

The Physician Employment Model: Keys to Success

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Introduction

Nearly every hospital is building a network of employed specialty physicians or is seriously considering it. There is no guarantee, however, that the strategy will be successful for the hospital or for the physicians. As you move down this path, consider these nine important points:

1. Selection

Employment is an expensive strategy. Poor hiring decisions significantly increase the cost. Turnover cost is at least \$200,000 for a single primary care physician and much higher for some specialties. Given the cost of turnover, the work that goes into finding a candidate and the trauma caused by a physician's departure, it makes sense to use all the tools and information available to make the right decision the first time.

The number one reason that a physician leaves a group is poor cultural fit. It's impossible, however, to determine a candidate's compatibility with your organization unless you have defined the specific demands of the position, competencies and work-style required for success. Other industries rely on sophisticated selection tools and processes when making important hiring decisions. Similar tools, designed specifically for healthcare, provide insight into leadership potential, the ability to collaborate, how the candidate will respond to stress, the degree of fit between physician and hospital, and the ability to manage the workload. These tools benefit the candidate by helping to identify the best cultural fit and work situation. The information is also useful to hospital and physician leaders who must mentor and manage these high-profile, valuable employees.

2. Define Goals

The 'partnership' between employed physicians and the hospital is often surprisingly dysfunctional, even several years into the relationship. Hospital leadership often fails to define specific goals and then wonders why the employed group is not moving in the desired direction. Eliminating the competition should not be the sole rationale behind the partnership. Establish the goals, objectives and vision for the practice, and make sure these are in line with the hospital's service line strategy. The following important questions should be answered:

Do you hope to:

- Increase market share or establish a certain market position?

- Build an Accountable Care Organization?
- Implement progressive care delivery models?
- Meet certain community service needs?

3. Ongoing Physician Engagement

Successfully recruiting a physician and inking the employment agreement does not guarantee success. Employment merely defines a business relationship. It does not afford complete control. It does not ensure long-term improvements in care, profitability or volume and market share. Real work is required to engage physicians in achieving common goals.

Engagement strategies should include:

- Operational initiatives aimed at improving physician performance and productivity
- Creating substantive program leadership responsibilities, and
- Including physicians in molding service line strategies

4. Compensation and Performance

Effective compensation methodology ensures trust, increases retention and establishes the culture of the employed group. Compensation should be based, as much as possible, on productivity. Consider bonuses tied to quality indicators, patient satisfaction and adherence to evidence-based medicine. Take a progressive approach to understanding and improving physician performance and implement a performance tool looking at:

- Performance metrics (revenue, patient volumes, RVUs, outcomes and patient satisfaction)
- Motivational factors (individual goals, satisfiers and motivators)
- Situational constraints that can be addressed (lack of operating room time, operating room team performance, clinic inefficiencies and market volume opportunity)

5. Physician Leadership

Establish an organizational structure for the employed physician practice. Involve physicians in governance and in determining the strategic direction. Create physician accountability for success. Include both practice and service line leadership responsibilities in the employment agreement and tie compensation of administrators and leaders to outcomes such as patient satisfaction, growth and recruitment goals, and patient safety.

6. Practice Management

Hospitals rarely possess the knowledge and tools to manage specialty physician practices. Engage experts to set up and run the practice. It is well worth the investment. Do not use hospital revenue cycle management for the professional practice revenue or otherwise bury physician practice economics in the service line financial reporting structure. Financial performance of the practice must be understood, benchmarked and maximized. As much as possible, maintain a private practice culture.

7. Legal Concerns

Physician employment creates highly compensated individuals with the many rights and privileges allocated to 'employees' under federal and state laws. There may be FMLA or other benefit issues. Discrimination damages can be significantly larger than what hospitals are accustomed to. A Texas jury recently awarded more than \$3.6 million to an employed physician who claimed that he was forced to resign after race-based comments from another physician. Another concern – traditionally privileged peer review information may lose its protection when it is evidence in an employment discrimination case. These, and other employment law matters, need to be considered before hiring physicians.¹

8. How to Pitch the Idea

Although less of an issue than a few years ago, hospitals must understand that some independent physicians will not take kindly to a proposal to take over their business and make them employees. Ideally, frank discussions about common issues and challenges will help physicians understand that employment is a viable option. Similarly, starting down this path in certain markets will create unease among the independent medical staff. It is usually unwise to use employment as an obvious and aggressive strategy to eliminate independent physicians as competition. Whenever possible, maintain a positive relationship through open lines of communication and efforts that support the success of independent groups.

9. Recruitment

Obviously, these suggestions are wasted if you fail to attract and hire the right candidates in the first place. The imbalance between the supply of physicians and the demand will only worsen. Success will require a new, more deliberate, coordinated approach to recruitment. Although critical, compensation is not the primary driver in a candidate's decision. Location is number one, followed by family considerations, the practice setting and group dynamics.

The number one reason for leaving a practice is poor cultural fit, so it is of the utmost importance to know if the candidate will

thrive in your work environment. From a recruiting perspective, there is a significant opportunity to sell the candidate on the culture of the group and hospital.

One of the truest statements in recruiting is that 'A Players' want to work with other 'A Players' in a challenging and high-performing work environment. If you do not already have a clear, strong vision for where you are heading, develop one and then build your recruiting strategy around hiring physicians who will make it happen.

Now you are ready to craft a clear recruiting message defining the work situation and what you are looking for in a candidate. In particular, less experienced candidates need certainty, as they often have vague expectations. Paint a clear picture for the candidate about hours, locations, responsibilities and the practice-building plan. It is not uncommon for a physician and hospital to miss the 'clear expectations' mark by as much as 200% when it comes to clarifying expected productivity and volumes, administrative roles, patient care parameters, career path options, leadership and interpersonal style. While these are the most common reasons why physician employment fails, they are easy to avoid if the right questions are asked.

Even groups with a good culture and work environment often fail to communicate a clear, positive message about the practice's goals and the vision for the candidate. Top performers want to be part of a great vision. They want to be challenged and know that their employer is a thought leader, is progressive and has cutting-edge ideas. Don't underestimate the value of the interviewing process. Develop and train a core group of interviewers and use your most convincing physicians to honestly 'sell' your organization.

Conclusion

It is estimated that, in the near future, 50% or more of the physician workforce will be employed by hospitals or large groups. This wave of employment, however, has gotten ahead of an appreciation of the implications. Employment models have the potential to better align goals and to enhance our ability to coordinate care and reduce costs. There will undoubtedly be growing pains, but those **organizations that deploy deliberate strategies to build their medical staff through careful selection, creative recruiting, setting clear expectations, an understanding of the potential legal pitfalls and the variables that impact physician performance will be positioned to succeed.**

¹ Our strategic partner, Ogletree-Deakins, specializes in the legal issues surrounding physician employment.

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