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Physician Equity Alliances

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Physician Equity Alliances

Physician leaders who work collaboratively with strategic partners to empower their colleagues to meet the challenge of change will be winners in creating sustainable health care systems in the patient's and community's best interests. Over the past several years, there has been a rapid rise in the physician equity model of integration or Physician Equity Alliances. It has been popularized by the Mullikin Medical Centers, Ochsner Clinic, Montana Associated Physicians, Baltimore Medical group and many others. The various forms of Physician Equity Alliance are generally centered around a series of linked structures; a physician-owned Integrated Group Practice, a practice management services organization and selected affiliated partners that provide greater geographic access and capital to grow and develop the physician group or network.

Physicians have always served as decision makers and, therefore have always been a significant force with regard to directing cash flow within the health care system. The catalyst for the explosive growth in the targeting of medical practices for investment by health systems and for profit firms is how health care dollars are increasingly entering the marketplace as negotiated capitated payments for larger patient blocks. Once these dollars enter the health care delivery system, physicians are in the seat of power, in terms of control over cash flow. It is for this reason that hospitals, for-profit management companies, managed care plans, and others are vigorously investing in, buying, and forming alliances with medical practices: they wish to gain access to the health care dollars over which physicians have control.

The impact of this change can be seen vividly in the geographic areas where health care purchasers have had the greatest success in moving patients into managed care plans: California, southern Florida and Minneapolis. In these areas, the purchasers of health care services have gained control over huge blocs of patients and, thus, tremendous clout in negotiating fixed price contracts with Managed Care Organizations. The leverage these purchasers wield has resulted in a decline of per capita health care rates and accelerated the formation of large, truly integrated health care delivery systems.

The implications for physicians are numerous. The bottom line, however is that whichever health care provider gains access to, and control over, the greatest number of patients in a given market will achieve a competitive edge over all of the other health care providers in that market. Thus, it is not merely because of physicians' access to patients but also because of physicians' control over referrals associated with those patients that medical practices and the organizations that manage them have become hot investment properties.

Consequently, there has been a rush throughout the country to buy medical practices and employ physicians. Health systems across the country have purchased practices and employed physicians through outpatient divisions or closely controlled medical foundations. Some insurance companies have sought to recreate staff model organizations through employment of physicians in primary care clinics. Aetna Healthways Health Centers and Blue Cross & Blue Shield of New Jersey's primary care centers are good examples of the staff approach. However it is becoming increasingly evident that physicians need to have a stake in the equity and governance of the evolving health care organizations; otherwise, productivity and/or efficiency can decrease significantly. When this happens, the parent organization employing

the physicians can experience operating losses that lead to an unstable, nonsustainable health care delivery system.

Throughout the country, physician leaders are saying "no" to straight buyout offers and instead are linking with one of the numerous variations of the physician equity model that include professional practice management and a strategic capital partner.

Physicians are doing the following:

- taking the initiative to organize larger group practices or networks of 30 or more physicians before taking a minority capital partner
- hiring or contracting for talented managed care executives that guide the transition of the physician organization to the top of the managed care pyramid
- assuming or sharing the risk of developing large primary care-based multispecialty group practices, so they can retain the rewards of ownership and equity at higher levels

The importance of achieving a critical mass of providers and capital goes beyond the ability to negotiate fairly with payers. The new competitive requirements of the health care marketplace dictate that health care providers be able to deliver high-quality, low-cost care, and this requires advanced information systems and economies of scale that come through consolidation of small medical practices. In order to meet these conditions, physician organizations within an integrated delivery system must be large enough to (1) maintain physician decision making with regard to treatment protocols, (2) achieve organizational economies of scale that will reduce the direct and indirect costs of delivering health care, and (3) offer a continuum of care, or one-stop shopping, that can effectively capture a high volume of patients and keep them largely within the organization's health care delivery system. To achieve the necessary size for accomplishing those goals, physician practices must have access to capital. And capital must be accessed in ways that fuel aggressive growth necessary to meet health care purchasers requirements, economic realities, and competitive forces. Access to capital from private or public investors enables physician organizations to: (1) develop management and information systems infrastructure; (2) integrate with or acquire other physician groups; (3) extend its geographic market; (4) fund the development of new services; and (5) create value and wealth for its employees and shareholders. In effect, capital is the currency of the new health care marketplace.

In selecting a source of capital and a potential alliance partner, physician leaders must compare their practice's internal criteria, values, and goals with those of the external source and partner. For long-term success, it is vitally important that these elements are similar. Factors to be aligned include the following:

- Culture and Values
- Clinical Standards
- Vision and Growth Strategies
- Patient Care Principles

One thing about the future is clear: integrated, multi-specialty, multi-dimensional, multiple-entity health care organizations will play a decisive leadership role in health care delivery.

Peter Murdock: Physician Equity Alliances

About the Author

Peter Murdock is the Director of the Jefferson-Affiliated Management Services Organization.