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Creating an integrated delivery system: Keys to success

By Jeremy N. Miller
AMNEWS CONTRIBUTOR

Hospitals across the country continue to approach physicians to form integrated delivery systems. There are a number of key "do's" and "don'ts" to making the project a success.

Shared goals

The goals that the hospital and the physicians hope to achieve through an integrated delivery system should meet four tests. First, the goals should be substantial and not readily attainable through other, less complex means. Second, they need to be realistic. Third, they must be clearly articulated and understood by all participants. Fourth, the participants must agree on the goals.

If there is a significant "disconnect" between the goals of the hospital and the physicians, the project will be undermined. The hospital's and physicians' goals do not have to be identical; but they certainly must be compatible.

No two alike

To partially coin a phrase: "If you've seen one IDS, you have seen one IDS." The participants, their goals, local market conditions and other factors surrounding each project will be unique. Terms such as "PHO" and "MSO" do not have a fixed meaning. Each integrated delivery system must be custom-built to meet the needs of the specific parties involved.

Physician leadership

Strong physician leadership is crucial, and should be encouraged by the hospital rather than feared.

The hospital needs the physicians to speak with one, relatively cohesive, voice. Unless the number of potential participants is fairly small, the hospital cannot realistically negotiate with each physician individually. Similarly, the physicians will be more effective in bargaining over key points if they have a unified position that can be expressed by their leadership.

Also, because these integrations can take months to complete, there needs to be a core of dedicated physicians willing to commit the time and energy to see the project through.

And, because of past problems, the physicians may be suspicious of the hospital's motives. In that case, even if the new system will benefit the physician, it may require the skill and trust of physician leaders rather than the hospital's efforts, to convince skeptical physicians to participate.

Hospital executives will sometimes assume that physicians are unsophisticated in business matters. Although this may be true at times, physicians are quick learners. Hospital executives should avoid the tendency, by word or deed, to treat the physicians as junior partners. This will only engender resentment or exacerbate any preexisting suspicions about the hospital's intentions.

Time is of the essence

On the other hand, physicians and hospitals should avoid jumping on the bandwagon and rushing, perhaps inappropriately, to create an integrated delivery system. But if realistic and worthwhile goals have been identified and agreed upon, the parties should proceed with all deliberate speed.

If negotiations are too protracted, precious goodwill and momentum can be lost'. or physicians may choose to join competitors who are able to move faster. At the same time, physicians should not have unrealistic expectations as to how quickly the new system can be created: The project will likely take four to six months or more.

Separate legal counsel

Some hospitals assume the project will go more smoothly if one attorney (usually the hospital's) is responsible for all documents and legal matters. This is a serious mistake. The hospital's attorneys will represent the interests of the hospital, not those of the physicians. Further, in my experience, the project will take less lime, and cost less, if both hospital and physicians are represented from the start by competent attorneys specializing in health care law.

Too often, physicians wait until late in the negotiations to retain their own attorney "just to make sure the documents are OK." If the attorney then finds serious problems with the documents and proposed system structure, a great deal of time and energy will be required to rework them so that the physicians' interests are protected.

Avoid excessive controls

A common physician fear is losing control to the hospital. The hospital needs to be sensitive to this issue, and not insist on greater controls than necessary to achieve the parties' goals and meet legal requirements.

The hospital also should provide a reasonable "opt out" period (such as one year), during which physicians can withdraw from the system without penalty. This may help overcome the mental barrier some physicians will have to joining an integrated system.

Fair documents

Not infrequently, when the hospital's attorneys draft the critical legal documents, they are unnecessarily weighted in favor of the hospital's interests. This practice should be avoided because it will only make it necessary to spend significant amounts of time negotiating changes to the documents to make them fair to both sides. The process will go much more smoothly if balanced documents are prepared from the start.

Memorandum of understanding

Before any legal documents are drafted, the parties should prepare a memorandum of understanding detailing all the items they have agreed upon, such as their goals, control of the integrated delivery system, capitalization and who will be invited to participate. This will help ensure there is a true meeting of the minds, and guide attorneys in drafting key documents.

Practice management experience

Hospital executives often assume that their skills in running a multimillion-dollar business as complicated as a hospital means they can do a better job than the physicians in managing their practices as part of an integrated system. In many cases, just the opposite is true: Running a hospital and managing a medical practice are two very different things. Further, physicians may have more experience than the hospital in dealing with managed care and being paid on a capitated basis.

Doctor-to-doctor issues

In many of these projects, the bulk of the time is spent negotiating the hospital-physician joint venture issues. Yet if the system will require creation of new medical group among physicians who have not practiced together before, there will be other important and sensitive issues, such as control of the group, capitalization, compensation and buy-outs. These critical doctor-doctor issues should not be left until the last minute.

Hospitals and physicians that are aware of these issues will be better-prepared to take the steps necessary to avoid potentially fatal problems, thereby greatly increasing the likelihood that the project will be a success.

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Miller is a health care attorney practicing in Los Angeles.