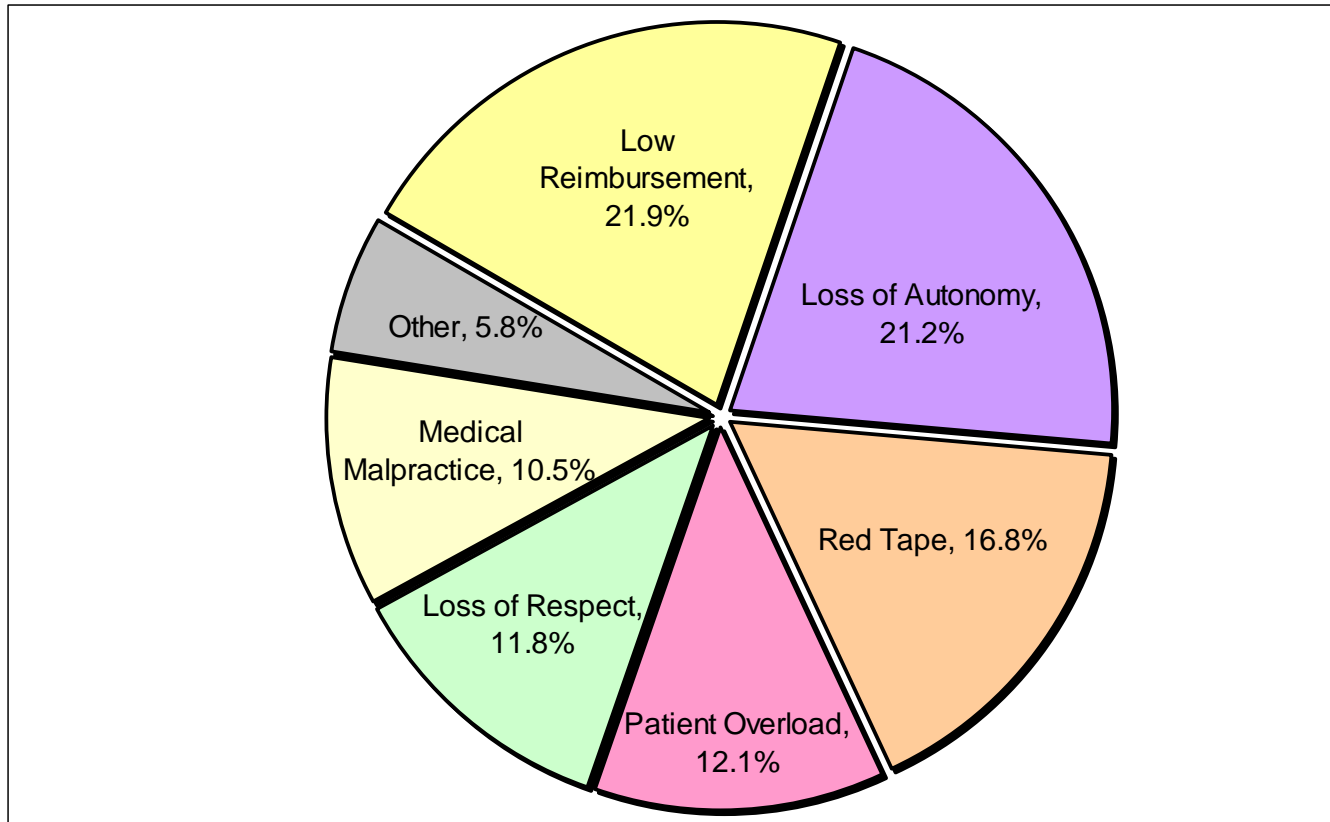
Physician Earnings Outpaced by Inflation

Inflation-Adjusted U.S. Physician Income by Specialist



WHAT'S HURTING PHYSICIAN MORALE?

Reimbursement was the single biggest factor that doctors believe lowers physicians' morale



Note: Based on 1,200 total responses to the ACPE's first Physician Morale Survey. Percentages do not add up to 100 because of rounding.

Source: American College of Physician Executives; ACPE Physician Morale Survey; acpe.org

Source: Modern Healthcare December 2006

Peeling Out Most Lucrative Services

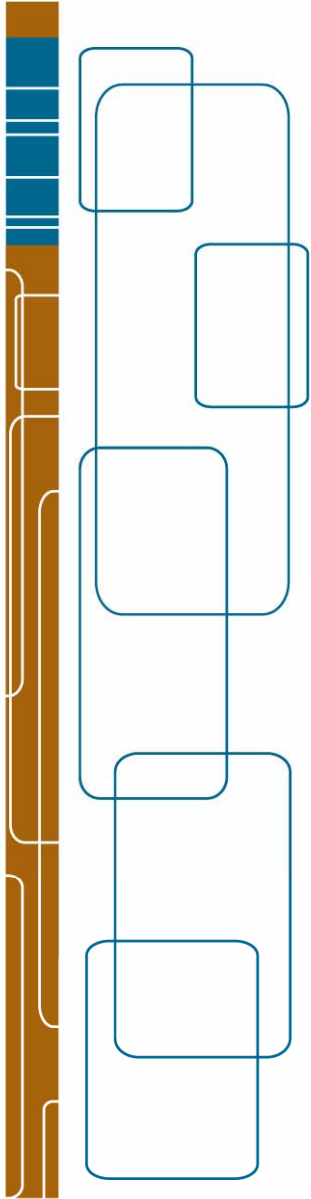
Hospital Profit per Patient Day, by Service Line

U.S. Hospitals, 1999



Hospital-Physician Relations

- The nature of hospital-physician interaction has dramatically changed
- Both are more economically interdependent than ever before
- There are many tools available to improve respective economic and quality of providing care
- Champions on the medical staff are the key to creating an environment for unleashing the tools and developing mutual understanding
- There are important skill sets for accomplishing this



Physicianship:

The ability of healthcare executives to effectively involve the medical staff, engage them in long-term projects/ventures and align the interests of the entire medical community.

Physicianship: Partnership with Physicians

- **Fundamentals**

- The **key** element of strategy going forward
- Adopting a new mental model
- Sync with 'em or sink without 'em
- A wide range of options and opportunities to pursue
- The wider and deeper (the option) the better
- Let the model send the message
- A model in Montana – full hospital JV with most of the medical staff

What Hospitals Must Do to Succeed

- Control costs
- Improve payer mix
- Deal with uninsured
- Demonstrate quality
- Pursue economic ventures with physicians



What Physicians Must Do to Succeed

- Reduce costs
- Improve productivity
- Develop referral channels
- Access state-of-the-art technology

How Physicians Can Help Meet Hospital Needs

- Control Costs: reduce physician preference items; multidisciplinary resource management; active physician support of case management
- Improve payer mix: non-selective admissions
- Demonstrate quality: evidence based medicine algorithms; measurement; education
- Pursue economic ventures with physicians: identify opportunities for increased market share and service to the community
- Timeliness and Accuracy of Coding
- Electronic Medical Record design input

How Hospitals Can Help Meet Physician Needs

- **Reduce Costs: practice management expertise, group purchasing**
- **Improve productivity: OR start-times, turnover, block times, EMR, results reporting**
- **Develop referral channels: referral programs, facilitate specialty association**
- **Access State-of-the-Art Technology: maintain margins for new & replacement equipment; solicit formal medical staff mechanisms for prioritization; JVs**

Types of Physician-Hospital Relationships

- **Competitive:** striving to outdo one another for supremacy or profit
- **Associative:** to join as a companion or ally
- **Cooperative/Collaborative:** working or acting together for a common purpose or benefit
- **Partnership:** contributing together, sharing risks & profit

Addressing Physician Competition

CONFRONTATIONAL



COOPERATIVE

Direct Confrontation

1 Exclusive Contracting
2 Conflict-of-Interest Credentialing
3 Tactical Physician Employment

Competing on Quality & Delivery

4 "Retail" level OR efficiency
5 Dedicated OR suites
6 Facility upgrades

Forming Non-Equity Partnerships

7 Leasing blocks of OR & Lab time
8 Participation Bonds
9 Management Agreements

Forming Equity Partnerships (JVs)

10 Outreach facilities
11 Broad-Based Outposting
12 JV Inspired Cost Control

What Kind of Relationships Are Needed to Succeed?

- **Cooperative/Collaborative:** working or acting together for a common purpose or benefit
- **Partnership:** contributing together, sharing risks and profit

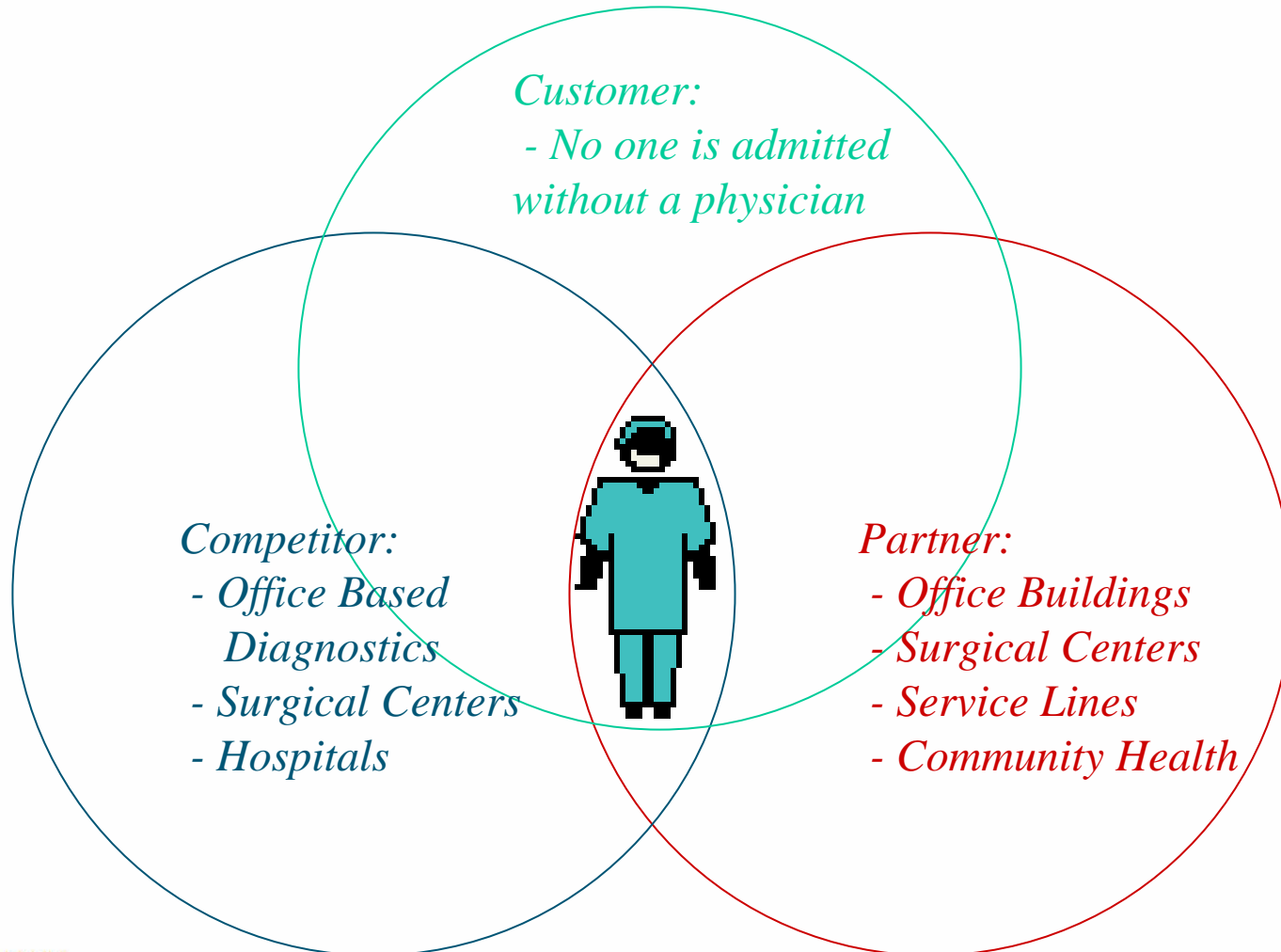


Drivers of Physician Loyalty

- Superior hospital customer service and quality
- A culture that supports medical staff participation in decision-making and planning
- Technologies that are of practical use
- Meaningful physician practice support
- Ongoing referral tracking and management

Competition or Co-opetition

Competitors, Potential Partners and Customers



Partnership Options and Considerations

- **A Wide Spectrum of Strategies**

- Increased involvement in planning and control.
- Appointments and directorships
- Participating bonds.
- Site-specific or service line joint ventures
- Centers of Excellence JV opportunities
- ASCs, imaging centers, etc.
- Full-hospital joint ventures

- **Goals of such endeavors**

- Pre-empt other competitors in the market.
- Engage the medical staff strategically and financially.
- Ensure increased loyalty and participation from med staff

KRMC Approach – The Model is the Message

Why this initiative/approach works so well....

- *Validates the role and contribution of physicians*
- *Establishes a sense of transparency and openness*
- *Ensures increased and improved communication between all*
- *Recognizes inherent symbiosis, achieves market synergy*
- **WORKING IN CONCERT FOR THE COMMUNITY GOOD!**

The KRMC Model – Seven Steps to Success

1. *Involved the entire medical staff*
2. *Engaged the primary care physicians as the galvanizing and stabilizing force*
3. *Established the new hospital (full-hospital JV) next to the “charity” hospital for efficiencies of scale and clarity of scope.*
4. *Took the mindset that “we’ll do what’s best for the community.”*
5. *Focus on patients, quality, outcomes and long-term viability*
6. *Achieved success on every critical metric measured*
7. *Works on all levels and fires on all cylinders – is it replicable?*

KRMC/HCNW Model – *Metrics to Match Their Mountains*

1. *Increased OP Surgery cases by 22%*
2. *Increased imaging procedures by over 78%*
3. *Increased net revenue by 54% in 3-year time frame*
4. *Involvement of medical staff in community programs/decisions*
5. *Esprit de corps between physicians and executives*
6. *Nursing turnover – one-third the national average*
7. *Peerless peer review and medical maverick monitoring*

More than Nuance in the Northwest

- **What they did:**

- The physicians first approached the administration
- Admin was open to mutually designed structure – checking egos at the door
- Extensive legal and structural research
- Building the buy-in: extensive and pervasive
- Six years in the making

- **Why it works:**

- Physicians feel valued, in control and at the table
- Advisory Board conjoint study as empirical corroborator
- Chasm is cultural and deep; must be bridged with trust
- Nothing magical about Montana (other market experience)
- Others are pursuing the model throughout the country

Possible Next Steps for *Physicianship*

First research and then development.....

- *Assess the stage of the market relative to physician ventures*
- *Take the pulse of the medical staff (candid and thorough research)*
- *Ask the doctors what interests them the most – which model*
- *Find the concept champions*
- *Allow for buy-in and build time*

Summary and Questions

- **Summary**

- Market is changing dramatically
- Physicians are either a key competitor or core ally
- The approach or model that ensures greater engagement is better
- Full-hospital JVs are proven and prominent
- The KRMC model is worth reviewing and considering

Items to Consider in your Market?

- What is the rapport between physicians and execs?
- How far down the path are physicians in your market?
- What is your admin attitude toward physicians as “partners?”
- What is to be gained from this approach?

- **Is a Full-Hospital JV Model Right for Your Organization?**

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