

# Trustee Insights

## PHYSICIAN STRATEGY



## It's Time to Rethink Your Board's Physician Strategy

### Catching up to disruptive market forces

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**H**ospital and health system performance is tightly intertwined with the strength of its medical staff. At a time when [well-capitalized disruption](#) ramps up pressure on hospital and health system margins, board leaders should question how they “subsidize”

employed physicians, make decisions that restore a high-performing physician strategy and ensure a strong balance between provider investments and enterprise strategy.

While COVID-19 largely dampened operating margins and physician satisfaction, it also was an accelerator for innovation and disruption — and not just around telehealth. Use of [remote patient monitoring](#) boomed, and digital enablement became essential for hospitals and health systems as health care consumers came to expect a tech-enabled experience.

Meanwhile, hospitals and health systems faced new competition from tech disruptors and other corporations for physician talent. As 50,000 physicians left independent practices to become employees of hospitals or corporate entities from 2019–2021, the percentage who chose corporate employment over hospital employment [rose 32%](#). Those doing the serious hiring include Optum, the largest employer of physicians, with 53,000 physicians and [plans to add 10,000 more](#), as well as ChenMed, VillageMD, Bright Health and a plethora of telehealth and digital companies with capabilities ranging from on-demand care to home care support and chronic care management.

### Disruptors Invest in — not Subsidize — Physicians

While hospital subsidies vary, it is not uncommon for a hospital to report an average subsidy of \$200,000 per employed physician. Yet too often this “culture of subsidy” is not deliberately matched to market need, nor is it integrated into a synergistic plan to achieve an organization's growth objectives.

Given the competition that hospitals face from fast-growing disruptors that present a new value proposition for doctors, hospitals need a compelling and sustainable physician enterprise strategy that is in sync with varying market forces. The value proposition and vision that

disruptors present for physicians — from ChenMed’s [full-risk, value-based model](#) that promises more time with patients, to VillageMD’s emphasis on physician-driven decision-making and [tech-enabled support](#) — could prove attractive to physicians who are ready for a change.

Now is the time for hospital and health system boards and leaders to rethink their physician strategy, intensifying efforts not only to gain value from and protect their decisions but also to pivot to where the market is going.

## Growing Urgency for a Compelling, Sustainable Physician Strategy

Physician organizations are complex and dynamic. There can be reluctance to initiate discussions around ways to better structure medical group operations and compensation arrangements to increase productivity, improve quality and bolster margins due to the fear of disengaging or disrupting physicians. But failing to establish the right metrics and performance targets for employed physician performance can become, in effect, a cost of doing business. The risk of not evolving the physician group may outweigh the risk of disrupting and losing a small portion of the same physician group.

When the hospital operating environment changes suddenly, boards cannot afford to permit less than optimal performance. To do so is to risk a scenario where inefficiencies contribute to financial distress and a lack of confidence in hospital leadership.

For example, hospitals and health systems need a strong strategy for

integrating newly acquired assets — including employed physician groups — within the organization. Given the demand for physician talent and Moody’s prediction that physician groups would be [more open to hospital partnership](#) in 2021, boards who reassess their physician management strategy in the current environment can ensure financial stability and improve their ability to retain key specialists.

Top-performing organizations that strengthen their physician enterprise strategy can [significantly increase hospital revenue](#), a Merritt Hawkins report found. In our experience, leading hospitals earn \$100,000 per employed physician, even with a \$200,000 subsidy in place.

## 6 Ways for Boards to Rethink and Evolve their Physician Strategy

There are several ways that hospital and health system boards can help senior leaders maximize their physician enterprise during the pandemic and beyond.

### 1] Understand how consumer preference is changing in your community.

Health care consumers are consistently seeking convenience as primary selection criteria for initial care. Ease of scheduling, distance and virtual options are quickly becoming top search criteria. For example, to what extent do consumers access care virtually from your organization? What types of care do they most often seek via telehealth, and how have telehealth trends changed in the past year? Further, how much do consumers in your market rely

on retail and digital health for their care? Knowing the answers to these questions can help your organization determine how to most effectively leverage employed physicians to meet the needs of your community. It also can set the stage for discussions around how to embrace and navigate disruptive forces rather than shelter employed physicians from them.

Additionally, knowing the percentage of Medicaid managed care and Medicare Advantage beneficiaries your organization treats is critical to ensure additional physicians will strengthen your organization’s appeal. Today, 69% of Medicaid beneficiaries are enrolled in managed care plans, with 25 states covering more than 75% of Medicaid managed care beneficiaries, a [Kaiser Family Foundation analysis](#) shows. Meanwhile, 40% of Medicare beneficiaries are [enrolled in Medicare Advantage plans](#) in 19 states.

### 2] Define and share metrics that matter.

Leaders must understand how their physician enterprise performance compares to that of their peers. Benchmarking data that compares physician productivity and compensation against that of similar organizations can present a compelling case for change. Too often, leaders assume the organization will lose money on employed physician subsidies but will gain it back in downstream revenue, such as the imaging orders physicians generate.

Key performance indicators to consider include:

- Provider performance under risk-based contracts and quality/outcome scores

- In-network patient retention and provider referral rates
- Patient access, acquisition and retention
- Provider clinical effort, in relation to other teaching, research and administrative responsibilities
- Administrative pay versus time spent performing administrative duties

By making an objective comparison of employed physician performance that is grounded in data, hospital boards establish a starting point for discussion around setting up physicians for success. When bringing new physicians into the organization, ensure an appropriate pro forma orientation is in place with specific performance metrics mapped over time. From there, board members can partner with chief financial officers and physician representatives to initiate discussions that stimulate behavior change.

For example, telling physicians, “You can make a substantial difference in productivity and our organization’s financial health simply by seeing one more patient per day,” sounds easy to accomplish and reasonable to expect. For one large integrated delivery system experiencing significant distress, this request led to 20,000 additional appointments in a three-month period and a dramatic improvement in financial performance.

### 3] Update the strategic role of employed physicians to meet evolving needs.

There is growing evidence that employers and health plans are raising their expectations for the type of care experience they would like for their employees and members. This

will translate into risk-based payment models and an emphasis on cost-conscious models of care that improve outcomes and the patient experience.

Employed physicians must share input into the design of these models to gain buy-in from the medical staff. Ideally, feedback should come from physicians in both surgical and medical specialties. Additionally, organizations should lean on their employed and independent physicians for ideas on how to drive next-level value. While physician executives play a key role in shaping the strategy, input is needed from the local physician community at large to maximize impact and encourage physician engagement in the strategy.

If part of the appeal of working for a disruptor is the ability to weigh in on decisions that affect the business of care, ensuring that physicians have a voice in decisions made at the hospital and health system level will be critical to keeping top talent.

### 4] Align compensation and incentives with the organization’s goals.

Hospital, health system and medical group leaders shouldn’t stand pat and assume that revenue, volumes and current relationships with market physicians will be maintained without decisive moves implemented with rigor and pace.

By aligning employed physician compensation with the system’s strategic goals for value, growth, financial performance and more, organizations can make a deeper impact in the areas most likely to affect their market position and

future. The right compensation approach also will ensure that patient satisfaction, quality of care, access and clinical cost management are encouraged and rewarded. While productivity will always be a direct or indirect consideration in provider compensation, hospitals and health systems must balance this with the experience, quality and care outcomes the provider creates for patients. Shifting incentives away from production alone is becoming a critical first step.

### 5] Ensure physicians are operating at the top of their licenses.

Part of restoring and revitalizing relationships with employed and independent physicians means enabling them to focus on the work that matters most: delivery of patient care. Look for opportunities to eliminate barriers that prevent physicians from working at the top of their licenses.

For example, leading organizations are investing in artificial intelligence-based technologies that empower medical assistants to ask questions that inform chronic care management. It’s an approach that enables physicians to dig deeper at the point of care, resulting in better care and an enhanced patient experience.

Further, leveraging a multidisciplinary care team to augment a physician ensures that routine care needs are addressed while the physician can attend to higher-demand needs. Advanced practice clinicians are already well established, and the growing utility of dietitians, therapists, opticians, audiologists and other allied health professions are

showing a significant impact across specialties.

## 6] Invest in technology that attracts patients and makes care easier for physicians.

Today's patients not only expect digital access to care but also have higher expectations for the experience of care. Meanwhile, physicians want technologies that ease the administrative burdens of the business of medicine. This often begins by optimizing technologies already in place and adopting technology features already purchased. In addition to today's electronic health record platforms, new technologies can accelerate comprehensive care and improve patient engagement.

By investing in digital tools that enable patients to receive the right

care at the right time and in the right place, health care organizations will be better positioned to seamlessly meet the consumer desire for a connected health care experience. They also will make it easier for physicians to optimize care efficiency, giving them time back in their day — critical to preventing burnout.

### Embracing a Future-Focused Approach

Across the field, health care boards are pondering how the pandemic will transform the future of care delivery. One thing is certain: This future state will not include a return to the pre-pandemic status quo — not with the level of disruption and change that has already occurred.

By rethinking the approach to

physician enterprise strategy and partnering with senior leaders to optimize change, hospital and health system boards can deepen relationships with physicians while better positioning their organizations for success.

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