

# Employed Medical Groups

## Re-Engineering for the Post-Reform World

At first glance, physician employment seems like the perfect solution to the challenge of healthcare reform. Yet true hospital/physician integration remains an elusive goal, and making employment work financially is as difficult as ever. Hospitals that hope to leverage employed physicians to achieve the goals of reform need to promote a culture of collaboration and sustainability.

Physician employment has taken off faster than almost anyone predicted. Merritt Hawkins recently reported that hospital-employed positions as a percentage of all physician recruiting searches increased from 11 percent in 2004 to 45 percent in 2008. According to Towers Watson, three-quarters of all physicians changing their work sites are now moving into hospital organizations.

With thousands of physicians now under the same roof with hospitals, integrated systems should be able to hit the ground running on bold, collaborative goals. Yet strong clinical integration is something only a handful of advanced organizations are just now beginning to achieve. At the same time, hospitals still face the perennial challenges of physician employment—maximizing physician productivity and satisfaction while controlling financial losses. What's more, clinical integration itself brings new challenges, including overcoming cultural paradigms, designing physician incentives, incorporating new technology, and measuring clinical outcomes.

So, how can hospitals and their employed groups best prepare themselves for the world of clinical integration, ACOs, and other reform-driven models? The most advanced organizations are building strong cultures

of collaboration, enterprise focus, and sustainability.

### Case Study: Spectrum Health Medical Group

Spectrum Health is a not-for-profit integrated health system that operates seven hospitals in western Michigan. Throughout the last decade, the system's involvement in physician employment was fragmented, with ownership of two groups: a primary care group (consisting of approximately 40 internists, family practitioners, and obstetricians) and a pediatric subspecialty group. The arrangement was strategically justified but not financially sustainable. At one time, annual losses on the employed practice exceeded \$100,000 per physician.

Still, system leaders understood that physician employment was critical to achieving the long-term goal of greater cooperation across the continuum of care. In 2008, the system took its physician employment strategy to the next level by creating the Spectrum Health Medical Group.

In just two years, Spectrum Health Medical Group has grown to 240 physicians, including primary care physicians, a women's health group, a surgical specialty group, and an expanded

pediatric group. Spectrum Health is now in the process of incorporating a multispecialty practice and a cardiology group, which will bring the staff total to 550 physicians by late 2010.

System and group leaders have taken a number of steps to ensure that Spectrum Health Medical Group is not just an administrative umbrella but a collaborative clinical organization that is truly integrated with system goals. Key characteristics of the group include:

◆ **Unified governance.** A single board of directors establishes clinical goals and strategies for the entire group, crossing specialty boundaries and incorporating inpatient services. The board is a true physician-led body, with a board-certified internist/pediatrician currently serving as chair. Although the group is owned by Spectrum Health, it is autonomous and can vote to break away from the system.

◆ **A culture of outcomes.** To help refocus the culture on collaboration, leaders created an integrated process for service line planning that covers the full range of services—from primary care to specialty care to perioperative services. System administrators and physicians work together on joint committees to create service line strategies and

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measurable outcomes. The objective is to create a true patient longitudinal record across the continuum of care.

◆ **New care models.** As part of its transition to a clinically integrated organization, the medical group has begun implementing a medical home model of care. Primary care physicians use disease registries and other tools to ensure patients receive optimal care at every point along the healthcare spectrum, from preventive, ambulatory, and inpatient services to chronic disease management.

◆ **Financial focus.** The system's joint planning committees fold detailed cost and revenue projections into service line strategies. In addition, the group has adopted a compensation plan that includes a base salary, RVU productivity incentives, and a bonus component

tied to patient outcomes. The plan aligns providers with collaborative initiatives while reinforcing personal responsibility for financial performance.

◆ **Scalable information technology (IT) plan.** The group is implementing a technology strategy that accommodates both current practice needs and future integration requirements. Flexible electronic medical record (EMR) and health information exchange solutions are allowing the group to deploy clinical decision support systems and track measurable outcomes. The technology will help the group qualify for meaningful use incentives starting in 2011. In the long term, it will provide the infrastructure for a robust ACO.

Underlying all these initiatives is a strong emphasis on creating a care organization that delivers professional satisfaction for physicians. Leaders of the group believe years of intrusion from third-party payers and the government have robbed physicians of control over how they practice medicine. The goal of Spectrum Health Medical Group is to engage physicians by empowering them to provide the highest level of care and create an excellent patient experience.

Through its work with culture, organization, and operations, Spectrum Health Medical Group has succeeded in aligning physicians around the ideals of clinical collaboration and financial sustainability. A portfolio of revenue

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## Physician Employment: Standard Model to Next-Generation Organization

	FROM	TO
<b>Governance</b>	Specialty focus	Group/system focus
<b>Culture</b>	Physician-centric	Physician-led teams
<b>Financial focus</b>	Maximizing practice income	Balancing income with health outcomes
<b>Care model</b>	Episodic care	Medical homes and disease management
<b>IT</b>	Practice-based EMR	Community EMR and health information exchanges

Source: Health Directions, LLC

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cycle, compensation, and financial management initiatives has reduced annual losses on the primary care group to essentially zero. In addition, the joint service line planning groups are actively working with payers on leading-edge managed care strategies, including shared savings and partial capitation reimbursement models.

Collaborative efforts around patient care are also showing results. The medical home initiative, for example, has achieved cost savings of greater than 2 percent in both radiology services and inpatient hospitalizations.

#### **Four Principles of Physician Employment in the Reform Era**

Spectrum Health and other leading systems point the way for hospital organizations that want to leverage physician employment to achieve clinical integration, build ACOs, succeed with new reimbursement models, and achieve other reform-era goals. Here are four principles to follow:

### **1 Governance should mirror goals.**

Traditional medical group governance is built around specialties. Most decisions are made at the department level, while the board confines its attention to administrative issues. To ensure groupwide collaboration on care improvement, strategy, and financial performance, employed groups need to adopt the centralized governance structure of clinically integrated health systems that focus on delivery and outcomes. Boards should be physician-led; cross-disciplinary; and in charge of the full range of clinical, strategic, and financial issues.

### **2 The culture should support collaboration.**

Under standard medical group models, physician culture is intensively focused on the needs of individual practice. Physicians typically feel they have little responsibility for anything outside the patient relationship. Once a practice has been acquired by a hospital, that cultural orientation no longer works. Instead, leaders need to encourage a culture focused on driving clinical performance and cooperative results. Develop initiatives that establish the

team as the basic unit of care, and focus individual teams on opportunities to improve patient outcomes and impact costs.

### **3 Technology should drive performance.**

Most physicians see technology as a tool for facilitating current objectives and ways of doing things. Within a clinically integrated network, physician leaders should use IT to drive new performance goals and processes. Use the EMR to measure clinical performance and reinforce quality standards. Implement interoperable systems that link physicians, hospitals, ancillary services, and patients, providing clinicians with the ability to ensure new levels of coordinated care. Create the infrastructure to generate reports that will empower physicians to manage clinical processes, patient outcomes, personal productivity, and group financial results.

### **4 Incentives should focus on group objectives.**

Five years ago, the key to successful physician employment was to create financial incentives for individual practice productivity. Personal productivity is no longer enough in the age of clinical integration. Next-generation employed physician groups are designing a mix of incentives that support productivity while rewarding physicians for “citizenship” goals. The ultimate challenge is to transition from rewarding individual practice quality to rewarding clinical quality outcomes at a group level. Leading employed groups are experimenting with shared savings models, clinical decision support systems, balanced scorecards, and other incentive methodologies.

As hospitals attempt to leverage employed practices to meet the demands of healthcare reform, engineering these principles and the characteristics of collaboration, group focus, and sustainability into group culture will be essential. ○