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STRATEGIC INSIGHTS FOR REGIONAL
AND COMMUNITY HOSPITALS

Building Stronger Physician Alignment and Integration

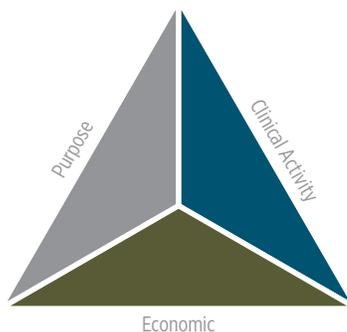
Building Stronger Physician Alignment

To create leading healthcare institutions, physicians and hospitals must be aligned in multiple areas over a sustained period of time. However, today the historical basis for a working relationship between physicians and hospitals has broken down due to increased competition aimed at offsetting reimbursement cuts. This breakdown, coupled with the increasing demands for quality, efficiency, coordination and the payment changes outlined in healthcare reform, has left many organizations wondering how to best rebuild physician-hospital alignment.

Recently, individual economic tools such as employment have been presented as the “silver bullet” solution, but often fail to achieve full alignment. Equally misguided is the belief that communication and dialog will be enough to create a durable relationship between physicians and hospitals.

Instead, forming durable, collaborative partnerships requires understanding the needs of both parties and the use of a variety of tools and strategies to meet those needs and to align the hospital and its physicians. Given that the success of the hospital’s mission depends on physician alignment, it is incumbent on hospital administrators to define the new collaborative tenor of the relationship between hospitals and physicians and their overall alignment strategy.

EXHIBIT 1: Physician-Hospital Alignment Triangle



As illustrated by Exhibit 1, there are three major elements required for full physician-hospital alignment. The Physician-Hospital Alignment Triangle includes:

- » **Clinical Activity Alignment**
The correlation of the patient care approach, expectations of quality and service, and consolidation of activity in the diagnosis, treatment and rehabilitation of a patient
- » **Economic Alignment**
The correlation of physician and hospital financial returns
- » **Alignment of Purpose**
The correlation of vision, values and energies; creating a shared belief in a single vision/mission, a common culture and an active involvement in the future direction of the organizations

Alignment in one area is not enough to be successful in the current high-pressure environment. The post-healthcare reform environment requires much greater integration of the continuum, which in turn requires alignment on all three elements of the Physician-Hospital Alignment Triangle.

Unfortunately, most hospitals and healthcare systems are far from full physician alignment. To systematically study the physician-hospital alignment at hospitals and healthcare systems across the country, the authors have developed a quantitative diagnostic tool. This tool, the Physician-Hospital Alignment Diagnostic, allows hospitals to test their specific situation and alignment against others across the country. Over a period of only a few hours per hospital, a healthcare system or independent hospital can determine where it ranks on physician alignment, the areas of weakest alignment, the urgency of the situation and the tools that others have used to improve each area of alignment.

The Current State of Physician-Hospital Alignment

Our research into physician-hospital relationships across the country shows that most hospitals need to improve the relationships with their physicians in at least one area. The need for greater alignment has been raised throughout the industry. What is new is a quantitative model to measure the gap in alignment and compare that across organizations.

Taking a sample of 40 hospitals to measure physician-hospital alignment reveals some interesting results.

- » Total physician alignment varies less than alignment on each of the three major elements (clinical activity, economic and purpose).
 - > Hospitals typically have much stronger alignment in one element to offset weaker alignment in the other two elements.
 - > Hospitals typically do not have above-average alignment in more than one element.
 - > Hospitals that employ large portions of their medical staff do not necessarily have greater alignment on clinical activity and purpose elements.
- » A hospital's physician alignment takes on the characteristics of the senior team and strategies used.
 - > Hospitals with charismatic leadership teams and strongly articulated visions have greater alignment of purpose.
 - > Hospitals with strong financial focus typically deploy strategies that more directly impact economic alignment.
 - > Hospitals focused on efficiency and quality typically have greater clinical activity alignment.
- » Organizations with stronger-than-average physician alignment often have higher-than-average urgency for alignment.
 - > Physician-hospital alignment requires effort that is not typically expended unless there is a market requirement.
 - > Few organizations have both above-average alignment and low urgency for alignment. Those that do are very dominant in their markets.

PHYSICIAN-HOSPITAL ALIGNMENT DIAGNOSTIC

The Physician-Hospital Alignment Diagnostic is a quantitative tool developed to systematically assess the alignment between hospitals and physicians. The diagnostic has three components:

1 Measure of Physician-Hospital Alignment. The first component is a quantitative measure of the alignment between a hospital and its medical staff along Clinical Activity Alignment, Economic Alignment and Alignment of Purpose.

Through a short series of detailed quantitative questions assessing the indicators of physician-hospital alignment, the diagnostic creates a systematic assessment that can be compared to other organizations and situations across the country.

Each area of alignment is scored up to 50 points (mean score = 27) for a total alignment score of up to 150 points (mean score = 81). Higher scores indicate greater alignment.

2 Measure of Urgency. This component creates a quantitative assessment of how the market, competitive, physician and internal hospital characteristics all interact to create a level of urgency.

Urgency of the situation is scored up to 50 points (mean score = 30), with the higher scores indicating greater urgency.

3 Strategies to Improve Alignment. Paired with the assessments of alignment and urgency are specific recommendations for the strategies that best improve alignment in the areas with the lowest scores for each hospital. These recommendations are discussed in greater detail on pg. 3 of this paper.

The purpose of the Physician-Hospital Alignment Diagnostic is not to provide a single answer to as complex a challenge as physician alignment, but rather to provide the tools to diagnose the situation and narrow the set of strategies for further investigation and discussion.

A free version of the Physician-Hospital Alignment Diagnostic can be found at: www.PhysicianHospitalAlignment.com.

* In states with prohibitions on the corporate practice of medicine, such as California, an aligned physician foundation acts much like direct employment.

Strategies to Improve Physician-Hospital Alignment

The findings for these 40 hospitals, which are similar to other hospitals in the database, show the variability of physician-hospital alignment and that, on average, many hospitals are far from garnering the highest score in all areas.

There are many approaches that organizations use to align physicians. Our research has identified 20 distinct strategies of varying levels of impact that are being used to effectively align physicians today. These 20 strategies can be categorized into four groupings. (See Exhibit 2.)

The first grouping of strategies relates to business services. The business services category includes strategies that are geared toward strengthening the relationship on the business aspects of the physician practice and hospital operations. As such, this grouping of strategies strongly influences economic alignment. Strategies in this grouping include:

- » **Management services organization:** practice support services to optimize efficiency of billing, back-office and contracting functions
- » **Real estate:** leasing real estate or other hard assets from physicians
- » **Information infrastructure:** IT services are included, such as those to promote increased communication

among physicians and the hospital (e.g., common electronic health record)

- » **Payor contracting organizations:** vehicles for managing payor contracts for physicians (e.g., IPA, PHO)
- » **Clinically integrated physician network:** structures that, through common information exchange and quality standards, allow better collaboration for patient management, potentially resulting in improved payor contracts

The second grouping of strategies is contracts. The contracts category includes strategies that are built on a contractual relationship for specific physician clinical, managerial or investment services and are typically targeted toward a combination of improving clinical quality, operational efficiency and programmatic development. As a result, this grouping of strategies strongly influences clinical activity alignment. Strategies in this grouping include:

- » **ER call pay:** on-call arrangements to ensure adequate physician coverage for emergency departments and inpatient departments
- » **Physician recruiting:** financial support during the initial start-up period to recruit physicians new to the market where there is a designated community need

EXHIBIT 2: Physician-Hospital Alignment Strategies

<p>Category 1: Business Services</p> <ul style="list-style-type: none"> > Management services organization > Lease and real estate contracts > Information infrastructure > Payor contracting organizations > Clinically integrated physician networks 	<p>Category 2: Contracts</p> <ul style="list-style-type: none"> > ER call pay > Physician recruiting > Medical directorships > Clinical co-management and whole-program PSAs > Joint ventures
<p>Category 3: Structured Communications</p> <ul style="list-style-type: none"> > Blogs/one-way digital communication > Two-way digital communication > Town hall forums and retreats > Physician advisory council > Direct physician leadership 	<p>Category 4: Employment</p> <ul style="list-style-type: none"> > Individual contract, productivity > Standard contract, varied incentives > Single-specialty group > Multi-specialty group > Integrated organization

*Alignment in one area is not enough. The post–healthcare reform environment requires hospitals to be aligned in all three areas: **clinical activity, economic and purpose.***

- » **Medical directorships:** stipends to oversee specific programs, services and departments, and to achieve certain metrics
- » **Clinical co-management and professional service agreements:** joint management (or full management) for a management fee by the physicians and hospital of a service line or even the entire hospital to improve quality, operations and program development
- » **Joint ventures:** jointly investing in a business venture

The structured communications category is the third grouping of strategies and, as the name implies, includes strategies that are built on a highly structured process for communicating between hospital executives and physicians. Because the topics are about strategic intent and direction, this grouping of strategies strongly influences alignment of purpose.

Strategies in this grouping include:

- » **Blogs and one-way communication:** digital and group-focused such as CEO blogs, newsletters, announcements, etc.
- » **Two-way direct communication:** one-on-one and digital two-way communication such as emails to individuals, social media and individual meetings
- » **Town hall forums and retreats:** large-group discussion settings where there is some two-way communication

- » **Physician advisory council:** group discussion settings where there is significant, direct two-way communication
- » **Direct physician leadership:** a chief medical officer, physician CEO or other forums of direct physician participation in the leadership of the organization

The fourth grouping of strategies is employment. The employment category includes variations of strategies that meet the legal definition of employment. Because these strategies can be applied in a variety of ways and often incorporate many of the other strategies as part of the employment agreement, this grouping can strongly influence all three elements of the Physician-Hospital Alignment Triangle. Employment strategies include:

- » **Individual contracts:** customized employment agreements with an individual or group of physicians
- » **Standardized contracts:** similar expectations and cultural norms for all employed physicians
- » **Single-specialty group employment:** grouping a whole department or specialty of individual physicians into a group format, usually with group incentives
- » **Multi-specialty group employment:** creating the culture of a single group across all specialties employed
- » **Organizational integration:** a single team—one culture, outlook, vision and mission across all the employees (physicians and administrators) of an organization

EXHIBIT 3: Linking Alignment Needs to Strategies

AREA NEEDING IMPROVEMENT	PRIMARY CATEGORY	SECONDARY CATEGORY
Economic Alignment	> Business Services	> Contracts > Employment > Structured Communications
Clinical Activity Alignment	> Contracts	> Structured Communications > Employment > Business Services
Alignment of Purpose	> Structured Communications	> Contracts > Employment > Business Services

Multiple strategies are required to align physicians on the three elements of the Physician-Hospital Alignment Triangle.

In states with prohibitions on the corporate practice of medicine or where similar statutes prohibit direct employment of physicians, an aligned physician foundation that employs or contracts with the physicians and holds a professional service agreement with the hospital approximates employment for alignment purposes.

Multiple Strategies Needed

As discussed above, each of these four categories of physician-alignment tools is not uniformly suited to drive alignment in each area of the Physician-Hospital Alignment Triangle. Instead, particular strategies need to be used depending on the specific situation. Physician-hospital alignment is a situation where a one-size strategy does not fit all. To narrow the discussions, hospitals and health systems that want to improve alignment in one or more areas should consider using various categories of strategies based on the relationship shown in Exhibit 3.

Having narrowed the investigation to one or two groupings of strategies, the organization should determine which strategies to deploy to create the right amount of impact for the situation.

As shown in Exhibit 4, there is a range of risk and impact in the strategies within each category. As expected, the strategies that have a higher impact on physician-hospital alignment also carry greater risk to the relationship if implemented poorly. It is important, therefore, to balance the risk with the need for impact in any given situation.

Understanding both the alignment gap and the urgency of the situation is important for determining how aggressive an organization needs to be with its alignment strategies. The Physician-Hospital Alignment Diagnostic measures both the alignment gap and the urgency of the situation to assist leaders in assessing the situation. Those in situations where there is low alignment and high urgency should focus their planning on the high-impact strategies, whereas those in situations where there is high alignment already and the urgency is low should carefully consider the risks of various strategies and begin with strategies that have lower risk even though they also have lower impact. The goal is to apply the appropriate strategies with the right balance of impact and risk to create the alignment needed for each situation.

EXHIBIT 4: Alignment Strategies by Impact and Risk

	BUSINESS SERVICES	CONTRACTS	STRUCTURED COMMUNICATION	EMPLOYMENT
Low impact and risk	Management services organization	ER call pay	Blogs/one-way digital communication	Individual contract, productivity
Moderately low impact and risk	Leases and real estate contracts	Physician recruiting	Two-way digital communication	Standard contract, varied incentives
Moderate impact and risk	Information system infrastructure	Medical directorships	Town hall forums and retreats	Single-specialty group
Moderately high impact and risk	Payor contracting organizations	Clinical co-management and whole-service PSA	Physician advisory council	Multi-specialty group
High impact and risk	Clinically integrated physician networks	Joint ventures	Direct physician leadership	Integrated organization

Employment does not guarantee alignment on all three elements needed for integration.

Case Study 1—Hospital A

Hospital A is a 227-bed hospital (ADC of 166) that provides strong community care to a growing, affluent, suburban market with no dominant competitors. The hospital has a private-practice physician model and above-average financial indicators, with an operating margin of 5.9%.

Exhibit 5 shows the scores for a typical hospital. This hospital has strong alignment of purpose, but average alignment in clinical activity and economic areas. Moreover, market indicators suggest that the urgency of creating stronger physician alignment is lower than average.

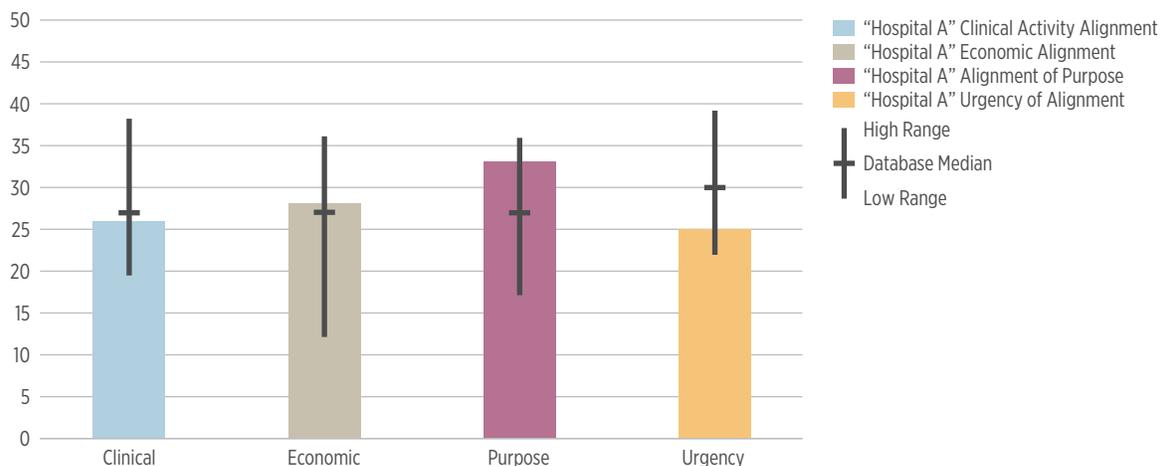
Detailed investigation of Hospital A shows that hospital leadership has been actively working to create a common vision with its physicians. This common vision has led to direct physician leadership in setting the strategic course of Hospital A. However, while Hospital A has kept up with the national trends, it has not been overly aggressive at using the strategies that might advance clinical activity or economic alignment. For instance,

Hospital A does not employ any physicians, pays only limited amounts for ER call and has only a very limited number of other contractual and business service activities which involve its physicians.

With the relatively weaker alignment within clinical activity and economic elements, Hospital A has embarked on investigating the strategies to strengthen these two areas of alignment. However, in this market, the urgency for change is lower than average. As such, Hospital A has been investigating moderate-impact strategies with lower risk in the contracts and business services categories.

Today, Hospital A has made extending the electronic medical record to all physicians on the medical staff its key priority on its way to building off of a strong alignment of purpose to create a clinically integrated physician network. This will allow Hospital A and its physicians to deliver better care coordination and allow the physicians and hospital to contract together, creating increases in economic alignment.

EXHIBIT 5: “Hospital A” Physician-Hospital Alignment Score



Additionally, to improve clinical activity alignment, medical directorships are being reevaluated to ensure they advance the vision of the hospital’s operations, and a clinical co-management relationship in cardiology is under development.

Case Study 2—Hospital B

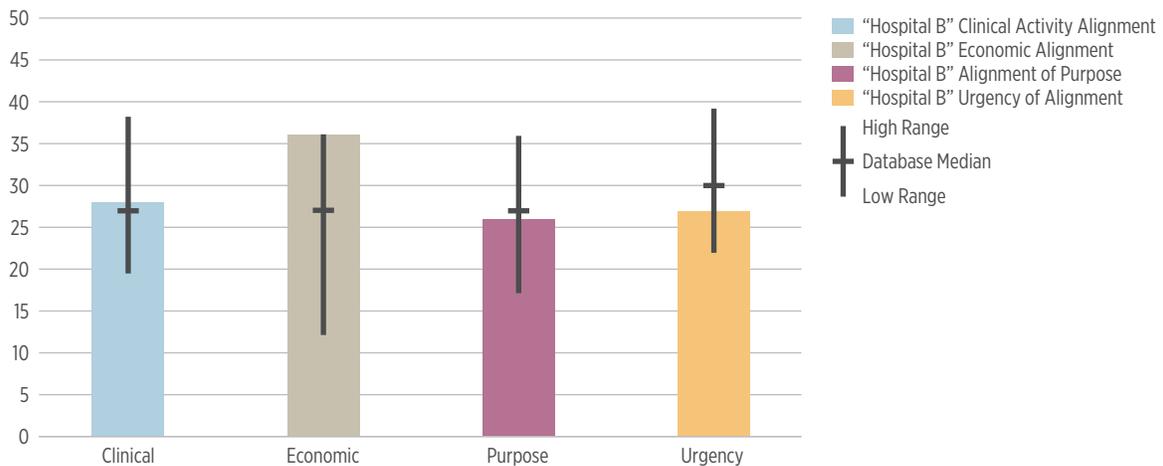
In contrast to Hospital A, Hospital B is a 300-bed hospital (ADC of 188) and a sole community provider in a low-growth market. The hospital’s physician model is private practice with selected employment in key specialties. With an operating margin of 3.8%, the hospital’s financial and quality indicators are in line with national averages. Hospital B has stronger-than-average economic alignment with their physicians. (See Exhibit 6.) Their urgency of alignment is lower than others in the sample, which is mostly a factor of the hospital’s sole provider status.

Further investigation shows that Hospital B uses multiple economic tools—real estate leases, strong information system connections, employment, call pay and medical directorships—to economically align physicians with the hospital. As a sole

community provider in a flat market, the hospital needed to mitigate the economic threat posed by physicians developing their own facilities and diagnostics to compete with the hospital. However, the strategies that led to strong economic alignment did not lead to the same levels of clinical activity alignment or alignment of purpose.

To further improve physician alignment, Hospital B needs to deploy the specific strategies targeted at clinical activity and purpose. Moreover, since the urgency is lower than average, Hospital B can carefully plan these changes and implement lower-risk strategies to improve the clinical activity and alignment of purpose over time.

EXHIBIT 6: “Hospital B” Physician-Hospital Alignment Score



Conclusion

Physician-hospital alignment is a key component of the future success of every hospital and health system. There is not a single strategy to create full alignment, and even with the use of multiple strategies, full alignment is an elusive goal. Making progress toward the goal of much fuller alignment and even physician integration requires that organizations understand the elements of alignment and how various strategies impact these elements. Those that most accurately assess their situation and adeptly apply appropriate strategies will be the leaders in their markets.

Tools like the Physician-Hospital Alignment Diagnostic can be helpful in focusing the organization on the right strategies for their situation and starting the discussion.

Visit www.PhysicianHospitalAlignment.com, where a free version of the Physician-Hospital Alignment Diagnostic is available, along with other tools to assess your organization's performance and steps to take for improvement. ❖

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