




# The Case For Hospital Joint Ventures

Because they've got resources, influence and interest.

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I'll admit right up front that I'm very bullish on hospital-physician joint ventures as the future of many ASCs. Despite some obvious differences between a group of physicians and a community hospital — most notably their financial resources, relative sizes and for-profit versus not-for-profit missions — there are benefits for both sides in deciding to work together.

## What's in it for you?

In my experience as an ASC consultant, I've found that most physicians would prefer to partner with the local community hospital. They report a strong sense of loyalty to their local hospital — maybe the hospital administrator was their first community contact when they were recruited, maybe they serve on the hospital's boards or committees or donate money to its foundations, maybe they had family members born there. In short, they already have relationships with the hospital. Sometimes the

relationships can be tense, but they do exist; and the hospital, for the most part, is a known entity and a fixture in the community, offering physicians a sense of security.

When a prospective ASC owner asks me, "What are the advantages in partnering with a hospital?", I point out the four C's: cash, credibility, contracts and certificates of need. If any of these are issues for your ASC, you should consider partnering with a community hospital. There is a lot of value in the clout a hospital can bring with payors these days and there is no better ally sitting next to you in a CON hearing. You'll also have peace of mind knowing there's a buyer ready, willing and able to buy ownership shares if you should need to divest.

## What's in it for them?

A fifth C that scares most physicians is control. They worry that hospitals want all of it. But for many of my physician clients, that fear is often

unfounded. Many hospitals slumbered through the ambulatory surgery revolution of the last two decades, but they've since woken up and are scrambling to get back in the game before they lose more surgical revenue.

Each hospital's situation is different, but most are willing to partner on favorable terms with motivated doctors. The doctors are consequently in an ideal position to negotiate the best deal possible. Many hospitals are taking minority positions based on the reality that, by relocating cases to an efficient surgery center where physician-owners have an eye on expenses, they'll make more profit out of their minority share than they would in their ORs. In this way, control is not the deal-killer it once was.

### Who's in charge?

Hospitals and physicians often want control over different things. Hospitals don't tend to be as concerned with the day-to-day details of a surgery center — hours of operation, nurses' room assignments, equipment and supply choice — all of which doctors generally want a say in. Most hospital administrators and their boards are more likely concerned about issues of mission, financial reporting, image and marketing.

I have seen surgeons end up with a lot more decision-making responsibilities than they expected. Hospitals often use the surgery center they're partnered with to test practices that the hospital might not yet want to tackle, practices such as stricter enforcement of medical staff rules and regulations, leaner staff benefits or more performance-based anesthesia contracts.

One caveat to physicians demanding control: Even if you hire an outside firm or experienced administrator to take care of day-to-day management, you still have to be willing to put in the effort and participate in the decision-making process. Physicians who want to own a controlling interest in a surgery center not only need to put up the cash and sign the guarantees, but they also need to spend the time and energy it takes to steer the company. I've found that this is one of the biggest complaints hospitals have about joint ventures, that

physician partners want control of operations but neglect to show up for meetings.

### How do you build success?

What's the secret to a successful joint venture?

From the opening discussions on, it is imperative for both the hospital and physicians to candidly discuss what areas they want control over and what their non-negotiable demands are. Keep in mind that the shorter the lists of deal-breakers and the more compromises that are struck, the smoother the joining will be. These issues need to be discussed early and honestly. They should also be recorded in the partnership documents, since hospital CEOs aren't known for longevity. You want to be sure that what was promised remains in place even through changes in leadership.

For the joining process to work, it is essential that you include an independent, third-party advisor in the early stages. This person should play the role of referee or mediator, having no alliances with either the hospital or the doctors, but accepted by both to take the best of each party to create the new entity and call foul when either partner is overstepping its bounds. You'll often find that once the contentious issues are discussed openly, they can be easily dealt with by way of a vote.

It should be noted that an ASC built by for-profit physicians partnering with a not-for-profit hospital can become a minefield of legal, regulatory and financial issues. Proceed carefully with the assistance of advisors who have done it before and can guide you through the maze of compliance issues when terms such as "fair market value," "inurement" and "arm's length transaction" become part of your everyday vocabulary.

A hospital-physician joint venture ASC that is established in compliance, where everyone participates fully and that operates on the priority of the facility's own best interest can be a winner across the board for physicians, hospitals, administrators and executives, payors and patients. **OSM**

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