

15 Steps for Surgery Centers to Strategically Align With Hospitals

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In today's changing healthcare environment, hospitals and surgery centers are looking for innovative ways for alignment and partnership to provide the best care for their patients and maintain a healthy business.

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"Existing surgery centers and hospitals are both feeling the decline in reimbursement and hospitals are going to have to create a means to own the surgery center, replicate it or align to relieve the pressures in their surgical service line today," says Mike Glick, senior vice president of physician-hospital joint ventures at Blue Consulting Services. "Surgery centers look to get case volume into a certain location in a way that is more efficient while also maintaining a high level of care. Hospitals want to be strategic with their partners as well."

Here are 15 steps for surgery centers to approach hospitals about potential alignment and how to maintain a healthy relationship with partnering hospitals.

Preparing for alignment

Surgery center administrators and physician partners must be prepared to present their case for alignment with hospital executives and have a realistic expectation about how the process will unfold. Here are the first steps surgery center administrators can take before approaching the hospital about alignment:

1. Understand the costs and benefits of alignment. Surgery centers should deeply consider the costs and benefits of alignment before taking their plan to the hospital. Benefits of alignment for surgery centers include the possibility for enhanced revenue through hospital system relationships with payors, additional referrals from hospital-employed physicians and reduced risk exposure because when the facility sells shares, they are taking cash off the table. Costs include giving up the surgery center's autonomy and fewer shares available for potential growth.

"The most important thing is to first decide if the ASC wants a hospital partner, weighing the costs and benefits of the partnership," says Reed Martin, COO of Surgical Management Professionals. "Some of the potential costs to an ASC are decreased control and ownership of the entity; share that are owned by a non-case producing partner and fewer shares available for new physicians. There could also be an infiltration of a slower moving, more bureaucratic culture. Most surgery centers want to keep an efficient patient-centered culture."

However, the partnership or alignment can be structured to continue giving surgery center physicians control over operations in the facility, which is likely beneficial to both entities because physicians are involved in the cost-savings.

"We did some work with a hospital recently that was looking to partner with orthopedic surgeons on a freestanding surgery center and they had just hired a new hand surgeon who wanted some new equipment," says Mr. Glick. "The hospital would have likely said if it's something you need, let's get it right away, but the surgery center physicians took the issue to their panel and decided it wasn't good business to purchase the equipment at that time. When surgeons truly have something at stake, it shows how much they are willing to contain costs."

2. Determine attributes of the right hospital partner. If there are multiple hospitals in your market, consider which one would be the best for alignment. "After a facility evaluates the costs and benefits of a hospital partner, they are ready to move forward and determine the attributes of the right hospital partner," says Mr. Martin. "In our experience, a hospital partner that sees the benefit of developing a partnership with physician specialists to the community is a good partner."

Hospitals know that an efficient and profitable surgery center is attractive to the best specialists, which could bring more outpatient cases into the community and more inpatient cases into the hospital. The right hospital partner will understand these benefits and vie for alignment with your surgery center.

3. Consider past history between the hospital and surgery center. In most communities, surgery centers that have been around for a while have previous history with hospitals that may or may not have been positive. However, new surgeons and hospital leaders were not part of that history and will be more amenable to starting the relationship anew.

"New hospital leaders likely weren't involved in negative discussions about the surgery center when it was first beginning," says Mr. Glick. "Be prepared to set aside that history to help your community deal with reimbursement issues that are coming into play, new reporting guidelines and other competitors in the marketplace."

Instead of considering each other the "enemy," unite around the common goal of providing the best care possible. "Figure out how physicians and other providers can best control and manage healthcare in your community," says Mr. Glick. "Come in with the mind set that history is history, and now we are moving forward."

4. Calculate qualitative as well as quantitative value of the partnership. Surgery center administrators must calculate how partnership or alignment with hospitals can be beneficial in terms of case volume, payor mix and physician recruitment to the community, but also focus on the qualitative aspects of the relationship.

"The qualitative things are harder to wrap a dollar amount around," says Mr. Glick. "Surgery center physicians and administrators can share their expertise on how services can be delivered more efficiently and effectively. Surgery centers also have high quality standards and outcomes, which can be hard to qualify as a quantitative factor."

Administrators should also be prepared to share patient, staff and physician satisfaction reports with the hospital executives to show their value. "If they go in and understand the business case they bring to the hospital in advance, they will be ahead of the curve," says Mr. Glick. "Everyone knows the quantitative piece, but having the qualitative piece worked out as well will give them an edge."

Meeting with hospital executives

Once your preliminary work is finished, schedule a meeting with hospital executives and potentially a third party to begin alignment discussions. Mr. Martin advises these meetings be face-to-face and initially focus on the benefits of alignment for the community. These meetings should address:

5. Benefit of alignment to the hospital. Surgery center administrators understand potential benefits and drawbacks of alignment going into meetings with hospital executives; they should also understand where the hospital and community stands to gain from alignment or partnership in the future and highlight those points throughout the discussion.

"A hospital partner will see the advantages of having cases done in a surgery center for the patient in terms of quality, low infection rate, patient satisfaction and efficiency," says Mr. Martin. "They realize that many cases are appropriately done in the surgery center to the benefit of the patient, but beyond that you can emphasize that the partnership would free up capital and operating room time at the hospital and allow the hospital to focus on larger in-patient — and oftentimes more profitable — cases."

6. A new era of cooperation between surgery centers and hospitals. Even if the hospital CEO is the same one that opposed construction of your surgery center a decade ago, the environment is changing and hospitals are seeking opportunities to partner and align with other providers and players in the community. Don't let long-lasting bad feelings ruin your chance for a healthy relationship in the future.

"Hospitals recognize there is an evolution of their strategic options, and they are often the ones who are trying to hang out the olive branch to surgery center partners," says Mr. Glick. "They will most likely assume that surgery center administrators looking for alignment want a positive relationship, not that they aren't doing well so they need the help of the hospital. I think hospitals are trying to find strategic alliances and in our experience, hospitals have been open and engaged in listening to physician leaders and ASC administrators."

7. Bringing in a third party management partner or alignment facilitator. In the initial discussions, you want to make sure all the leaders from the hospital and surgery center are present and consider bringing on a third party consultant to facilitate the alignment. The third party member could make sure the needs of both parties are being met and serve as an impartial advisor during contract negotiations.

"An outside management company can be helpful because they have done this in many other scenarios and can point out the advantages of this alignment," says Mr. Martin. "They can show how alignment has worked well in other communities and provide hospital executive contacts from those communities for your hospital executives to talk to about alignment."

Throughout negotiations, there are several situations where a third party facilitator could be beneficial. "These types of deals can be sidetracked or delayed because a certain party won't share information given where they are in their negotiations," says Mr. Glick. "A third party can be helpful to be a firewall between the entities to facilitate both organizations down a path that gets them to sharing the necessary information so the deal is done."

8. Decide on fair market price and operations agreement. After initial discussions are finished, if you are selling a portion of the surgery center to the hospital, you must consider fair market price and future operations management.

"You need a fair market price for the shares and decide how many shares you are willing to sell," says Mr. Martin. "If costs are too high, some hospitals require a majority share and for some ASCs that is too great of a price to pay in terms of culture and ability to control efficiency."

Hand-in-hand with the share price goes the operations agreement; decide upfront how the surgery center will be managed and who has seats on the board of directors.

"Developing an operating agreement that maintains the control and culture of the surgery center often requires a supermajority vote on major issues but allows the flexibility to utilize the hospital's strengths when appropriate," says Mr. Martin. "Oftentimes hospitals have good experience with board meetings and they are a good sounding board for when questions come up about medical staff bylaws. They have run

into some of the unusual situations you might be facing before and can bring that expertise into the board room."

9. Be patient with the pace of negotiations. While it varies from institution to institution, hospitals are generally slower than surgery centers in finalizing decisions. Surgery center administrators and physicians often want the deal to move faster than hospitals are able.

"Sometimes you can appoint a team that is dedicated to facilitating the agreement, with members from the hospital and surgery center, to fast track the venture," says Mr. Glick. "If you don't have a third party facilitator, you have to leverage off strong communication and project management skills to fast track the deal."

Sometimes even when the physicians and hospital think they are moving forward, and they work with a third party to fast track the deal, negotiations still move at a snail's pace.

"We have a surgery center client that is working to convert a freestanding surgery center into a hospital center," says Mr. Glick. "The physicians believe they have been in discussions with the hospital for two years around some type of aligned structure. We as the third party facilitator came to the table some six months ago and we still are likely to have a few more months ahead of us."

Maintaining a positive relationship

Once the alignment or partnership is up and running, it's important to maintain the positive feelings between the hospital and surgery center. Here are the steps surgery center leaders can take to make sure that relationship continues to be beneficial far into the future:

10. Remember you are no longer competing for cases. At this point, even if the surgery center and hospital aren't aligned, a mature surgery center is already taking as many cases as possible into the outpatient center so there shouldn't be anxieties about whether the ASC will cut into the hospital's current case volume. There are certain procedures that must be performed inpatient and others that can be outpatient, so hospitals and surgery centers have the opportunity to work together to provide this care.

"If administrators from both the hospital and surgery center can be more aligned as allies, they will manage their patient population at a higher level," says Mr. Glick. "Surgery centers have taken as much case volume out of the hospital as they will take so the fear of taking more cases goes by the wayside. Both parties need to make sure they fulfill the needs of the physician population in an efficient and productive way."

11. Show hospitals you are committed to the alignment or partnership. When surgery center physicians and administrators approach and maintain the relationship with hospitals from an angle to benefit patients, hospitals will know you are committed to the relationship.

"Start the discussion with how you can help the hospital with the same efficiencies and cost savings as you have with your surgery center," says Mr. Glick. "Keep the mindset that a freestanding organization can bring value to the hospital."

12. Bring the same benefits of the surgery center to hospital services. Hospitals are now being pressured to enhance efficiency and become more cost effective, just as surgery centers have been for several years. "There is no better person than an ASC administrator to consult on efficiency and quality," says Mr. Glick. "The hospital and surgery center must be allies because they have the common cause of serving the patient and physician population."

Physicians can bring their expertise in managing operating rooms, supply chain and other costs as efficiently as possible to the hospital through management partnerships as well.

13. Attend and participate in hospital functions. After alignment or partnerships begin, attend hospital functions and staff meetings to show your commitment to the hospital as well as the surgery center. In some cases, these events can be used for continuing medical education credits and offer valuable insight into advanced medicine.

"If you are smart, you will attend the functions and meetings at the hospital," says Jay Shorr, founder and managing partner of The Best Medical Business Solutions. "The hospital will offer a lot of CME for free as part of their continuing education program. The alignment between ASC staffing and hospitals allows you to participate in those events and you have to attend a certain number of meetings to maintain that relationship."

These hours at the hospital help you keep credentials, which will be necessary for future accreditation because the surveyors will be looking for those records.

14. Be prepared to take the next step in the future. Alignment with a hospital today can lead to a beneficial partnership, expansion, joint venture or membership in accountable care organizations, depending on how the healthcare landscape changes over the next several years.

"Hospital alignment can be very important if there is a strong physician employment model within the hospital system," says Mr. Martin. "If the hospital controls the referrals of the family practice and general practice physicians, this alignment may allow your specialists greater access to patients within the network and also entrance into an ACO."

15. Be flexible with consolidation in the future. Consolidation within the market has created a difficult environment for sustainable surgery centers.

"Surgery centers are going to start seeing some pressures as their physician partners and owners become employed by hospitals," says Mr. Glick. "There are a lot of intricacies that come into play and many organizations may not allow employed surgeons to keep ownership in the ASC. That means you have to change how you are structuring your surgery center; the impact of this may start to force surgery centers to have a strategic alliance with hospitals."

If surgeons begin to enter into employment agreements where they must divest ownership of the surgery center, it doesn't necessarily mean they can't still bring cases to the ASC, but you can't expect they will continue at their previous pace.

"When the dynamics of how you work and operate start shifting — when surgeons become employed by the hospital — case volume will have an intended or unintended shift away from the surgery center," says Mr. Glick. "Surgery centers might see a change in their physician dynamic and alignment or partnership could alleviate some of that."

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