

# PHYSICIAN OWNERSHIP PROVIDES KEY BENEFITS FOR NEWLY INDEPENDENT EMERGENCY PRACTICES

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Shifting hospital priorities and continued growth in emergency department volume have led many emergency departments to reconstitute themselves as stand-alone, independent practices.

Making the successful transition from employed physician to independent group requires a clear strategy about how best to organize and staff the enterprise. Most emergency groups today are structured around either independent contractor relationships, physician employees or owner-partner physicians.

Evaluating the benefits and drawbacks of each approach within the context of the group's needs and circumstances is key to selecting the most appropriate business model. That said, emergency groups that follow the physician ownership path typically enjoy the widest range of advantages over the long-term.

With a properly structured physician owned group, individual physician incentives and group mission are aligned, workforce stability is maximized, and continuity in hospital relationships is enhanced. Given the complexities associated with this approach, however, many physicians elect to enlist qualified third-party practice managers and billing vendors to assist in establishing and operating the business.

## THE INDEPENDENT CONTRACTOR MODEL

An independent group contracting with sole-proprietor physicians offers perhaps the simplest and fastest way to get a newly independent practice off the ground. On the plus side, contracting eliminates the need for creating payroll and benefits packages and therefore reduces administrative overhead.

Paying physicians an hourly rate on a contractual basis also gives practices the flexibility needed to quickly adjust staffing to meet changes in patient volume. In many markets, physicians can be drawn from a large pool of full- or part-time contractors. These contractors can include highly qualified general practitioners seeking to augment their practice income with periodic ED shift work.

The downside of using independent contractors is that there are no built-in incentives for motivating physicians to help optimize collections through more effective documentation and coding. This reality presents a significant and chronic impediment to improving financial performance in an increasingly difficult marketplace.

In addition, drawing from a large pool of physicians to meet various shift requirements may undermine care team continuity in the emergency department. It can also create a perception of instability among the hospital and medical staff. A "revolving door" of new or infrequently seen faces through the emergency room may undercut confidence in emergency services among hospital administrators and referring internists and specialists.

## EMPLOYED PHYSICIANS

Hiring physicians as full-time group employees represents the second primary business model for emergency groups. Benefits of this approach include greater workforce stability and improved care continuity. With this model, group owners are not required to share profits and can focus on attracting and retaining the best talent through appropriate compensation and benefits packages. Employed status is attractive to many physicians because it provides a stable work environment with a steady income. It also eliminates the risks and responsibilities associated with equity ownership.

Like contractors, however, employed physicians are not necessarily incentivized to support revenue cycle optimization. And while they may be more receptive to coding and documentation education than contractors, they are nonetheless susceptible to an "hourly worker" mentality that may inhibit a shared and aggressive commitment to organizational goals.

In addition, groups that adopt the employed physician model -- unlike those who use independent contractors -- must support a range of administrative functions, including withholding, salary and benefits administration. This increases practice overhead as well as practice manager responsibilities.

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## PHYSICIAN OWNERSHIP

The most significant benefit for emergency groups that form around a physician ownership model is that individual goals are aligned with practice goals. Physicians are more likely to sustain a commitment to optimizing collections and providing outstanding service if they are financially incentivized to do so. Likewise, enlisting physician involvement in hospital-driven initiatives like practice benchmarking becomes easier if doctors understand that they'll benefit -- directly or indirectly -- from the effort.

Because the group's survival and success ultimately depends on maintaining the hospital contract, anything that supports a commitment to improving the group's relationship with the hospital and the medical staff is a plus. With equity ownership, physicians are more inclined to take a pro-active role in accomplishing this, whether through involvement in hospital committees or by leading quality assurance initiatives.

Similarly, an equity ownership structure can promote practice strength by helping foster constructive, long-term working relationships between the stable group of owner-physicians and the referring medical staff.

It should be noted that the downside of physician ownership, at least in the initial stages, is not insignificant. Creating a shareholding organization, be it a partnership, corporation or Limited Liability Corporation (LLC), is a complex task that requires considerable time and resources. A fair compensation structure that can take into account different levels of productivity must be developed. In addition, methodologies need to be established for buying in and buying out of the practice. The process also includes meeting many of the administrative responsibilities associated with the employed physician model.

## QUALIFIED ASSISTANCE

It is unlikely that most physicians have the skills, background or inclination needed to independently establish and maintain a physician owned organization. That's why it is important for groups to identify a trusted third-party provider that can assist in this process.

Beyond helping with the legal creation of the new entity and the tasks associated with that process -- establishing bylaws, setting up compensation mechanisms and benefits, shopping insurance and the like -- a qualified consultant should be able to provide assistance in negotiating managed care and hospital contracts. In addition, outsourcing the coding and billing process to an experienced billing provider will help ensure optimal reimbursement and consistent cash flow over the long-term.

## IMPROVED INCOME, STRONGER RELATIONSHIPS

The physician ownership business model for independent emergency practices is unquestionably more complex than the alternatives. It nonetheless provides physicians with the greatest potential for income growth and long-term independence and stability. Perhaps most importantly, it fosters an environment conducive to positive, stable hospital relations. Given the current market trends of diminishing reimbursements, increasing ED volume and growing competition from national emergency staffing firms, this arguably is the most compelling reason to pursue a physician ownership model, provided that the group can align with an experienced and qualified third-party.

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**James B. Wade, CPA**, specializes in providing financial and practice management services to medical practices and physicians. He is a magna cum laude graduate of Mississippi State University with a degree in accounting. Mr. Wade is a former senior tax accountant with KPMG Peat Marwick in the Jackson, Mississippi office and senior tax accountant with a Fortune 500 company. He later joined a national medical management and consulting firm and served as regional client services manager. During his career in healthcare, Mr. Wade has worked with a wide variety of medical practices throughout Tennessee, Mississippi and Louisiana. Mr. Wade has experience in corporate tax planning, practice mergers, practice valuations, contract negotiations, billing, accounts receivable management, and ongoing medical practice management. He began his career with MMP in September 1996 and serves as a Director of Practice Management for the East Region.

## About MMP

Based in Chattanooga, Tennessee, MMP has more than 80 offices and 2,000 employees nationwide. Founded in 1993, MMP serves more than 3,000 hospital-based physicians across the nation and boasts the highest client retention rate in the industry.

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