5 Best Practices for Hospital Employment of Physicians

Written by Lindsey Dunn | July 23, 2010

Hospital employment of physicians has become increasingly popular in recent years and is only expected to continue. Most industry leaders predict that reimbursement will increasingly favor quality over quantity, and organizations most poised to profit under this type of system are those that are part of integrated delivery systems or other similar arrangements.

While integrated delivery systems can take many forms, employment of non-hospital based physicians is one of the more common ways hospitals and health systems are choosing to align with physician groups. Although similar efforts failed in the 1990s due to hospitals financially over committing to these acquisitions, the employment practices today are markedly different than those of 20 years ago, and many say, better positioned for success.

Hospitals employ physicians for a variety of reasons, such as growing market share through referrals or ensuring access to services in areas where physician recruitment is difficult. While the reasons behind employment differ, many of the best practices for successful hospital-owned practices are actually quite similar.

1. Maintain the culture of private practice. Successful hospital-owned practices maintain the culture of accountability that exists in independent practices. Northwestern Memorial Physicians Group, the subsidiary physician group of Northwestern Memorial Hospital in Chicago, has been in place for more than 15 years, and now employs more than 100 physicians and other mid-level providers, most of them primary care providers. Daniel Derman, MD, president of NMPG, says that the group's success has been due largely to physician's involvement in the strategic direction of the practice, beginning from the group's onset. "I think our practice very closely mirrors private practice," he says. "We took the best of private practice and rolled it into hospital ownership."

Summa Health System in Akron, Ohio, has been employing physicians since 2005 and currently is home to more than 240 physicians in 30 specialties. Summa's vice president of physician alignment and president of Summa Physicians Inc., Clifford Deveny, MD, says that when employing various specialists, respecting the unique cultures of different groups is an important part of maintaining the private practice mindset. "We respect the cultures of the different groups rather than transferring them into a sterile way of doing things," he says. "Respect the cultures of groups already in existence, or if you're starting an entirely new group, let [the culture] develop naturally." While the hospital requires some standardization of processes, such as front desk check-in, it defers to the practice's way of doing things in many other areas.

So what does maintaining the private practice culture entail? In a nutshell it means letting physicians maintain control, which may include involving them in governance and operations and allowing them to be the drivers of their compensation.

2. Involve physicians in governance. Giving physicians some control over the governance and strategic direction of the practice holds physicians accountable for the success of the practice, rather than relying on the hospital to make it successful.

NMPG has a separate board which includes three representatives from the physician practice group (its president, medical director and one other physician) and four hospital representatives, which allows the physician leaders of the practice to weigh in on the strategic direction of the group as well as its day-to-day operations. NMPG's approach to physician involvement in governance seems successful — the practice has experienced very little turnover among its physicians, and nearly 75 percent of its original management remains in place.

Kevin McCune, MD, chief medical officer and vice president of medical management at Advocate Medical Group, the 800-physician group practice of Oakbrook, Ill.-based Advocate Health Care, says that its physicians are actively involved in the group's governing council as well as the five committees that report to the council, which oversee health outcomes, strategic planning, finance, compensation and physician engagement. "Our structure is based on the idea that we need the support of physicians, and their support is ultimately in the best interest of Advocate," he says. "It's a very collaborative process with the administrative team working with physicians."

3. Productivity-based compensation. Employed physician compensation should be based, in part, on productivity or other outcomes to ensure physicians earn their keep. Hospital should avoid providing high salaries with little accountability — a major mistake hospitals made when employing physicians in the '90s.

Most successful employed physician compensation models include a formula based on productivity. They no longer include large signing bonuses or goodwill payments, as was common in the past. "Handing someone money doesn't mean you gain their loyalty," says Dr. Deveny.

Summa provides its physicians at base salary of 85 percent of the national median for compensation by specialty based on benchmarks provided the Medical Group Management Association in return for the physician generating work relative value units (RVUs) equal to the national median annual RVUs for physicians in the specialty. Physicians with more RVUs earn bonuses, and those below it risk a 10 percent decrease of their base salary, among other sanctions. This method uses both a "carrot and stick" approach, meaning contracts include provisions to reward productive physicians but also include language that reduces compensation for physicians who do not meet contract obligations.

Other systems have similar arrangements. Northwestern's employed physicians use an "eat what you treat" formula, but NMPG bases compensation on true receipts rather than RVUs, says Dr. Derman. Physician contracts provide a minimum base salary in return for a minimum number of hours work, and provide bonuses for additional productivity. Northwestern requires 36 hours of direct patient contact as a minimum. Bonus programs don't have to be huge to be effective either; often as little as 10 percent of total compensation is enough to drive physicians toward desired behaviors, sources say.

While most hospital-owned practices currently only provide bonus opportunities for productivity, the next iteration of compensation packages is likely to include bonus opportunities for quality indicators, such as readmission rates, patient satisfaction and adherence to evidence-based medicine. Advocate Health Care already provides bonus opportunities for high patient satisfaction scores. Physicians who are rated in the top quartile of all physicians for patient satisfaction receive a bonus. Seventy percent of Advocate physicians score in the top quartile and one-third score in the top 5 percent. The health system also has incorporated

measures for quality and efficiency into its compensation structure through its nationally recognized clinical integration program, says Dr. McCune.

4. Dedicated Management team. Successful physician-owned practices often have dedicated practice managers. Dr. McCune says that a great deal of AMG's success is due to having its own dedicated management team, including its own CFO, COO, business development executives and human resources department. "We're not a hospital that's running physician practices," he says. "Our team understands the nuances of managing physician practices and managing their needs."

Practices should also consider tying the compensation of their administrative and physician leaders to outcomes. For example, Dr. McCune says that 15-20 percent of his pay is determined by meeting certain measurable targets, such as certain patient satisfaction scores, growth and recruitment goals and patient safety event reporting.

5. Clear and transparent objectives. Finally, hospitals should define the goals and objectives for their practices to ensure they perform as desired, says Dr. Derman. Because primary care practices often lose money, defining goals beyond those purely related to direct practice revenue is critical for these practices to be successful. "Is the goal to increase market share by having a group of captive physicians, or is it to get ready for an ACO?" says Dr. Derman. Leaders may need to educate board members about the losses a practice may incur, while countering that these losses can be made up by downstream revenue or shared savings due to better coordinated care, depending on the goal. Then, specific objectives can be outlined for the practices on how progress toward the goal of "better coordinated care," for example, will be measured.

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- The Greeley Guide to Physician Employment and Contracting
- Physician Practice Start-up Guide
- Physician Recruitment & Employment: A Complete Reference Guide