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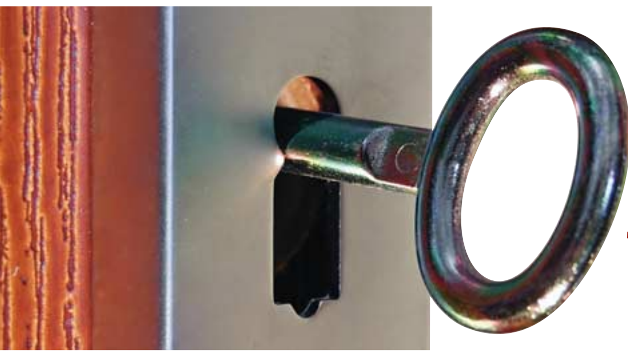

Creating Greater ASC Efficiencies with Turnkey Operations

By Jennifer Schraag

The demands of running an outpatient surgical facility — or any of today's healthcare facilities, for that matter — requires a lot of sweat and tears. Time is sparse and niche qualities among physician owners can only go so far. Exploring the vast world of turnkey opportunities and providers for complete operational management or piecemeal outsourcing may be the answer your center is looking for.

In the 1990s, outsourcing became "the" hot trend throughout every business sector imaginable. Today, it hasn't wavered much and in niche healthcare such as the ambulatory surgery center (ASC) industry, it's as hot as ever. With high turnover rates, staffing issues, and an uncertain reimbursement scenario, any physician-owner is left scrambling for a moment's peace. At the end of their surgical day, the mere thought of operations management and the ensuing mountains of paperwork it entails can leave even the most dedicated workaholic stumbling from exhaustion.

"Physician owners, as we say, have patient-care 'day jobs' that go well into evenings and weekends," explains Justine B. Corday, chief development officer of Physicians Health Resources (PHR). "Administrators have the same challenge in managing day-to-day center activities, and their strengths may be far greater in *either* clinical *or* business functions," she points out.

Robert J. Carrera, president of Pinnacle III, agrees, pointing out that typically physician owners and their administrators are not only busy with the surgical practice, but the daily management of their medical practice as well. He says they often are unlikely able to allocate the time required to oversee the details of also running a surgery center.

In addition to that, the skill sets for management, credit and collections, monitoring cost per case, and benchmarking all are different knowledge sets that one center administrator or a busy physician typically does not have at their disposal, adds Robert J. Zasa, FACMPE, MSHHA, partner of Woodrum/ASD. "The profit improvement is very often demonstrated when professional management is able to be added to the mix," he says. "This is particularly true for multi-specialty surgery centers given the complexity of that type of center with all of the different specialties, different kinds of equipment, and the complexity of having multiple owners vs. a few."

Carrie Dickerson, senior vice president of Nueterra Healthcare notes that a management company can better help a center develop a business plan, implement the plan, and benchmark key areas for higher clinical and profitable outcomes. "The focus and follow thru that a business plan requires can demand an incredible amount of resources and time that physicians and administrators often don't have available to them," she notes.

An effective management company can also supplement daily supervision in areas of organization, strategic, financial, and operational planning. "Complete operational management — provided it consists of more than a bundle of specialized pieces — offers strategic direction in addition to specific tactical skills," Corday explains. "At best, it effectively organizes and channels clinical and business know-how to meet regulatory, functional, quality, and financial targets in a productive timeframe."

Zasa says complete services are beneficial because a total integrated system of management with checks and balances can be installed. "This way nothing is missing and all of the pieces are coordinated with each other," he says. "On development of turnkey set-up, there are usually not too many pitfalls of a complete operational management piece vs. piecemeal; however, the only problem occurs if the firm is not strong in all the areas. This is where we see most outsourcing occur. Oftentimes, a nurse is hired for policy and procedures and then business people are hired for other parts. Sometimes, there is a disconnect since the clinical performance issues are not reflected in the budget nor in the financial operations nor in the business and employee benefit package for performance review. This is where the integration is beneficial. All of the parts are interlocking and it helps when it is done with a complete operational management packet."

Rob McCarville, MPA, principal of Springfield, Mo.-based Medical Consulting Group, LLC, explains that for the ASC client, the advantage of turnkey services is that you can expect a higher level of accountability for the success of the project along with a sole source solution. He also points out the piecemeal outsourcing is very difficult to manage and requires someone on site to coordinate all services — usually adding extra stress to an already busy administrator.

Dickerson agrees, adding, "Often times when a facility outsources pieces of their operation to independent vendors, those vendors are not specialized in ASC operations and can be less efficient and usually more expensive in the long run."

Of course, nothing is perfect and pitfalls can occur when using turnkey services. For example, Corday says each "case" has its individual needs and not every management company will necessarily be able to address all of them in the way a center may require or expect. "A management company can offer proven approaches that address recurrent needs and challenges, tailored to a particular venture's interests and resources. It cannot and should not purport to deliver 'one-size-fits-all' shelf plans, policies and procedures, systems, and supervision," she explains.

Pricing for turnkey services vary greatly throughout the industry. McCarville says generally, a turnkey firm will be more price competitive than a piecemeal job because they are getting all of the work. Most turnkey firms will give you a "flat fee" for the project regardless of the time needed to complete the task.

PHR offers fixed fee arrangements, typically structured around performance targets, mirroring fee-for-service healthcare, explains Corday. "Additionally, we often find that owners are more comfortable with hourly fee structures, perceiving that these offer more control on total costs or scope of commitment, so we're agreeable to this approach, too. Ultimately, 'as requested' activities may accrue to higher payments, but they allow a venture to involve a management company as a consultant, much as attorneys and accountants are involved, rather than as an extra investing or non-investing partner."

Corday continues, "PHR recognizes that participants in different ventures have varying interests and experience, so we offer both comprehensive management contracts, for varying terms, and 'a la carte' services and we're willing to transition from one approach to the other to continue adding value. The complete services approach is most helpful in earlier-stage operations, before a stable positive cash flow situation is achieved and accreditation and contracting targets are met."

Pinnacle III offers three services: pro forma, operational development, and day-to-day management. "There are economies of scale when one provider is performing and responsible for all the services," Carrera says. "The advantage for Pinnacle III clients is that they have a choice. Pinnacle III can simply develop their center and hand them the keys to continue managing the center on their own, or if they want us to stay on as their management company, we can do that as well. Again, this speaks to our flexibility with our clients, allowing them to decide what their needs are."

Woodrum/ASD package prices all the services that it delivers. "We do not typically do these programs on a hourly basis since the hours are so hard to keep track of and it's not financially feasible for our clients," Zasa says. "The services are set on an up-front basis and then if other services are added, again a flat rate is determined for those services in order that they are paid. Payment is done as the work occurs, so if there needs to be termination of services, the client has not paid more than the services that have been performed for them. The advantages: everybody knows the price up front and it can be budgeted."

The trends in outsourcing and acquiring turnkey sources have shifted slightly over the past several years. Dickerson says there has been an increase in the number of facilities looking to a management company in assisting the physician partners in navigating the mine fields of complex employee issues and relations, government regulations, and billing/managed care issues. They also are looking for a

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Chief Development Officer, Physicians Health Resources

management company to assist in increasing the center's operational efficiencies to increase profitability and assistance in obtaining accreditation, she notes.

Zasa says he sees a lot more outsourcing of patient satisfaction and CPT coding, as well as risk management occurring at surgery centers.

"We see substantially more interest in single-specialty centers with fewer investors, often with contiguous physician offices," Corday adds. "These owners typically have less need for or inclination to seek turnkey management arrangements, but place a premium on access to expertise in all areas of health services planning and operations, from the tactical to the strategic."

Corday continues, "If a venture looks for a management company that will look ahead to identify key decisions, distill choices and their attendant implications and actions well, and be willing to make recommendations, its chances of effective, local governance, and control are maximized. A management company also can serve as an accessible, savvy resource for highlighting, navigating, and negotiating activities that are outside the scope of daily administration."

Administration has to work closely with the "hired hand" to ensure ease of operations. Also, the management company and the center must share the same philosophy on managing all aspects of the center, Carrera notes. "Open communication is vital," he says, adding, "The center should also look for depth of resources within the management company."

Dickerson agrees, "The communication between both parties should be open, honest, and direct and from the beginning. There should be formal processes established which outline effective channels for communication acceptable to both parties. Also, a clear definition of the roles and responsibilities of the management company and physician partners should be outlined from the beginning."

Resistance is often found when it comes time for a center to "give up the keys" and allow a management company to work its magic. Zasa says such resistance is more notably apparent in the small single-specialty centers owned by a few physicians.

Sometimes the most resistance involves the perception of having to do just that — give up the keys — no matter the size of the center. Rest easy, because as Corday points out, "Realistically, a center legally must and does retain its rights to governance control of a venture. These concerns are minimized when a management company is an ally in building a strong board and when its contract length and terms are compatible with investors' goals for financial returns."

Dickerson says Nueterra often finds that physicians are concerned about losing control when they work with a management company, especially in the decision making processes that include equipment purchases, quality of care, and clinical processes. "However, a physician will often realize a higher level of control with a management company as a partner," she says. "This is because they have the ability to oversee the center from a strategic level vs. getting bogged down in the detailed tasks it takes to manage a center on a daily basis. Physicians should hold the management team accountable for the business plan with specific initiatives and measurable goals which allows a higher level of control to the physician partners."

The fear of losing control and a lack of trust are two of the biggest points of resistance management companies face. This makes it essential that the management company and the center owners "partner together" on all levels, says Carrera, adding, "The management company must be trustworthy, resourceful, and action oriented, allowing business owners the confidence to safely surrender responsibility."

Differences in a joint venture (JV) center vs. a physician-owned center when acquiring turnkey services also should be considered. Dickerson says the dynamics of the two vary with the biggest differences being the board of managers' membership and functions, the decision making process, the structure of the partnership, and licensure and certification issues.

"These centers operate very differently from one another," adds Zasa. "The former is much more complex to develop and to manage. It takes longer to deal with multiple physicians and all of the different specialties. The costs are extremely different and the reimbursements are varied by specialties as well — particularly in joint ventures, which typically tend to be multi-specialty."

Corday says the JVs benefit fuller, appropriate use of various community healthcare resources, yet at the same time, they involve blending inherently different emphases and investment objectives. "This is a case where a management company can be especially helpful as an ambassador in bridging and balancing interests to enable a center to meet its unique and independent performance goals."

Another aspect to consider in a JV is that a development/ management company is serving two masters. Carrera says it is "vitally important" that the development/management company represents both parties' interests, and act on the side of what is best for the center.

Legal and governmental affairs are lurking around every center's corner and play an integral role in the operations of the center. Working with a good turkey services provider will keep the center appraised of all legislative and regulatory updates, as well as provide services that help with regulatory issues, accreditation, and even provide representation on Capitol Hill.

"Whether part of a comprehensive or a selected services management package, a management company can offer significant help in coordinating compliance with legal and regulatory requirements and participating in legislative initiatives," Corday affirms. "Day-to-day operational needs limit availability of center administrators for these tasks and for accreditation and other voluntary quality improvement activities, so the knowledge, experience, and perspective of a management company can extend resources significantly."

Dickerson says Nueterra is often involved in helping on a state and federal level in advocating for ASC legislation. She also points out that a management company should provide an effective compliance program to their centers to comply with all applicable Office of Inspector General (OIG), Health Care for All (HCFA), and state regulations.

Overall, a shared philosophy on center operations is critical, Zasa says. "Good management companies have an extensive track record of honesty and integrity," he adds. "The key is for a management company to 'fit' its management techniques with each unique ASC ownership and administration. The management company must be effective in performing its management duties in light of these unique attributes of the individual surgery centers it manages." ❑