

Executive Briefing

Physician Employment – 10 Actions Successful Networks Are Taking to Optimize Performance

The relationship between hospitals and physicians has become progressively more complex. The financial fortunes of both entities are increasingly interdependent. In today's world of stagnant or declining reimbursement, rising medical practice costs, and complex regulatory hurdles, physician employment is becoming the most effective way to align economic and strategic imperatives.

As these physician enterprises grow in size and complexity, they have become significant contributors to – or detractors from – a hospital or health system's overall financial success. As a result, rigor applied to physician operations is as critical as disciplined focus on any other facet of hospital operations.

Physician Network Performance 101 – The Basics

Most organizations that employ physicians have set up the basic infrastructure for managing their practices – and have avoided the unsustainable losses attributed to compensation guarantees and poor management practices that were common during the 1990s. However, it should be emphasized that the most impactful steps an organization can take to manage physician performance are:

- Employ an incentive-driven compensation plan that is aligned with the organization's culture.
- Create a practice management infrastructure, separate from, but integrated with, the hospital. Physician coding, billing, and ambulatory work flows are vastly different than inpatient procedures and need to be managed separately for best performance.

Key Performance Improvement Areas



Physician Network Performance 201 – Optimization

High-performing physician networks typically excel in multiple areas, across a myriad of interrelated functions. Think of these functions in three broad categories – strategic, revenue enhancement, and expense management. The reality is that many of the performance improvement areas cross these functional categories.

Strategic Opportunities

1. **Be Disciplined in Your Decision to Employ.** The original motivation for employment is an important factor for setting realistic performance expectations for future operations. Was the employment deal constructed to fill a need? To ward off competitors? To balance out the specialty mix? To assist a struggling practice? How the practice is implemented, managed, and incentivized may differ depending on the answer.
2. **Utilize a Separate Corporate Structure to Support Cultural Objectives and Employment Flexibility.** Employing physicians and staff through a separate subsidiary can help achieve the “feel” of a distinct organization that is focused on just the physicians. Moreover, it can allow greater flexibility in setting staff wage and benefits levels.
3. **Manage Your Specialty Mix.** As your employed network matures, manage your specialty mix to support practice growth and enhance clinical coordination. Successful multispecialty group practices find that a mix of 40 percent primary care and 60 percent specialists produces the optimal financial return.
4. **Establish Prudent Part-Time Provider Policies.** While part-time employment arrangements are likely an imperative in today's market, mitigating the economic effect of part-time physicians is a necessity. The high fixed costs associated with part-time physician practices, including benefits levels, facilities, and staff, can be offset by implementing appropriate compensation plan policies and shared practice arrangements.

Revenue Maximization Efforts

5. **Evaluate Alternative Clinic Billing Designations.** Provider-based and rural health clinics are two options for enhancing government payor reimbursement, but must be analyzed carefully to determine whether the added reimbursement compensates for the increased direct costs and implementation requirements.

6. **Constantly Monitor Coding and Service Mix.** This is often the most under-managed aspect of physician performance. Analyzing and providing regular feedback to physicians on their coding has a direct impact on revenue and compliance.
7. **Aggressively Manage Commercial Payor Contracts.** Physician contracts are another area often overlooked by hospitals employing physicians. Given the quantity of services provided by physicians, a small change in rates can have a large impact. Successful networks negotiate physician contracts aggressively (not as an afterthought to larger acute-care contracts), monitor payment performance closely, and track coding changes that may impact reimbursement.
8. **Leverage Quality to Enhance Revenue.** While pay-for-performance reimbursement has been slow to emerge, the stage is being set for quality to be inextricably tied to reimbursement. Groups that can demonstrate high quality and have created a physician culture which embraces quality assessment will be better positioned to succeed under future reimbursement structures.

Expense Management Focus

9. **Monitor Overhead Levels Regularly.** Expenses and staffing levels are important to track for egregious variances; however, in most cases, expense improvements are incremental. Overhead benchmarking provides a sense of whether the practice is on the right path operationally.
10. **Utilize IT Systems to Enhance Work Flows.** While the financial investment in an EHR is substantial, these systems will be imperative in the future for optimizing clinic work flows, ensuring quality medicine, and providing continuity of care. Many groups fail to leverage system capabilities, such as automated work queues and task management functions.

Maintaining a practice dashboard promotes diligence regarding all facets of managing the physician practice. This type of tool can be implemented at the clinic or the macro physician enterprise level, or both, depending on the organizational structure of your physician practices. Performance trends are easily identifiable using a high-level, color-coded assessment.

Sample Physician Practice Performance Management Dashboard

Metric	First Quarter Results (Annualized)	Budget/Benchmark	Assessment
Financial			
Professional Revenue per Physician FTE	\$285,000	\$400,000	Off Target
Operating Cost per Physician FTE	\$372,000	\$375,000	On Target
Net Income/(Loss) per Physician FTE	\$(105,000)	\$(60,000)	Off Target
Payor Mix – Percentage Commercial/Governmental	58%/42%	60%/40%	Continue to Monitor
Downstream Revenue per Physician FTE	\$125,000	\$200,000	Off Target
Operations/Revenue Cycle			
Support Staff per Physician FTE	4.2	4.5	On Target
Days in A/R	39	< 45	On Target
A/R > 90 Days	12%	< 15%	On Target
Claims Denial Rate	4%	5%	On Target
Specialty-Specific			
Work RVUs per Physician FTE	4,500	5,500	Off Target
Visits per Physician FTE	2,800	3,500	Off Target
Coding Accuracy	80%	95%	Off Target
Percent of Bookable Appointments Filled	98%	95%	On Target
Average Days to Appointment	35	21	Off Target

Legend: ■ = off target, needs to be addressed; ■ = continue to monitor; ■ = on target.

NOTE: Data is for illustrative purposes only.

Once the infrastructure is in place to monitor these elements on an ongoing basis, helping physicians manage their practices becomes routine.

For further information about this topic or to learn more about how ECG Management Consultants, Inc., can assist you with conducting an assessment of your physician operations or assist you with optimizing your physician network, please contact Mr. Kevin P. Forster at kforster@ecgmc.com or Ms. Jennifer K. Gingrass at jgingrass@ecgmc.com. They can also be reached at 206-689-2200.

About ECG Management Consultants, Inc.

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