Employed Specialists: Is It The Right Service Line Strategy?

White Paper Prepared and Presented By

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In 2006, 19% of Accelero Health Partner hospitals employed at least one musculoskeletal surgeon. In 2008, it had increased to 50%. By the end of 2009, in upwards of 60% of our partners will have employed surgeons on the medical staff. This trend raises two obvious questions: First, why the increase? Secondly, is this strategy right for your hospital?

Why the Increase?

In recent years hospitals are more inclined to employ specialists, and more physicians are seeking employment. For hospital leadership, employing physicians often appears to be a simple solution to its physician engagement challenges. It can provide more control over, and alignment with, the medical staff, ensure patient volumes for the hospital, and resolve challenging emergency department call situations. For the physician, the business of practicing medicine is more challenging than ever. Work-life balance, declining reimbursement, and the pressures of running a practice, including increased overhead and malpractice costs, force some physicians to consider the relative security of employment.

Is it the Right Strategy?

While the benefits may seem obvious, several complex variables must be considered in determing whether employing physicians is the right strategy for a given situation. Even when employment is the right strategy, implementation can be a challenge and service line success is not guaranteed. In other situations, service line objectives can be met without the cost, and risk, of employing surgeons. The following examples illustrate the pros and cons of an employed physician strategy.

Combating Physician Competing Interests – The hospital's primary group of orthopaedic surgeons opened a competing facility. The hospital did not want the legal and political repercussions of an economic credentialing policy, but it did not want to tie the success of its musculoskeletal service line too closely to this competing group (a group that was not historically well-integrated or aligned with the hospital) The hospital chose to recruit surgeons and employ its own four person group. While surgical volumes declined for a brief period, disciplined service line management made up for any loss by improving the per case financial performance. Over the next two years, the hospital successfully built the employed practice, focusing on referral source relationships and ensuring a well-run, patient friendly practice. The employed group and the hospital service line continue to thrive.

Abandoning an Adversarial Approach - The hospital had a strong orthopaedic program for several decades, built around a single independent and loyal group of six surgeons. When a dispute arose about a non-competition clause in their joint venture surgery center, litigation ensued. The hospital decided to, build an employed practice to compete aggressively against the independent group. The problem? The six independent surgeons performed over 2,000 surgical cases annually at the hospital. The two new, highly paid employed surgeons were not nearly as productive, and the referral base still preferred the familiar independent group. The solution? Attempt to integrate both the independent and employed surgeons into the service line. Emphasizing operational strategies to meet the needs of both, the hospital set about building a service line that captured enough volume to satisfy all participating physicians. Over time, however, the employed group did not last. The hospital and independent physicians have abandoned their adversarial positions and are working on a number of collaborative strategies. The hospital has not ruled out future employment of certain specialties if the independent group chooses not to meet the need of the program or the community.

Alternatives to Employment -- One hospital in a six hospital system had employed all of its musculoskeletal surgeons. The model met the needs of the hospital and the surgeons. Not surprisingly, the system soon encouraged its other hospitals to explore the strategy of what it termed an "integrated delivery model" i.e. employment of all specialists. The initial hospital, however, was geographically isolated with little competition, had a limited number of commercial payors and only a few small groups of specialists, each with an incentive to seek employment. Other institutions within the system were located in more competitive markets, with diverse medical staffs made up of large, successful physician practices. As expected, these groups did not respond well to the system's advances about employment. The conversation was eventually re-directed to

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other methods of "integrating" the physicians. These included operational integration of the physicians into the service line efforts which improved the physicians' competitive position in the market, various contractual and joint venture relationships, and physician service line leadership positions providing them a voice in decisions that affect their specialty..

Employment Does Not Ensure Hospital/Physician Alignment

Hospitals often mistakenly believe that once the employment agreements are signed, the physician engagement work is done. An employment agreement does not ensure alignment between the hospital and its physicians. Nothing in the agreement guarantees that the physician's vision for the program is the same as the hospital's vision, or that his or her practice goals are closely aligned with those of the service line. Employment of specialists does not eliminate the need to deliberately and actively engage physicians. Engagement strategies should emphasize the following:

- Operational efficiencies that allow the surgeon to be productive
- A service line infrastructure to implement operational changes
- Promotion of the service line and the physicians to the community and the referral base
- Substantive service line leadership roles for physicians

Important Considerations

When exploring physician employment as a strategy, consider the following important factors:

1. Cost. Some specialty physicians are in great demand and the cost of recruiting and employing these physicians can seem staggering; particularly to a hospital that has previously only employed primary care physicians. A hospital must have realistic expectations about the financial performance of an employed group. That being said, there is no reason that a specialty practice should not be profitable.

2. Physicians may see employment as a threat to their autonomy. Physicians, particularly surgeons, place a high value on autonomy. Few went through their training with the idea of having an "employer." They generally envisioned themselves in private practice. Not surprisingly, they do not always respond well to the suggestion that they become a hospital employee. The concept should be presented in a manner that makes employment seem the solution to the physician's problems. Younger surgeons looking for early security and the ability to focus on developing their clinical abilities may be interested in employment. More seasoned surgeons may be seeking relief from pressures of the business of practicing medicine, or simply a more secure working situation near the end of their career.

3. Impact on the medical staff. As more hospitals employ specialists, physicians are concerned about the overall loss of medical staff autonomy, or the hospital's expanding control over the entire delivery system. Even when employment is the right solution for a particular physician or group, the medical staff may react negatively. Adding employed specialists must be carefully positioned and other physicians must be actively engaged with strategies that meet their needs, in order to mitigate the negative reaction.

4. Referral base relationships. Physicians make referrals based, primarily, on their relationship with specialists. The ideal situation would be to employ a physician or group that already has a good relationship with its referral base. Even here, though, work must be done to ensure that these relationships are sustained as there could be a backlash against the hospital by the the medical community. If new employed specialists are brought to the community, significant work must be done to establish relationships with referring physicians. Bear in mind, however, that primary care physicians also value autonomy and do not respond well to pressures to use certain specialists, so concerted efforts to integrate them into the service line are critical.

5. Managing the employed physicians and the service line for success. Specialty physicians, whether independent or employed, are successful because they employ strategies and tactics that make them successful. The physician practice must be managed for success. A practice manager and billing service with specialty practice experience is critical, as are a focus on customer service and deliberate referral source integration efforts. Studies have shown that the productivity of employed surgeons lags behind that of those in private practice. Employment agreements, whenever possible, should include an incentive component. It is also important to discuss, at the beginning of the relationship, the physician's volume goals and how these fit into the overall service line goals. Finally, consider including in the employment agreement, specific service line leadership and administrative responsibilities including strategic planning and quality and customer service initiatives.

Employment as a Valid Strategy

Physician-hospital collaboration is more important than ever to the overall success of the service line. Too often, however, the decision to employ surgeons is based purely on a desire for more control over the medical staff. The key to successful physician engagement is clearly defining objectives and deliberately evaluating all engagement options, including employment of specialists.

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