Physician independence is being threatened.

“If you go back just ten years, a majority of physicians were independent,” says Barry Tanner, chief executive officer of Physicians Endoscopy (PE). “Now that’s reversed, with a majority of physicians employed by a hospital or health system. That development alone — with hospitals increasingly controlling referral sources — has created pressure on physician independence.”

When you also take into account other developments, such as reimbursement pressures, changing reimbursement architecture (e.g., value-based and bundled payments) and the ever-growing need and ability to monitor and measure metrics, it’s becoming increasingly difficult for independent physicians to survive and thrive.

As independent physicians go, so go independent ASCs, Tanner says. “ASCs, to a large degree, are dependent upon independent, entrepreneurial-type physicians for success. Maintaining that independence is difficult, especially for physicians in smaller practices that lack the time, financial resources and access to non-clinical expertise that will prove vital to survival. At Physicians Endoscopy, we work with physicians to help them remain independent and to protect the independence, quality and cost structure of our joint-ventured ASCs.”

Such collaboration, he says, is taking on greater importance with the changing healthcare landscape. But that’s not only collaboration between physicians, their ASCs and management and development companies like PE, but also collaboration with hospitals and health systems as well as payers.

“In order to really get involved in value-based care, we need to work more closely with hospitals and third-party payers,” Tanner says. “The next step becomes determining how we can play in the same sandbox and work with hospitals and payers to make sure we are delivering the right care at the right location at the best possible price.”

Mark Manigan, a healthcare attorney with Brach Eichler, agrees. “While no one in the system is better positioned than physicians to drive quality and price, strategic alignment with other market participants can be very effective.”

Alignment between physicians, ASCs and hospitals can take many forms and help accomplish these objectives, Manigan adds. “It is smart for physicians to consider health system alignment in some form. It’s a sound business practice to partner with the big players in your market. As many folks in the outpatient space appreciate, it’s often difficult to negotiate effectively with health plans as a one-off surgery center or medical practice.”

Hospital and health systems also benefit from alignment with physicians and their ASC, says Barry Graf, senior vice president of partnerships and business development through Hospital and Health System Alignment.

By Robert Kurtz
We see physicians as critical to the future of healthcare delivery,” Graf says. “They are a key part of the interaction with the patients and ultimately driving the key quality outcomes that will be necessary in the healthcare model of the future. We know that there will be declining and at-risk reimbursement for all providers within the healthcare delivery system as we move forward toward the future state healthcare delivery model. ASC sites are a low-cost means to provide surgical procedures in a high-quality manner.”

**Joint Venture Model**

ASC joint ventures with hospitals, if executed effectively, can be a formula for success in today’s healthcare environment, Tanner says.

“When hospitals, ASCs and physicians have chosen to joint venture, there can be a strong alignment of incentives,” he says. “When everyone is vested in a joint venture designed specifically to deliver high-quality care at the best possible price, that gets everyone focused on a strategy and a value-based equation that is precisely where I think the industry needs to be going.”

Alignment with independent physicians, including those with ASCs, has been a tried-and-true strategy of Virtua.

“We have aggressively pursued the concept of alignment with physicians, particularly the non-employed physicians that want to remain independent,” Graf says. “They have a fierce independent streak in them. They want to continue to have a lot of say in and control of their destiny, what they do in their daily lives, and how they provide patient care. Those are the physicians we seek out for relationships. We believe that passion will drive improved quality outcomes when you work together with them.”

While many health systems still view independent physicians as competition, Virtua has long-believed the opposite. More than 30 years ago, Virtua established its first freestanding ASC.

“It was an acknowledgement for us organizationally that cases were going to move out of the hospital to a lower cost site of care,” Graf says. “About 11 years ago, we made a conscious decision that instead of competing with our physicians in the marketplace, we wanted to partner with them. We took this very mature, freestanding ASC and syndicated it, allowing our physician partners who were doing a large number of cases at this center to become investors and owners with us.”

Virtua has leveraged this model and turned it into a family of ASCs across New Jersey, he says. “Virtua uses an unusual governance model. Our partnership model is predicated around equal and shared governance. We can’t do anything without the physicians and they can’t do anything without us. This impacts the clinical outcomes, how care is delivered, the efficiency of the center and all of the financial results.”

Sometimes joint ventures will come together more out of necessity than desire, Manigan says. That’s okay, as long as the organizations involved still embrace the partnership.

“I have large GI center clients that actively track the amount of referrals they get from the captive medical practice in their market,” he says. “In one instance, as a result of that percentage of their business increasing over time, the center partnered with the health system controlling those referrals. While there was a rate play there, it was also a defensive measure to protect those referrals.”

**Co-Management Agreements**

In addition to comprehensive alignment strategies such as joint ventures, ASC physicians may want to explore more strategic forms of alignment, Manigan says. “While more procedures are moving toward the outpatient setting, hospitals are still the sites for big, complicated cases. Physicians can look to co-management deals where private practice physicians are retained by and partner with health systems on the management of their inpatient operating room service line.”

Tanner says he is seeing more progressive hospitals/health systems considering such partnerships with ASC physicians. “They are looking at how they can incorporate some of the efficiencies that are inherent to the ASC environment into the inpatient setting. It’s like disease management, just with the incorporating of best practices from both sides to help increase efficiency and reduce costs of care for a particular service line.”

He continues, “Hospitals are still going to be dependent upon specialists for service line management and referrals. GI physicians, unfortunately, deal with a high incidence of cancer. As a result, GI physicians tend to generate a lot of inbound referrals to hospitals, whether that be lab, X-ray, oncology and sometimes surgery. That codependency which already exists between GI physicians and the local hospital sets the stage; it’s then just a matter of developing an appropriate co-management strategy.”

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agreement wherein each party can contribute their expertise toward achieving a shared goal.”

These arrangements can be structured to provide for fair market value reimbursement and include measures and bonuses tied to cost savings, quality and outcomes, Manigan says.

Virtua has embraced and used co-management agreements, Graf says. More recently, the system has pursued the “clinically integrated network” concept.

“It’s really one that links health providers together,” he says. “That can be health systems and independent physicians looking at the care delivery model and working together to determine how to improve efficiencies and quality outcomes. The clinically integrated network entity agrees on what areas they are going to target for improvement. As cost savings are derived from improvement efforts achieved through collaboration, there can be a collective sharing of some of the resulting savings.”

There are about 1,400 physicians in the Virtua Physician Partners physician-led clinically integrated network. About 1,100 of these physicians are independent.

“These are physicians who said they want to be part of this network because they want to have a say in the delivery model and help drive efficiency, reduce cost and achieve the highest quality results but remain independent,” Graf says. “That’s a high-level way we try to create alignment. These can be purely business arrangements or based around clinical and care delivery models.”

**Value-Based Reimbursement**

Another alignment option ASCs may want to consider centers around value-based reimbursement structures, Manigan says. “On the inpatient side, whether it’s case rates or bundles, for example, there is room for entrepreneurial physicians along with their ASC management partners to increase quality, reduce price, share in the savings and potentially grab market share.”

Such a model can also be pursued on an outpatient basis, he says. “In GI, we have seen transactions where the ASC facility fee, anesthesia fee and, in some cases, pathology fee are bundled. These are often most successful when the ASC has a strong health system partner in the market. That partner helps facilitate discussions about more aggressive, creative ways to contract and do alternative reimbursement deals. If the procedural volume is there, it’s easier to make those alternative reimbursement strategies work.”

**Just Doing Some Good**

Not all alignment strategies need to be in the form of an official agreement, Manigan says. ASCs looking to build stronger relationships with their local hospitals/health systems can explore joint marketing opportunities around education.

“I’ve seen an ASC aligned with a local hospital put on a big colon cancer screening event,” he says. “Now you have the center, associated medical practices and health system doing some good community outreach through preventative medicine while building their brands collectively and, in some sense, individually.”

**Fight to Be Free**

Tanner is a firm believer in physician independence. While he acknowledges that not all ASC physicians need to align to preserve that independence, a partnership with companies like PE and hospitals/health systems may be a worthwhile consideration for many physician-owned surgery centers.

“One of the reasons I fight so aggressively for physician independence is I believe strongly that physicians have the capability of changing the way we deliver healthcare,” he says. “I think healthcare should be a physician-led, physician-driven effort, but for physicians to be able to deliver that change, they will need access to financial, business and analytical expertise and support in order to be able to affect the right outcome.”

Graf says ASCs are well-positioned for growth, and there are some health systems eager to help physician achieve that success.

“We see community-based GI as being the solution for primary diagnostic procedural studies,” he says. “If you need tertiary-level GI care, that can go inside the walls of the hospital, but there is no reason with the efficiencies of ASCs that most of these procedures shouldn’t be performed in community-based ASC locations.”

Graf continues, “We see an opportunity to drive cases out of hospitals, including our own, to lower costs sites of care. I think we will see even more eligible cases moved outside the walls of the hospital. Health systems are increasingly acknowledging this is the approach they need to take. Frankly, it’s the responsible thing to do, and I think that’s what payers and patients want as well.”

When physicians work to keep their autonomy and their voice in the process of change and innovation, healthcare as a whole benefits, Tanner says. “I’ve always felt that physicians lose their entrepreneurial edge by becoming employees. Even if the hospital sincerely wants them to have a voice, they are still basically getting paid to show up and do a job. The entrepreneurial spirit, that motivation to go out and find a better way, really dissipates in my opinion when physicians surrender their independence.”

**Barry Tanner**, who joined the company in July 1999, is considered to be a founder of Physicians Endoscopy, co-writing the business plan with CFO, Karen Sablyak, for the company that has evolved and grown into what exists as Physicians Endoscopy today. Today, Barry shares responsibility for the company’s partnership development activities, as well as being primarily responsible for the company’s strategic direction, and services development while also sharing in the day-to-day management and governance of several of the company’s partnered facilities.

**Mark Manigan** is a member of Brach Eichler’s Health Law Practice Group focusing on the representation of health care industry participants on contractual and regulatory matters. Mark serves a wide spectrum of health care clients, including health systems, ambulatory care facilities, physician groups and healthcare entrepreneurs.

**Barry Graf** has forty years healthcare leadership experience in hospital operations and partnership development. He was a leader in the development and delivery of a new 1 M sq. ft. health care campus and has led the development of various forms of physician and provider partnerships including Virtua’s 17 partnered ASCs.