
By walking through the case study of the medical group's integration with the hospital, Dr. Fabrizio reviewed the phases of integration, some integration challenges and the benefits of making it through the process.

Phases

When talks of merging or integration come up, it is important to stick to a schedule and due diligence. Dr. Fabrizio recommended following these four phases for successful hospital-physician integration.

• Phase I. In this phase, the hospital and physician group should look at their culture to determine possible deal breakers and identify key issues moving forward. Also, both groups should select planning committee members. The planning committee will be essential to the success of integration moving forward.

• Phase II. This phase involves practice valuation and compensation methodology. According to Dr. Fabrizio, it is important that valuation occurs here, and not in Phase I. “You can argue about the numbers and agree to the numbers, but certainly the softer aspects haven’t been considered and they often blow up the deal,” he said.

• Phase III. This is the final phase before integration. Here, groups should finalize compensation, agree on IT and operational integration and employment agreements.

• Phase IV. This phase is post-integration, and groups work together while the integration evolves. This phase can last one to 12 months after integration.

According to Dr. Fabrizio, both groups should complete a pre-merger cultural assessment during the first three months of integration talks. The organizations should lay out their expectations, core beliefs and values and their style of decision making. They should also consider their preferred mode of communication — is it written, email, or formal or informal meetings? “We want to look at all these things before…the financial indicators and the tangible implications and the assets,” Dr. Fabrizio said. “You want to look at some of the soft sciences and spend a considerable amount of time on those.”

Multiple challenges

Throughout the webinar, Dr. Fabrizio shared many challenges that can arise during integration, both from the case study and also general examples. The following are some of the challenges he highlighted that hospitals and physician groups need to work through for a successful integration:

• Maintaining faith-based values. In the case study situation, it was important to the physician group to maintain their faith-based mission and values. “We spent a considerable amount of time on mission and culture. We actually spent more time in this area than we did in the financial due diligence,” Dr. Fabrizio said. “It’s not only important to know how the mission statements are related between medical group and the hospital, but to understand how they’re not related to your partner’s mission statement.”

• Managing expectations. According to Dr. Fabrizio, both the physician group and the hospital had to manage their staff’s expectations of the integration. “That’s something I suggest people do from the start of the process through post integration.”

• Valuation. Dr. Fabrizio does not recommend starting the integration process at the valuation; “Unfortunately,” he said, “that’s where a lot of people want to start.”

• Exit clauses. At some point down the road, some — or all — of the physicians in the integrated group may wish to transition back to private practice. Therefore, it becomes important to spend time establishing an exit strategy or clause with the partner.

• New management structure. With integration comes a change in reporting relationships. “That adds a layer of complexity, and in some cases, fear that you just have to work out on the front end,” said Dr. Fabrizio.

Post-integration benefits

In the case study, the integration project began in March 2010 and was implemented by January 2011 — a relatively short amount of time, but required a lot of effort by both parties. “That was with a lot of heavy lifting, a lot of commitment on the part of the physicians and a great job by the hospital administration, and it certainly saved time in this case having the CEO and the direct representative at the table.”

Despite the challenges and struggles that can come along with hospital-physician integration, there are benefits to reap once the process is complete.

In the case study, the hospital benefitted from the physician group’s established EHR system, and replaced the EHR in its other physician offices with the new system.

Also, with the influx of new physicians, the hospital gained leverage when contracting with payors, especially because the hospital only had around 12 employed physicians prior to the integration. “You obviously have some strength in numbers there and bargaining clout with numbers,” said Dr. Fabrizio.

The physician group’s productivity increased by 9.5 percent after integration was complete. “It gets back to the fact that this group integrated for the right reasons and not the wrong reasons. It wasn’t a bailout; they weren’t looking for the hospital to subsidize their losses,” said Dr. Fabrizio.

Overall, throughout the webinar, Dr. Fabrizio emphasized how important it is for hospitals, health systems and physician groups considering integration to focus on culture before valuation. It is also important to foresee possible challenges and work through those together in order to achieve the shared benefits of integration.