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Physician Employment is Back

A tremendous amount of time, money, and effort has been expended to employ physicians. Historically, the goal of physician employment was to influence referral relationships, but in many cases financial losses made employment an unsustainable approach to physician integration, particularly when referral relationships were unchanged.

Many employed physicians continued to practice autonomously, while adopting an entitlement attitude that replaced the more entrepreneurial spirit present in most private practices. Physician employment can also cause divisiveness on the medical staff, since rarely are all physicians employed and it is difficult for a hospital to define objective criteria for selective employment.

Given these drawbacks, most hospitals would prefer to avoid physician employment; however, worsening physician shortages are causing hospitals to reconsider using employment as a recruitment tool in an increasingly competitive market. To avoid past mistakes, employment contracts are being structured with both hospital and physician interests in mind. For example, physician compensation can be commensurate with production, which helps simulate a private practice environment. Employment can also include responsibilities for ED call coverage, another area of concern for hospitals today.

For physicians, employment can help buffer their practice from escalating malpractice costs and provide the security of a regular paycheck from a large,



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Physician Employment
Makes a Comeback"

stable organization. Employment also reduces the risk and hassle of opening and managing a private practice, offering physicians the opportunity to concentrate on clinical practice instead.

Physician Employment Guidelines

Two general guidelines should be considered when designing physician employment arrangements.

1. Simulate the private practice environment

Include elements of private practice when designing employment models. Consider using productivity-based compensation, and include incentives for physicians to improve efficiency, patient satisfaction, and quality. Hospitals should manage larger administrative functions like billing and collections, allowing physicians to handle day-to-day operations of their practice. Hospitals should avoid excessive allocation of overhead expenses to physician practice revenues. If there is a critical mass of physicians to support ancillary services, income derived from these services can supplement professional fees, similar to a private practice situation.

2. Structure employment relationships for a limited term

Hospitals should structure shorter-term contracts (one to three years) so that each party can assess the appropriateness of the employment relationship, especially given the rapid change in reimbursement regulations and market dynamics. Hospitals can encourage physicians to go into private practice after they become familiar with the community, providing them with practice start-up assistance to ease the transition.

Employment is not appropriate for every circumstance, but is most often considered by a hospital when one or more of the following conditions are present:

- Physician recruitment is arduous, especially in a crowded market or in regions hardest hit by physician shortages.
- ED call coverage is difficult to secure.
- Employment can help buffer physician practices from rapidly rising expenses such as insurance and staffing costs.

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Physician Employment Case Study

Faced with difficulty in attracting a sufficient number of physicians to meet demand, a suburban Philadelphia system chose to actively pursue physician employment as a recruitment strategy. Because of high malpractice rates, fewer physicians are choosing to practice in southeastern Pennsylvania, exacerbating physician shortages. The physicians who do remain are actively recruited by an array of competitors, including several academic medical centers, which appeal to many physicians by offering a balance of clinical activity, teaching, and research.

In contrast, the suburban system needs its physicians to concentrate more on clinical production, including ED call coverage. In order to entice physicians away from competitors, the system offers very competitive employment terms.

According to a senior member of the executive team, “This new wave of employment is not about market share and revenue growth, it’s about access to physicians. Hospitals would normally look at physician employment as a last resort, but employment contracts don’t need to be one-sided.”

While the system feels it must use employment to remain competitive, contracts are fair to both sides. Physician recruitment needs are satisfied and the system is able to attain needed ED call coverage. Physicians receive a competitive salary and access to lower, pooled malpractice rates, among other benefits.

So far, the system has been successful in using employment to attract and retain primary care physicians and hard-to-recruit general surgeons, orthopedic surgeons, and neurosurgeons.

For more information on physician employment, contact [Mark Ruggiero](#) or [Craig Holm](#), or call 215-636-3500.





HFMA's latest *Financing the Future* report on joint ventures with physicians and other partners features commentary by Alan Zuckerman and Craig Holm



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