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A Problematic Repeating Pattern of Physician Beliefs in Community Hospitals and Health Systems

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Most community hospitals and health systems in the U.S. are in a transition from independent physicians dominating the composition of medical staffs to employed physicians assuming this position. Depending upon where an organization is in this transition, the relative proportion of these two groups can create challenging dynamics for organizational success and stability. Governing boards, along with senior leadership teams, should understand how related dynamics and potential "situational disorders"[1] can affect organizational performance and culture.[2]

Key Board Takeaways

Governing boards should work with senior leaders and physician leaders to understand:

- The status and expected direction of the ratio of employed to independent physicians, by specialty, over the next five years with related rationale presented by senior leaders.
- The organization's current and projected net operating margin and net operating cash flow productivity derived from the work of employed and independent physicians over the next five years.
- The "alignment" of key stakeholder groups on the whole of the variable set presented here to serve as a road map to the integrated culture that will be required to effectively meet mission and strategic goals in the face of increasingly complex health policy and related market dynamics.

An Undeniable Shift in the Physician Services Business Model

By the end of 2016, more than 40 percent of all physicians in the U.S reported being employed by some form of organized health systems (including academic health centers), an increase of more than 60 percent from mid-2012.[3] All regions of the U.S. report participation in this trend. Conversations with leaders of community hospitals and health systems demonstrate that virtually all are experiencing this transition with expectations that employment of physicians will continue to accelerate. A growing number of leaders report the proportion of employed physicians exceeding 50 percent and are on the way to higher levels. This trend crosses all clinical specialties, most notably those where the economics of independent practice have turned unfavorable.

Leaders of community hospitals and health systems should recognize the risk of reductions in the supply of independent physicians required to support key mission-driven and strategic programming for community hospitals. Two risks are to be considered here. The first is that independent physicians are available to the community, but not the hospital; the local independent physicians become competitors of the hospital. Second, as the supply of independent physicians declines in a market (for whatever reason), the hospital does not position itself for timely responsiveness to the future threat (or potential); it waits

1 Daniel K. Zismer, "The Social Psychology of Clinical Service Line Management; A Model and Method for Dyads to Understand and Manage the Inevitable 'Situational Disorders,'" Castling Partners, April 2017.

2 Daniel K. Zismer and Benjamin Utecht, "Culture Alignment, High-Performing Healthcare Organizations, and the Role of the Governing Board: Part Two: Setting a Culture of High Performance and the Responsibility of Governing Boards," The Governance Institute, E-Briefings, Vol. 15, No. 3, May 2018.

3 Physician Advocacy Institute, *Updated Physician Acquisition Study: National and Regional Changes in Physician Employment 2012–2016*, March 2018.

too long and market and financial stability risk becomes irretrievable.

Understanding the Risks Inherent with the Independent-to-Employed Physician Organizational Transitions

As hospitals and health systems add to the ranks of the employed physicians, there is usually a reaction to be expected from independent physicians that is understandable in the context of social psychological theory. Data from the Stakeholder Alignment Survey demonstrates a need for a watchful eye, open communication, and a ready plan of response to the inherent risks.[4]

One sound, well-researched, and practiced social psychological theory applicable to organizations in transitions suggests that the behaviors of identified stakeholders (including their attitudes toward the organization) are influenced by expectancies for rewards they value. When these expectancies and valued rewards remain available, behavior patterns can be predictable. Disruptions in expected rewards and changes in perceived values of rewards can lead to behavior pattern change. Let's examine this theory in the practical.

Historically, independent physicians composed the more substantial proportion of a community hospital's medical staff. These physicians were the gatekeepers of patient utilization of the hospital, controlled the number and supply of physicians in community markets served, and controlled the acquisition of profitable office-based ancillary services with little concern for reprisal from the hospital. If there were competing hospitals in the market, they enjoyed the potential for leverage through "hospital admission redirection." With changes in the economics of the private medical practice coupled with related shifts in the political and regulatory environments, community hospitals and health systems entered the business of employing physicians. As hospitals grew their base of employed physicians the expectancy for the implied leverage positions began to shift for the independent physicians. The hospital is no longer the "workshop" of the private practitioner. Consequently, the hospital becomes more of a direct competitor, and the availability of the patient supply can be perceived by independent physicians as being at risk. Some or all of these dynamics are viewed by independent physicians as a tectonic shift in their expectancies for personal and professional control over their worlds, and they may perceive their livelihoods to be threatened.

Results from a number of administrations of the Stakeholder Alignment Survey demonstrates an undeniable "problematic repeating pattern" of beliefs that is worthy of understanding by hospital boards and senior leadership teams. The results showed that the extent to which independent physicians believe they are "less valued" than their hospital-employed peers can also affect:

- Their beliefs as they relate to mission effectiveness of the organization (i.e., the likelihood that independent physicians believe in how the board is directing the mission).
- Their beliefs as they relate to strategic plan effectiveness (i.e., the likelihood that independent physicians believe in the strategic direction of the organization).
- Their beliefs as they relate to resource availability (i.e., sufficient resources are made available to providers in the hospital to care for their patients).

What Does Our Data Tell Us?

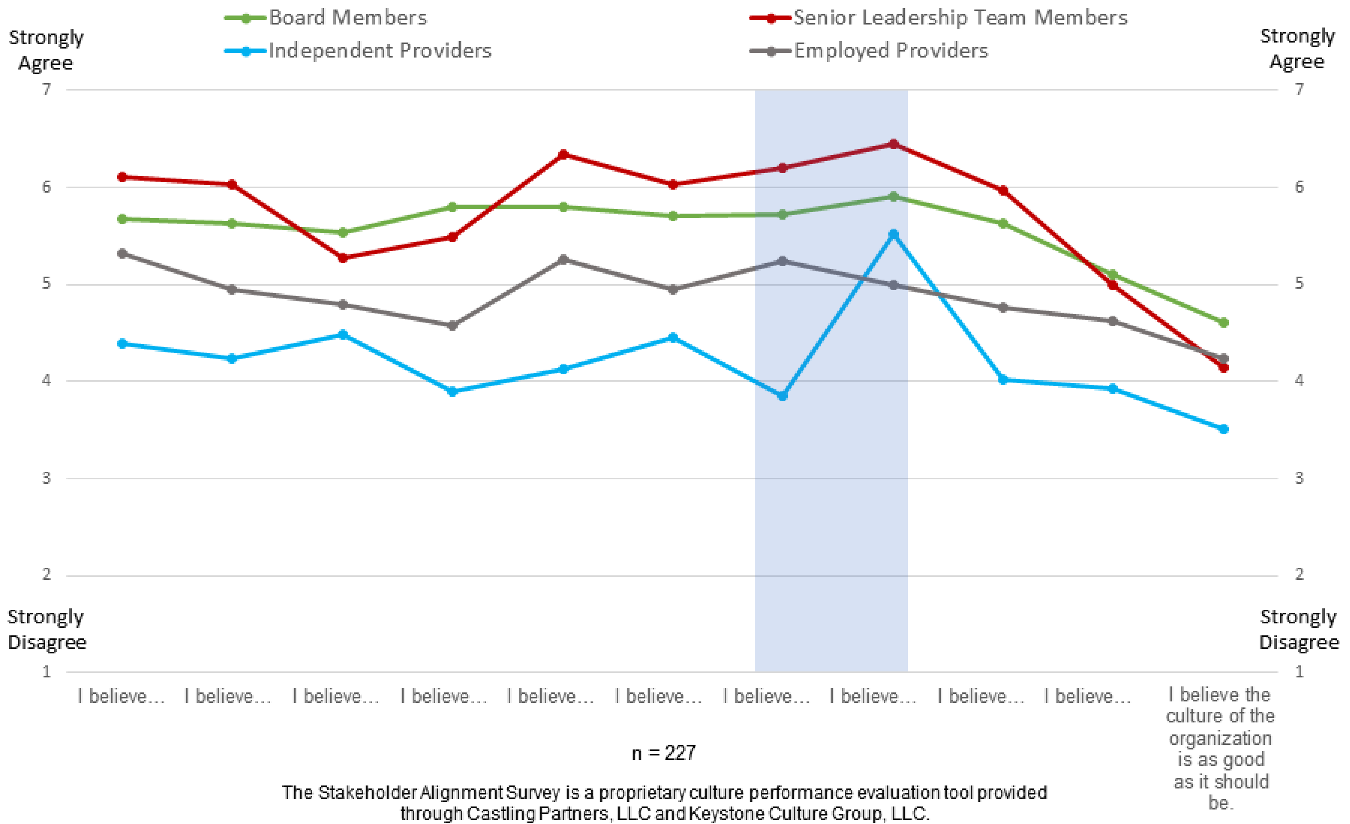
The Stakeholder Survey evaluates stakeholder alignment on 11 factors in health systems (see **Exhibit 1**). Stakeholders of interest here are members of the governing board; members of the senior leadership team; a representative sample of employed physicians, including formal and informal leaders; and a representative sample of independent physicians who are members of the formal medical staff of the affiliated hospital(s). The survey presents respondents with 11 "belief statements"[5] representing a cohesive model that demonstrates alignment between stakeholder groups. A range of analytics is applied to demonstrate alignment congruities and incongruities between and among stakeholders.

While the complete data set demonstrates an array of useful findings, the one of interest and import in this article is what is found to be a reliable and repeating pattern represented between items seven and eight in Exhibit 1. Here, stakeholders are asked about their "beliefs" as they relate to how "the organization values independent physicians" (item #7) and how "the organization values employed physicians" (item #8). Of the reporting stakeholder groups, members of the governing board, members of the senior leadership team, and members of

4 The "Stakeholder Alignment Survey" is a proprietary organizational performance evaluation instrument developed, owned, and applied by Castling Partners, LLC (www.castlingpartners.com) and Keystone Culture Group, LLC (www.keystoneculturegroup.com).

5 Daniel K. Zismer and Benjamin J. Utecht, "Why a Belief System is Essential to the Success of Culture in Organizations: An Application to Healthcare," The Keystone Way, Vol. 1, Issue 1, June 2018.

Exhibit 1: Stakeholder Alignment Survey—Average Score by Respondent Category



the employed physician group will, reliably, assert that "they believe" the independent physicians are valued at levels far higher than the independent physicians self-report. Correspondingly, the independent physicians will affirm a belief that the employed physicians are valued at a level significantly higher than they. Additional examination of the Stakeholder Survey results supports the observation that this finding is strongly predictive of related beliefs worthy of leaders' attention (see sidebar on previous page).

What Might These Findings Mean for Hospitals and Health Systems and What Are the Risks?

Let's return to our theoretical, social psychological framework for answers to this question. Remember what the theory asserts regarding the motivators of behavior change (and attitude is a behavior). Behavior change is a function of peoples' expectations for a reward that is valued. Within this framework, personal and professional control is considered to be an expectancy that is valued. Changes in either the expectancy or reward variables can affect behaviors. So, under certain organizational, environmental conditions, independent physicians may be motivated to modify their behaviors in a way that is not supportive of a hospital's/health system's mission or strategic path. Independent physicians have an extensive repertoire of behavioral opportunities available to them when they don't feel they are adequately valued and believe their personal and professional freedoms are threatened. Examples include opportunities to shift hospital affiliations and related patient volumes, invite health system competitors to the community as partners, consolidate multiple independent practices to enhance "critical mass" and operating scale and add competing services, and sell their practices to regional competitors.

How Should Boards and Senior Leadership Teams Think About This?

First, don't assume the collective leadership of the organization (including the board) knows how the employed and independent physicians perceive their value as

it relates to each other or other stakeholders in the organization. The data supports a reliable pattern of misunderstanding. However, if you ask the related questions correctly, physicians will tell you. Second, and according to the social psychological theory presented, when high-achieving, well-educated, and trained professionals who are in demand believe they are "trapped" by situations where their freedoms and/or rewards availabilities (including psychological and emotional rewards) are constrained or threatened, they are likely to seek resolve by all options at their disposal.

What can be done if the pattern reflected in the Stakeholder Survey portends challenges for hospital and health system leaders? Related response patterns from the survey are helpful. Physicians' beliefs regarding the state of whether "the culture of the organization is as good as it should be" is strongly associated with perceptions of "being valued" as is the collective leadership's approach to "open and honest communication." Boards and board behaviors are implicated in the results as well, especially as they relate to holding those who serve the organization to "high levels of performance accountability," "how financial resources are controlled," and "providing resources sufficient to provide a high quality of care." It is noteworthy that the state of stakeholder alignment is affected situationally. What is predictive of stakeholders' perceptions of how well the organization is governed and managed (at a point in time) is not static; it can and will shift over time based upon environmental conditions. As cited above, the state of the culture of an organization is susceptible to change based upon any number of leadership decisions and market conditions. Stakeholder alignment in community hospitals and health systems should be considered a priority for governing board evaluation and discussion at board meetings and strategic planning sessions. The topic of discussion presents in the form of a question: Do affiliated physicians (whether independent or employed) feel sufficiently "valued" by leadership, and if not, how might the organization be at risk?

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