Corporate Investors

The AMA monitors consolidation among a variety of health care entities, including consolidation involving physician practices. While the extent of corporate investment in physician practices is not known, growing numbers of physicians are employed by corporations such as hospitals, health systems, and insurers. Increasingly, private equity firms have acquired majority and/or controlling interests in entities that manage physician practices.

There is little peer-reviewed evidence regarding the impact of corporate investors on physicians, patients or health care prices. That said, there are risks and benefits of partnering with any corporate investor, including a private equity firm. Risks include loss of control over the physician practice and its future and future revenues; loss of autonomy in decision-making; an emphasis on profit or meeting financial goals; potential conflicts of interest; and workplace uncertainties for non-owner physicians. Benefits include financially lucrative deals for physicians looking to exit ownership of their practices; access to capital for practice expenses or expansions; potentially fewer administrative burdens on physicians; and centralized resources for functions such as IT, marketing or human resources.

Private equity investment

Private equity firms, which acquire equity in businesses with funds from private investors, vary in terms of size, structure, business model and investment thesis. Venture capital is typically used to invest in emerging or early stage businesses such as start-ups. Buyout or leveraged buyout firms typically invest in mature or later-stage businesses, often taking a controlling interest.

Because many private equity transactions are not disclosed (the use of nondisclosure agreements is common), the degree of investment in physician practices, while believed to be small overall, cannot be precisely determined. That said, physician practices are being acquired with some regularity, affecting a range of medical specialties.

Private equity investment in dermatology, radiology, anesthesiology, urology, gastroenterology, cardiology, radiology and ophthalmology practices, among other specialties, has garnered considerable attention. Hospitals, academic medical centers, large multispecialty groups, and corporate buyers frequently compete with private equity firms for the same physician practice targets. Corporate buyers may also partner with private equity investors or form consortia of buyers to acquire highly sought-after practices.

Concerns regarding private equity investors have largely centered on the potential for subsequent increases in prices, service volume and internal referrals, as well as the use of unsupervised non-physician providers. Importantly, corporate investors are not all the same and can differ significantly in terms of their business models, culture and leadership.

Corporate practice of medicine

The term “corporate practice of medicine” encompasses complex legal issues that may mean different things to different people and vary widely by state. The corporate practice of medicine can, for example, prohibit a lay corporation from practicing medicine or employing physicians, or prohibit non-physicians or lay organizations from having an ownership interest in a physician practice. The doctrine is based on concerns that: (1) allowing corporations to practice medicine or employ physicians will result in the commercialization of the practice of medicine; (2) a corporation’s obligation to its shareholders may not align with a physician’s obligations to his or her patients; and (3) employment of a physician by a corporation may interfere with the physician’s independent medical judgement.

As delivery systems and physician employment arrangements have evolved over the years, so too has the corporate practice of medicine doctrine. The health care environment is shifting toward increased integration of care, with growth in both the number of employed physicians and acquisitions of physician practices.

Issues to consider

Physicians who are contemplating corporate investor partnerships should consider the following guidelines:

- Physicians should think about how the practice's current mission, vision, and long-term goals align with those of the corporate investor.
- Due diligence should be conducted that includes, at minimum, review of the corporate investor's business model, strategic plan, leadership and governance, and culture.
- External legal, accounting and/or business counsels should be obtained to advise during the exploration and negotiation of corporate investor transactions.
- Retaining negotiators to advocate for best interests of the practice and its employees should be considered.
- Physicians should consider whether and how corporate investor partnerships may require physicians to cede varying degrees of control over practice decision-making and day-to-day management.
- Physicians should consider the potential impact of corporate investor partnerships on physician and practice employee satisfaction and future physician recruitment.
- Physicians should have a clear understanding of compensation agreements, mechanisms for conflict resolution, processes for exiting corporate investor partnerships, and application of restrictive covenants.
- Physicians should consider corporate investor processes for medical staff representation on the board of directors and medical staff leadership selection.
- Physicians should retain responsibility for clinical governance, patient welfare and outcomes, physician clinical autonomy, and physician due process under corporate investor partnerships.

The following resources may help physicians navigate venture capital and private equity investment opportunities and, if desirable, negotiate terms that reflect the practice's goals and preferences:

- ✓ a Snapshot resource outlining strategic considerations;
- ✓ a Model Checklist; and
- ✓ Contractual Guide.

Where the AMA stands

- The AMA maintains a leadership role that is uniting and supportive of all physicians and care delivery models, including practice arrangements involving corporate investors.

- Physicians have the right to enter into whatever contractual arrangements they deem desirable and necessary but should be aware of potential conflicts of interest due to the use of financial incentives in the management of medical care.

- Safeguarding patient-centered care, clinical governance and physician autonomy should be of paramount importance to all physician practices, including those with corporate investors.

- The AMA supports improved transparency regarding corporate investment in physician practices and subsequent changes in health care prices. The lack of complete and accurate information may prevent health care markets from operating efficiently and preclude patients from making informed decisions regarding low-cost, high-value care.

- The AMA opposes federal legislation preempting state laws prohibiting the corporate practice of medicine.

- When a private medical practice is purchased by corporate entities, patients should be informed of the ownership arrangement by the corporate entities and/or the physician.

The AMA Council on Medical Service studies and evaluates the social and economic aspects of medical care and recommends policies on these issues to the AMA House of Delegates. Relevant Council on Medical Service reports include:

- Council Report 11-A-19, Corporate Investors
- Council Report 6-I-13, The Corporate Practice of Medicine

For more information on the corporate practice of medicine, see an Issue Brief prepared by the AMA Advocacy Resource Center.