

BoardBrief

Knowledge Resources for Health Care Governing Effectiveness

Building Constructive Hospital/Medical Staff Relationships and Alignment

The hospital/medical staff relationship should be a trusting partnership, where both the medical staff and hospital work closely together to provide quality care for patients. But hospitals and medical staffs often have differing perspectives and unique cultures, which can lead to a disconnect between the two. There are actions that board members can take to improve alignment to build a high functioning, strong hospital and medical staff relationship.

"The general surgeon sat down in the chair across from the CEO's desk with a nervous look on his face. "Fred," he began, "I have to tell you something and I know you're not going to like hearing it. My partner and I were approached several months ago by Specialty Surgery Associates, the big general surgery group in Westport, to join with them in building an ambulatory surgery center here in Hastings."

"We've signed a letter of intent to join with them, and we're announcing it in the newspaper tomorrow. The press release says we'll break ground in two months, and that we expect that we'll do our first surgery in about nine months. I wanted you to hear it from me first." Shocked, Fred at first was too stunned to speak. "Dan, I can't believe you and Joan made this decision without talking to me. We've had a good, open relationship all these years, and you and Joan are critical to the success of this hospital. If you move your surgical services somewhere else, we'll be in the red within 30 days."

"I understand, Fred, and we have had a good relationship for many years, one that's been good for us and good for the hospital too," said Dan. "But times are changing. Medicare keeps cutting our reimbursement, making it harder and harder for us to increase our income. And the board has been unwilling to invest in equipment and the new operating rooms we need. We just can't continue to grow our practice without more resources. That's our bottom line."

"But what about our bottom line, Dan?" said Fred. "Our reimbursement isn't keeping up with costs, either. And every payer is cutting payments. We can't afford to lose surgery services. We don't have the money to recruit new general surgeons to take your place. And even if we did, we'd just be competing with you. You know we depend on the revenue

and profits from surgery services to subsidize the badly needed services we don't make money at, or can't charge for."

"I guess you and the board should have thought about that earlier," said Dan. "And as far as hospital revenues go, our consultants told us you'd cry financial hardship. But maybe what you need to do is just cut your expenses like we've had to, and find some other new services to offer. And don't make me feel guilty about not being able to subsidize money-losing services. That's what your not-for-profit tax exemption is for."

"Cut expenses? We've already cut everything we can," Fred said. "We'll have to lay off people, and cut salaries. And what about the investments we've already made in equipment and facilities for you and your partner? We're still paying for those now. And new services? By the time we identify and develop anything to take the place of what we'll lose, we'll be so far in the red we'll never be able to climb out. This is going to hurt the hospital, our employees and the community. This is just not right Dan."

"Fred, you're making this all about you and the hospital. That's not what it's about," said Dan. "It's about patients and quality. We think we can do more surgeries at less cost and with better outcomes in our own surgery center. That all adds up to better patient service and patient satisfaction. All that's in the hospital's mission. If you really believed in your mission, you'd support us in this venture, not be critical of us."

There was a long, uncomfortable silence. Neither Fred nor Dan wanted to look the other in the eye. Finally, Fred said, "I can't believe after all these years it's come to this, Dan. Is this really the way it has to be? Can't there be another way?"

Why Would Something Like This Happen?

Hopefully, this is a scenario that you'll never see play out at your hospital. And in order to do everything to ensure that it doesn't, it's important to understand what would cause a situation like this to occur.

While there are many pressures that may be at the center of this type of issue, there are four key factors that would most likely drive it:

- The first factor is that hospitals and physicians simply have different kinds of financial needs and financial pressures. These pressures can result in split interests, and a sense of disconnection. It's important for board members to understand how those financial pressures differ, as well as where they converge;
- Secondly, hospitals and physicians don't always share the same mission, values and vision. The hospital's mission and vision is typically much broader and more community health improvement centered, while physicians mission is more narrowly focused on individual patients and practice development;
- Thirdly, Fred and Dan, while they know one another well, had a damaging lack of meaningful, close and timely communication. Had they been on the same page, and working on ways to align their interests as much as possible, their split could have been averted; and
- Finally, like everything that happens in the hospital/medical staff relationship, board inattention to the importance of building a culture of collaboration, cooperation and the pursuit of opportunities with mutual self-interest can contribute to the development of problems that may remain below the administrative and governance radar screen.

The hospital/medical staff relationship should be a trusting partnership, where both the medical staff and the hospital's executives and governing board work closely together to provide consistently high quality, safe care for patients. Unfortunately, there is too often a "division" between hospitals and their medical staff, a sense of "us" vs. "them" in many areas critical to the hospital's success in achieving its mission and vision.

What Alignment Creates

Alignment between the hospital and the medical staff creates a number of positive outcomes that are vital to success in meeting the needs of patients and the community. Once effective alignment occurs, it creates strong and meaningful participation, collaboration and mutual benefits for both the

Building Trust

The following list includes both suggested tactics that can help build trust and also behavior that should be avoided. When creating a strategy to improve alignment consider your organization's level of trust and whether these tactics may encourage building trusting relationships.

Tactics That Work:

- Begin by listening. Encourage open sharing of information—before, during, and after strategic and financial planning
- Refocus on values and create a mutually shared statement of mission, vision and values centered on quality patient care. Then live by it – assess every decision against the statement to see if the decision fits
- Appoint special project teams for program planning to build rapport among all participants
- Emphasize working together in "community health enhancement" teams to face common opportunities for health education, health screening, etc.
- Define roles and responsibilities clearly
- Recognize that the system creates rivalry, and study and refine the "art of compromise" and respectful idea exchange through communication
- Support physician leader development that helps clinical chiefs make better decisions and manage two-way communication with their physician colleagues
- Ensure that the infrastructure and bureaucracy of the organization is streamlined and does not prevent providers from doing their jobs efficiently and effectively
- Rally all parties into a cohesive group when faced with common enemies or challenges
- Remember that employees play a critical role in convincing physicians that leadership is trustworthy
- Define expectations for meaningful governance involvement

Behavior to Avoid:

- Rigid behavior models where the board mandates, management dictates, and physicians vacate
- Negativism or poor communication
- Mindsets or behavior characterized by control, manipulation, or threats
- Mindset that working with doctors is like "herding cats"
- Being secretive about hospital plans and budgets
- Surprising physicians with big plans that affect them

Source: Developing a Partnership Culture. Healthcare Executive. May/June 2002.

hospital and its medical staff. It encourages a sense of empowered and interdependent interaction at multiple levels through which both the hospital and the medical staff can build teamwork and align their understanding and solutions to common challenges.

In addition, it creates the capacity to form an agreement around a common commitment and a common strategic direction for achieving common objectives. And finally, alignment creates an atmosphere for the potential development of meaningful, value-driven economic integration that meets the needs of both the hospital and its physicians.

There's Much at Stake

There's much at stake in the enhancement and success of the hospital/medical staff relationship. In order for the hospital to be successful in achieving its mission and vision, it must be successful in ensuring that it's able to offer the most appropriate and needed services with high quality and safety.

Patient loyalty is a critical component in sustainable service success. That loyalty is driven by the patient's sense that the hospital and its physicians are working together in a coordinated way to ensure that their health care needs are met.

Patient loyalty and service success drive the hospital and its physicians' market reputation as collaborative health care leaders committed to a common purpose, and united in their drive for quality, safety and patient satisfaction.

And clearly, the community will benefit significantly more when hospitals and their medical staffs understand the community's most critical health care needs and perceptions, and put their collective shoulders behind unified solutions designed to deliver the highest level of community benefit possible.

All of this - success and service delivery, building and sustaining patient and community loyalty, building an unassailable market reputation, and delivering a level of benefit the community wants and deserves - result in the greatest opportunity to build sustainable financial strength that will fuel the growth and relationships of the future.

Aligning Hospital and Medical Staff Interests: Different Cultures, Differing Perspectives, Changing Needs

In order to successfully align the interests of the hospital and its medical staff, it's important to understand what's on physicians' minds today - what motivates their thinking, what challenges they face and how the significantly different mindsets and personalities of physicians and hospital leaders can be brought together around a common commitment and purpose.

Physicians face many significant practice development and professional growth challenges that can create either barriers or opportunities for greater alignment.

Three Things Physicians Want

Hospitals seeking to improve cultural and organizational alignment with their medical staffs should recognize that among the many things physicians are seeking, three things stand out:

1. All physicians continually seek ways to ensure that they're able to meet their patients needs. A major factor for physicians is having access to the equipment, services and workforce they need to do their jobs well
2. Physicians want to know hospital leadership is as committed to improving quality and safety in the hospital as they are to providing quality and safety in their does
3. Physicians want to know that the hospital is not satisfied with the status quo, but that instead hospital leadership is continually focusing on ways to improve the practice environment and respond to the dramatic changes that are occurring in the health care environment in ways that will benefit them

In an environment where costs are rising dramatically on all health care fronts, physicians' payments are under constant attack. Compensation limitations today, as well as concerns about compensation trends for the future, are causing an increase in physician interest in establishing "niche" services and facilities. While these niche services may increase physicians' volumes, they may erode the hospital's service base, and create new challenges for the hospital, particularly when the services are profitable, in its quest to provide under or unreimbursed vitally needed services.

In addition, the litigious nature of American society, coupled with broad access to information about quality and safety standards and performance, has fueled a striking increase in medical liability costs for physicians. This has caused some physicians to move their practices to states with less exposure to the risk of malpractice lawsuits, or close their practices altogether. In some areas, this has in turn put pressure on hospitals to curtail needed services, and invest significant resources into new physician recruitment.

Finally, many physicians today view the traditional expectation to perform call and serve on a variety of hospital committees as a burden rather than a privilege. Many physicians, particularly younger physicians, will increasingly expect to be compensated by the hospital for these kinds of activities.

Key Medical Staff Challenges

Physicians are challenged by many of the same issues facing hospitals today. Hospital boards need to recognize the parallels between the challenges they face and the challenges their physicians face, and determine strategies to address these issues collaboratively with their medical staff.

Because of years of payment squeeze by Medicare, Medicaid and commercial payers, physicians are increasingly seeking ways to generate new sources of practice revenue.

In addition, in order to reduce their practice costs physicians are increasingly looking for ways to improve the efficiency of their practices and the effectiveness of their operations.

Coupled with that is a desire to achieve a greater level of professional satisfaction during a time when financial, regulatory and operational pressures are greater than ever before, and a need among many physicians to improve their lifestyle, which oftentimes means asserting more control over their professional and personal time.

The Goal: A Tight and Trusting Relationship

Without a strong, robust, trustful relationship based on mutual needs and expectations, the medical staff and hospital will not be fully aligned, and the quality, efficiency and effectiveness of care may be affected. Both must see the arrangement as a partnership with equal give-and-take, and listen openly to the other's ideas and needs. With a strong, vibrant relationship, quality care is provided to patients, preserving services and improving patient loyalty and market share. This helps hospitals build financial strength and improves workforce morale.

A Hospital Where Physicians Would Send Their Family. The ultimate achievement is creating a hospital that physicians are loyal to, a hospital where they would send their own families for care without hesitation. How is this done? According to a recent survey by Press Ganey Associates Inc., the best ways to promote physician loyalty are to improve ease of practice, improve quality of care and stay adaptable.

- **Improve Ease of Practice.** What will make a staff physician loyal? Making their job easier. How can you do that? Make sure they have the tools they need—the services, the equipment and the personnel they need to effectively do their job.
- **Improve Quality of Care.** Physicians are genuinely concerned with quality of care. When they see high quality of care, they are more likely to recommend the hospital to their patients. It is important that physicians see the leadership's commitment to quality of care. This leads to physician loyalty to the leadership, and to the hospital itself.
- **Stay Adaptable.** When physicians perceive that the facility's leaders are adaptable to the health care environment, they become more loyal.

Collaborative Business Relationships

Collaborative business relationships are becoming more popular. In a recent survey conducted by *Trustee Magazine*, the Health Research & Educational Trust, and the Center for Healthcare Governance, CEOs and board members stated they have, or have planned, the following joint venture arrangements with physicians:

- Gainsharing: 15%
- Outpatient laboratory and/or Radiology: 37%
- Outpatient procedures (e.g., endoscopy, ambulatory, surgery): 36%
- Specialty hospitals: 2%
- No joint ventures: 47%
- Over 50% of individuals surveyed said their hospital is collaborating with physicians

Source: Boards and docs: A critical relationship. *Trustee Magazine*. February 2007.

A Shared Mission: It's All About Quality

Both hospitals and physicians place a high importance on quality of care. Unfortunately, when the two are misaligned quality may suffer. Patients also recognize that well-coordinated care is needed, but more than 40% reported experiencing "poorly coordinated, inefficient or unsafe care" in the past two years, according to a 2006 Commonwealth Fund survey.⁶ Improving quality continues to be a major initiative at many hospitals in the U.S., however misalignment is challenging improvement to quality of care.

When physicians and hospital leaders work together an environment of higher quality of care is created. Increased efficiency results, imaging and testing services are used more appropriately, and therapies are prescribed more carefully. Positive outcomes also may include a reduction in medication errors, better use of services, (such as outpatient services instead of inpatient), use of disease management programs and improving end-of-life care.

A quality project undertaken by the Centers for Medicare and Medicaid Services (CMS) demonstrates the potential quality of care improvement when the hospital and medical staff are aligned. Between 1991 and 1996, a CMS demonstration project tested the effectiveness of gainsharing. Gainsharing is a payment arrangement aligning physician incentives with that of the hospital. Four hospitals agreed to accept a global rate covering Medicare Parts A and B for patients having a coronary artery bypass graft (CABG). Two of the hospitals chose to implement a gainsharing program.

These hospitals found cost reductions in intensive care, laboratory, routine nursing and pharmacy services costs. Not only were costs reduced, but operating room procedures,

Warning Signs of Misalignment	
Below are some warning signs to be on the lookout for that may indicate a seriously damaged medical staff/hospital relationship:	
<input type="checkbox"/>	Communication breakdowns inhibit flow and accuracy of information between medical staff and the board
<input type="checkbox"/>	Lack of common goals
<input type="checkbox"/>	Sense of “separateness” and competition
<input type="checkbox"/>	Board heavy-handedness and isolated decision making
<input type="checkbox"/>	Insufficient physician representation in governance
<input type="checkbox"/>	Roles and responsibilities of the board and medical executive committee are not well-defined or clearly understood
<input type="checkbox"/>	Lack of mutual leadership
<input type="checkbox"/>	Lack of meaningful development programs for physician leaders
<input type="checkbox"/>	Lack of mutual leadership encounter opportunities such as retreats
<input type="checkbox"/>	Dysfunctional personalities tend to be elected to medical staff leadership positions

intensive care unit stays, and post-ICU stays were all reduced and patients had better outcomes overall.⁷ Participating hospitals determined that “aligning surgeons’ goals with hospital incentives to reduce costs was absolutely critical in changing practice patterns and improving department efficiency.”⁸

When medical staffs and hospitals are aligned, medical errors are reduced, patients have better outcomes, efficiency is improved and overall quality of care improves. Increased cooperation between the hospitals and physicians leads to better patient care and improved satisfaction. This common mission should drive alignment initiatives.

Causes of Misalignment

The differences in the drivers and mindsets of physicians, administrators and trustees are often significant. But the facts of professional training, experience, needs and expectations must be taken into account as alignment strategies are developed.

Think for a moment about the environment in which physicians do their jobs, and the environment in which administrators and board members carry out their responsibilities.

Differences in Perspective. Physicians are trained to react quickly and provide evidence-based diagnoses and treatments. In many cases they’re expected to have an immediate response and make rapid decisions under her intense time and

emotional pressure. In addition, they work autonomously and independently as advocates for individual patients in their care. They identify primarily with others in their profession, and by nature think, plan and act independently.

Now think about administrators and boards of trustees. Their perspectives and mindsets are almost opposite. They’re long-term planners and thinkers who engage in broad group discussions about organizational issues that may not be decided for weeks, months or years. They’re individuals who delegate much of their work to others and collaborate with broad range of constituents and stakeholders. And rather than focusing on individual patients, they have a fiduciary responsibility to meet the needs of the broad community in both clinical and non-clinical ways. Rather than relying on their independence, they instead value an ethic of interdependence on one another for consensus-based thinking and decision-making.

Besides the differences in the drivers and mindsets of physicians, administrators and trustees, several factors can disrupt the hospital/physician relationship, including a lack of consistent and meaningful physician involvement in hospital decision making; governance and leadership in attention to the current and emerging challenges that physicians face in building their practices; taking a dangerous “generic” view of the medical staff as a cohesive and like-minded group, rather than recognizing and understanding the real challenges, issues and needs of individual physicians and practices; and finding themselves in a situation like Fred and Dan, where the hospital and its physicians compete in the service arena rather than collaborate in ways that add strength and value to their respective missions and visions.

Noblis recently studied the root causes of hospital/physician misalignment. Noblis, formerly known as Mitretek Healthcare, is a nonprofit science, technology and strategy organization that helps clients solve complex systems, process and infrastructure problems.

Noblis’ electronic survey targeted 3,000 Society for Healthcare Strategy and Market Development members, and was completed by 362 individuals. In addition, more than 60 phone interviews were completed. One member, Richard deFilippi, a Massachusetts Hospital trustee, characterized the differences between physicians and hospital executives this way: “Physicians are not different creatures. Physicians do have a very different kind of pressure on them, though. It’s hard for most of us to really imagine the decisions and judgments that physicians have to make every single day. I’m not sure we realize how difficult physicians’ jobs are or how personally driven they are to do their jobs right.”

Similarly, physicians and executives have different expectations in relation to time. According to Dr. Joseph Bujak, Vice President of Medical Affairs for Kootenai Medical Center in

Idaho and a leading health care consultant, perceptions of time can create a division between physicians and hospital leaders. The definition of “now” is different to a physician than it is to an executive. For example, a member of the medical staff may tell an administrator that he needs new surgical equipment “now” and the administrator may agree to purchase the equipment, but it may not be purchased until the next budget cycle, which is “now” to the executive. These varying expectations can create frustration for physicians and lead to anger or distrust.

Poor Communication. Communication problems can also contribute to misalignment and are often due to cultural divisions and false assumptions between physicians and executives. Dr. Bujak states that physicians have an “expert” culture while hospitals have a “collective or affiliative” culture. In the latter, process is more important and respecting emotions is essential. On the other hand, accomplishing goals and exerting power motivate the physicians working in the expert culture.¹⁰

Dr. Bujak also lists two specific false assumptions that impact communication, negatively affecting hospital/medical staff relationships:

- **The medical staff is organized and structured.** Bujak argues that physicians long for autonomy, but are asked to work as a collective group, making decisions for the organization as a whole. This can cause the group to be reactive and not proactive. It hinders leadership, because when acting collectively, “physicians function as a town hall democracy in which one person gets one vote and majority rules.”
- **All physicians are alike.** Another false assumption is that all physicians are alike. Bujak believes that there is not enough dialog between the hospital leaders, board members, and physicians, and this creates a hostile environment where money and control becomes the focus.

Building an organizational culture and dispelling false assumptions will improve communication between hospital leaders and physicians creating a stronger, robust alignment.

Financial Pressures From Physician Competitors. Let’s go back to the conversation between Fred and Dan. Dan and his partner Joan were striking out on their own to join a large independent general surgery group. What’s motivating physicians like Dan and Joan to do that?

The desire to form or join physician-owned organizations is a function of the health care times we live in. Physicians are seeking more autonomy, independence and control. In many cases they are frustrated by systems, facilities and processes that stifle their desire for efficiency and productivity.

More than ever, physicians want to avoid bureaucracy and structure that impedes their ability to serve their patient’s needs with speed, efficiency, cost effectiveness and quality.

In addition, physicians want to capitalize on the availability of new technology, which they sometimes are not able to get through hospitals’ typical capital planning and allocation processes. They also want to improve their ability to provide high quality patient service and satisfaction, as well as increase their incomes and gain greater personal satisfaction from the work they do.

Traditionally hospitals and physicians have worked closely together in a synergistic, if not always sympathetic and streamlined manner, with each recognizing that it needs the other in order to be successful.

Today, however, in some cases physicians have emerged as the new competitors on the block, creating what hospitals view as additional strains on the hospital/physician relationship, and potentially eroding the hospital’s ability to create the most coordinated, collaborative and customer-centric care possible for its community.

Physicians, on the other hand, maintain that by carving out specialty services they are providing improved customer choice, improving access and quality, and bringing needed competition to the marketplace.

The problem for hospitals is that in many cases, competing with physicians in duplicated service areas reduces the hospital’s ability to successfully subsidize programs and services that are not reimbursed, or are inadequately reimbursed, but which are a critical part of the hospital’s community mission.

Competition with physicians over services can increase financial pressure on the hospital, and potentially cause community confusion about who is providing the best services, and why physicians are choosing to provide services outside the hospital setting.

In addition, competition contributes to medical staff turmoil, impacts workforce morale and can result in a loss of valuable employees who may choose to work in another care setting rather than continue to work at the hospital.

Not-for-profit hospitals are increasingly challenged to achieve their underlying mission and serve their communities as competition grows from specialty providers that tend to focus on profitable procedures, often called “physician-owned,” “specialty care,” “limited service” or “niche” providers.

Although the idea of limited service providers is nothing new, their recent rate of growth is. Limited service providers can be in the form of cardiac hospitals, cancer centers, imaging centers, mammography centers, ambulatory surgery centers

(ASC), pain centers, dialysis clinics and other facilities generally owned or at least part-owned by physicians who refer patients to them. The services and procedures offered at limited service hospitals are often the same profitable procedures that America's hospitals rely on to help subsidize the procedures that are under-reimbursed or not paid for at all, such as emergency departments and burn units.

In response to growing financial pressures and frustration with the health care system, physicians open limited service facilities with the objective of enabling their practices to be more profitable, increase their productivity and build greater satisfaction for their patients. In addition, by focusing on a smaller number of services and procedures, physicians' liability is limited and malpractice insurance becomes more affordable.

As a result, limited service providers have grown steadily over the last decade. According to the American Hospital Association, limited-service hospitals grew an average of 20 percent each year, from 1997 to 2003. Currently, surgical centers are the most common type of limited service provider, followed by providers specializing in cardiac and orthopedic services.

Lack of Trust. A lack of trust can directly affect alignment between hospitals and physicians. When physicians become unhappy or disgruntled with their experience with a hospital, they may become competitors.

Although both hospital executives and physicians believe in treating patients with quality care, each may have its own vision as to how to execute that goal.

A lack of trust will only continue to negatively affect relationships between hospital leaders and the medical staff. In order to create a meaningful partnership for patient care, both physicians and hospital leaders must move beyond competition to build better relationships and improve alignment.

Lack of Hospital Appreciation of Physicians' Challenges. The changing health care environment continues to strain physicians as they experience a loss of autonomy, rising malpractice costs, increased administrative responsibilities, competition, regulatory requirements, and tighter reimbursement. Many board members and executives do not fully understand the difficult economic pressures faced by physicians, in many cases they are not aware or educated about these issues, alienating physician participation because of the lack of understanding of the challenges they face.

The board needs to be willing to listen to and work with physicians in order to provide a positive outcome. It is also important to identify key objectives that affect both the board and physicians, strengthening the working relationship between the two through open communication. Effort must

be made to recognize physicians' goals and work to align these with hospital practices in order to encourage the two parties to work together.

But despite differences in mindset and direction, and despite the factors that can disrupt the hospital/physician relationship, one critical, single thing binds both hospitals and physicians, and has the potential to bring them together - a joint commitment to service, quality, patient safety and patient loyalty.

This is the centerpiece of creating meaningful hospital/medical staff alignment. Because while hospitals and physicians may disagree, or find themselves at odds on many things and in many areas, the commitment to providing the right care in the right way at the right time, in the safest manner and with the highest level of quality will always be at the heart of what hospitals and physicians are all about.

Bridging the Gap: Strategies for Success

Dr. Bujak suggests getting rid of the "generic image of physicians." He explains that boards "see doctors as this generic entity and are constantly asking questions conveying this bias. 'Tell me, what do the doctors think?'...What 'he said' suddenly becomes the gospel. The medical staff is not a singular entity, it is pluralistic. Boards...must stop dealing with THE medical staff and start dealing with physicians in subsets."

The question is, how do you do that?

The three strategies described below will help encourage a successful, steadfast relationship between hospitals and their medical staff. They include: 1) involving physicians; 2) understanding physician needs; and 3) creating mutually beneficial collaborative business relationships.

Involve Physicians. One key strategy for success is to involve physicians in hospital leadership. Physician leadership encourages loyalty to the hospital, and physicians have experience and knowledge that is beneficial to leadership.

What does the ideal physician leader look like? According to a roundtable discussion of health care experts, a number of important characteristics describe the ideal physician leader.

The experts discussed the importance of key personality characteristics. Good communication, people skills, honesty and the ability to be straightforward are all vital to gain respect as a leader. For those physician leaders who do not have formal business training, developing business skills through experience and further education can be important to supplement a clinical career. Keep these in mind as you make decisions about physician leaders. Encourage physician leaders, as they can improve physician loyalty and improve relations between the medical staff and the hospital.

Understand the Needs of Physicians. To maintain physician loyalty to the hospital, it is important to understand their needs, demonstrate to physicians the hospital’s understanding of the difficulties they face in practicing medicine, and show them what action is being taken to minimize or remove these obstacles. To ensure understanding, it is a good idea to conduct an annual medical staff satisfaction survey. This survey will clarify physicians’ opinions about a broad range of issues relating to their practice needs, and their relationship with the hospital.

Create Mutually Beneficial Collaborative Business Relationships. As previously mentioned, limited services hospitals are causing a disconnect between hospitals and physicians, and are threatening the financial stability of many hospitals. In today’s health care environment there are two choices for hospitals and physicians: either compete or collaborate. As Dr. Charles Peck stated in a story in *The Physician Executive*, “Physicians and hospitals collectively suffer from ‘mural dyslexia,’ characterized by an inability to read the handwriting on the wall. The handwriting is indeed clear.”

“Hospitals must collaborate with doctors because the most expensive piece of medical technology is the physician’s pen. In turn doctors must collaborate with someone, and the hospital remains the natural partner.” Creating mutually beneficial collaborative business relationships can lead to a robust, successful alignment and increase financial success.

Joint ventures are growing in popularity because they benefit both hospitals and physicians. Collaborative business relationships provide both defensive and offensive solutions, as hospitals want to continue to protect their existing market share and grow. It also allows them to have better control of the market while improving patient satisfaction and efficiency.

Steps to Build Alignment

Consider the five essentials below to help build a strong, sustainable relationship with the medical staff. When these five elements are embedded in the relationship, physician and hospital allies will be created.

1. **Trust.** Trust is an essential part of any successful relationship and is critical for building successful, lasting relationships. Without trust, doubt, uncertainty and reservations will ruin any potential for alignment. According to a recent article in the *Journal of Healthcare Management*, “no matter how innovative, equity-oriented, or financially beneficial the physician-health system relationship may be, they will fail in the absence of mutual trust and feelings of shared destiny that are engendered by the environment in which the relationships are forged.”

Physicians and hospital executives must trust one another. Barriers to trust include miscommunication, different backgrounds, and other issues discussed earlier. Renew trust and create an alignment between the hospital and medical staff by understanding the needs of both entities and using a board-driven alignment strategy.

Specific ideas for establishing trust include:

- Make a clear commitment to support physicians in the turbulent economic and operational challenges they face;
- Answer commitments with concrete actions to make the hospital a more productive, efficient environment for physicians;
- Include physicians in various stages of planning and budgeting to give them more responsibility for the hospital;
- Respond to physician input about quality and the general practice of medicine at the hospital; and

Building Strong and Sustainable Trust

Building strong and sustainable trust is achieved in a number of ways, including:

- Making physicians well aware of the board’s support in helping them cope with the challenges they face every day
- Ensuring that physicians are included in meaningful ways as true partners for hospital progress, and making sure they are involved in all critical areas of hospital decision-making
- Holding both management and the board fully accountable for defining physician alignment, and including it in the strategic plan as a strategic imperative
- Ensuring that all commitments are backed up with concrete actions and accountability, walking the walk, not just talking the talk of hospital/physician alignment
- Listening to physicians, not simply hearing what they have to say
- Making sure that physicians know that the hospital is committed to providing a consistent, well-defined and predictable commitment to helping them achieve their goals
- Developing joint statements of mission, values and vision that are mutually shared, but more importantly truly believed in and practiced by both the hospital and physicians
- Recognizing that while today’s health care system naturally creates tension and competitive challenges, it also creates unique opportunities for meaningful collaboration and joint ventures where additional value can be created and better service to patients and communities can be provided

- Keep the board up-to-date on increasing restrictions and economic challenges that physicians face. Allow opportunities for the medical staff to share these issues with board members directly.
2. **Communication.** When good communication is lacking, misunderstanding occurs. Steps for improving communication include:
- Make the CEO regularly available to physicians through dedicated time listening to and communicating with members of the medical staff;
 - Create systems that alert physicians of critical issues. Allow the medical staff an opportunity to provide input with the board about these issues before decisions are made;
 - Create means for regular communication with the entire medical staff; and
 - Provide physicians with a forum to provide input into important decisions before they are made.
3. **Voice.** Allow physicians to share their expectations, experiences and ideas in order to encourage a relationship built on trust and communication. Provide physicians with a voice by:
- Giving physicians adequate representation on the board of directors and on relevant board and hospital committees and subcommittees;
 - Including medical staff leaders at meetings where critical issues are discussed; and
 - Creating a formal program for training physician leaders.
4. **Relationships.** Building positive relationships between physicians and executives is critical. Tips and strategies to improve relationships include:
- Conduct an assessment of the current relationship and identify strengths and weaknesses that need to be addressed;
 - Provide assistance to help physician groups develop organizational maturity;
 - Improve communication between the hospital, the board and physicians. Include physicians on the board, and in joint planning activities, leadership retreats and social events;
 - Address conflict at the earliest possible stage;

Creating Opportunities for Collaboration	
<input type="checkbox"/>	Ask what makes a physician's life more convenient
<input type="checkbox"/>	Invest significant time in building relationships
<input type="checkbox"/>	Engage physicians intellectually
<input type="checkbox"/>	Challenge physicians to advance the institution

- Monitor the relationship and look for opportunities to constantly improve it;
 - Host informal social gatherings to promote relationship growth between administrators, board members and medical staff; and
 - Create opportunities for community events where executives, physicians and board members can see first-hand the impact of their joint initiatives.
5. **Connections.** Creating mutually beneficial collaborative businesses will establish a link between physicians and executives. Although creating joint ventures may not be an option for every hospital, there are many other ways to build alliances between the hospital and physicians and create opportunities for success for both.

Examples of Successful Collaboration

An example of positive health care relationships creating a successful hospital is Baylor Healthcare in Dallas. In 2002, the Baylor Jack and Jane Hamilton Heart and Vascular Hospital opened. This state-of-the-art cardiac hospital is a joint venture partnership between physicians and Baylor Hospital. According to former senior vice president and general counsel, John T. Thomas, "partnering with physicians not only brings capital to...community need, but more importantly... motivates physicians to bring their time, energy and talent to the design, operation and governance of more effective and efficient healthcare facilities."

Gains from this joint venture include increased efficiency and cost reduction. \$12 million in cost savings have been attributed to aligning physicians with equipment and better utilization of equipment and supplies.²⁰ This joint venture has been so successful that Baylor has opened an additional \$100 million joint venture cardiac hospital. Baylor's example demonstrates a model of good relationships having a positive effect on hospitals.

Reid Hospital and Healthcare Services of Richmond Indiana also decided to collaborate with physicians to fight potential competition. Located in a rural area close to the Ohio border, Reid serves a population of 300,000 and is the only hospital

Ten Tips for Improving Hospital/Physician Relationships	
In starting a campaign to improve hospital/physician alignment, consider these tips for better relationships.	
1	Open and honest communication
2	Physician involvement in decision making
3	Economic alignment with physicians where it makes sense
4	Improve efficiency to strengthen the practice environment
5	Support physician practice needs
6	Strong physician leadership
7	Positive organizational culture
8	Consistently high quality and safe care
9	IT partnerships
10	Board visibility and accessibility

within a 25-mile radius. In 2002, a for-profit company encouraging physicians to establish their own specialty hospitals was approaching physicians in the area. At the time, Reid was developing plans for a new hospital. Administrators at Reid were worried that the hospital would be built and at the same time their customer base would be destroyed. It became apparent that a joint venture with physicians was the best option.

Together with physicians, Reid created an ambulatory surgery center, an outpatient imaging center, a heart services center and a medical office building. The two also decided to share operational and financial responsibilities for outpatient services, which had been the sole responsibility of Reid. As Craig Kinyon, vice president and CFO said, "our fundamental belief in entering these joint ventures was that by sharing the pie and giving up some of our income streams, we could grow the pie for mutual benefit." The new hospital is scheduled for completion in January 2008.²²

Potential Problems with Collaborative Businesses

Creating a collaborative business enterprise is no easy task, and is not for every organization. Hospitals and physicians must complete a rigorous business assessment to determine the possibilities for success based on industry, market, financial and organization-specific factors. It is also important to investigate potential problems and issues. According to a recent article in *Trustee Magazine*, the following ten issues need to be examined before starting a new collaborative business:

1. **Business Activity:** Can this business legally be owned by a

hospital and physicians that refer their own patients? What is the technical legal description of business activities?

2. **Scope of Business:** What businesses are the parties willing to invest in? Does the hospital agree to share services it has been in control of in the past?
3. **Ownership:** Will the hospital accept ownership less than 51 percent and under what circumstances? What are the tax implications for different ownership ratios?
4. **Control:** Who will control the joint venture? Will it have a board or will the owners control it? Will control determine the ownership percentages?
5. **Investors:** What are the investment restrictions? Will all potential partners be allowed to invest? What about new partners? What about for-profit firms, like management companies?
6. **Reserved Powers/Guarantees:** Will there be noncompetition agreements prohibiting investment in other competing businesses? Are there any other compliance issues to iron out?
7. **Payment and Free Care:** What are the policies for patients who can't pay? Will Medicare and Medicaid patients be accepted? A charity care policy should be established to address these concerns.
8. **Valuations:** Are all parties willing to use third-party valuations of assets? This can add expense, but it protects parties under Medicare law and the IRS.
9. **Unwind Provisions:** Organized legal documents need to have unwind provisions written in. Have all parties considered what would constitute the deal to be unwound and how these scenarios would be handled?
10. **Structuring the Joint Venture:** Is a joint venture the best option for the business? There are alternative business structures that may be a better choice.

Complete transparency is needed for all parties involved in joint venture planning and formation. With an absolute understanding of the risks and technicalities of the business, all individuals included will know what they are getting into.

The Role of the Board: Creating a Culture of Collaboration

Think about the initiatives that hospital boards are pursuing to improve relationships and alignment between the hospital and physicians. What governance leadership is the board providing to ensure constructive relationships? In establishing goals, what is your 2012 vision for hospital/physician relationships?

Nine Steps to Understanding Physician Challenges and Building Alignment

The following nine steps describe a plan to gain understanding of the challenges and needs of physicians and the community and how to create a plan to improve alignment between medical staff and the hospital.

1	Develop a service area analysis. Research the payer mix, economic data and gather historical market and community health information in order to paint a picture of the needs of the community.
2	Profile the medical staff, examining hospital admissions and turnover and recruitment trends, listing physicians, by specialty type, age and clinic affiliation. This step will reveal how to create the right balance within the medical staff.
3	Survey and interview the medical staff to determine how to keep current staff loyal and motivated to provide great care for patients.
4	Interview trustees and hospital administrative staff to understand their view of medical staff needs for the hospital.
5	Examine trends in discharges and market share trends by major diagnostic code and zip code to understand market trends like outmigration.
6	Survey the community, examining viewpoints about physicians and the hospital, health risks and barriers to care in order to understand the needs of residents in the area.
7	Identify "gaps" in the medical staff, like emerging staff shortages, while involving physicians in planning to create a common mission and vision.
8	Create a medical staff/community needs summary report, summarizing the needs of the community and medical staff and incorporating the mission and vision of the hospital, projecting the staff needs and opportunities, and recognizing the factors needed for success will facilitate collaboration on opportunities.
9	Present results to the board, medical staff, management and others so they can understand and learn what is needed to improve alignment and build the best hospital to serve the community.

Create Partners for Progress. As trustees you must work to create partnerships between the medical staff and the hospital. The Center for Healthcare Governance suggests that the board do three things to facilitate a business partnership between hospitals and physicians.

- First, move beyond operational relationships into more physician-based partnerships for system-wide services, governance, accountability and incentives, and continuity of care and care improvement through technology.
- Second, create an environment that encourages physicians to work on business development, quality of care, customer service, simplifying internal systems, staying abreast of business trends and balancing risks and rewards.
- Finally, build an entrepreneurial infrastructure based on collaboration that develops funds for investment, establishes a business strategy, develops new business opportunities, and publishes results. For some organizations creating a business partnership between the hospital and physicians is the best way to align the two and improve relations.

Promote Collaboration. Board members need to be supportive and open-minded about new business ventures and the potential for improving the current business model. There may be many risks involved and trustees should determine if the benefits outweigh the risks. In order to maximize benefits and decrease risks, create hospital

collaboration policies and principles. Boards need to advise and consent to the mission, vision and goals, and create an environment of collaboration. All of these should emphasize partnership and acceptance of nontraditional health care models.

The Center for Healthcare Governance encourages collaboration that is supported by the board. "Hospital governing boards will need to take the lead in moving their organizations beyond only seeking excellent relationships with physicians to creating an environment of ongoing market-based collaboration. While proven models and emerging opportunities for these types of collaborations exist, the impetus for them needs to start with the board."¹⁹

Understanding Needs, Aligning Focus, Building Bridges: A Board-Driven Process

One of the ways to build trust, open up lines of communication, provide physicians with a real voice and build personal relationships is to involve physicians in very meaningful ways in understanding community needs and designing collaborative strategies for meeting those needs.

Accomplishing that requires a board driven process that engages physicians in assessing service area needs, gauging medical staff needs and opportunities, and collaborating on mutual opportunities for community service and community health improvement.

Here's a nine step process for accomplishing these important objectives:

1. ***The Market You Serve:*** First, work with the medical staff to assess your service area. That includes gathering historical market information, developing a demographic profile, with projections for the future, gathering and assimilating local-area market and economic data, assembling readily available information on community health status and risks, and analyzing the payer mix, and potential changes to that mix based on projected market trends.
2. ***Medical Staff Resources Today and Tomorrow:*** Next, work with the medical staff to develop a medical staff profile that defines medical staff resources today, and development needs for tomorrow. This part of the process would include an assessment of physicians by specialty, age, clinic affiliation, and other relevant factors; admission trends and volumes, by specialty; and an analysis of turnover and recruitment trends, with an eye toward determining medical staff development needs the future.
3. ***The View from the Physician Front Lines:*** Third, secure viewpoints from the physician front lines. You can do this by conducting a medical staff survey of physician viewpoints about the hospital, equipment and support needs and major issues and challenges facing physicians. In addition to a broad medical staff survey, some physician leaders should be interviewed personally to gain their insights about emerging opportunities, areas of physician need and requirements for future medical staff development.

The medical staff needs assessment can be conducted as an online survey or printed survey (or both), whichever best meets your medical staff's needs. Questions on the survey should be precise and focused, and the survey should be constructed to determine areas of agreement and disagreement in a variety of areas. It should also include several open-ended questions where physicians are invited to express their verbatim views in a variety of important areas.

Areas you may want to assess in your medical staff needs survey included viewpoints about hospital performance and support, ways to build increased hospital competitiveness, influencers of individual practice success, views about significant community health issues that need to be addressed, patient care issues, hospital strategic development challenges, information about referral patterns and the rationale for those patterns, ideas for service expansion of service improvement, and views about hospital recruitment needs and objectives.

4. ***Expanding the View: Additional Perspectives:*** Other personal interviews should also be conducted as part of the strategic assessment, including interviews with the hospital's administrative staff and trustees. These interviews should be used to compare and contrast non-physician leadership ideas and viewpoints with those of the medical staff to determine areas of concurrence and areas of divergence.
5. ***Where Do They Go, and Why?*** The fifth step in the process is to develop an analysis of patient outmigration trends. Outmigration should be determined by measuring discharges from various hospitals of residents of zip codes in the primary and secondary service areas. It should define the hospital's market share by major diagnostic category, or by DRG.
6. ***What Are the Needs? Making the Community Connection:*** The sixth step in the process is to conduct an assessment of perceptions about community health needs. This involves surveying residents' viewpoints about physicians and the hospital, community satisfaction with available health resources, an assessment of health risks, barriers to access to care, and perceptions about unmet health care needs. It should result in a projection of both current and future needs that will provide clear insights into service expansion opportunities and medical staff development needs.
7. ***Identify the Evidence-Based Medical Staff Gaps:*** At this point in the process you'll have the evidence you need to define any gaps between medical staff needs and medical staff supply. Your physicians will have been intimately involved in the strategic assessment process, and should be fully engaged in helping to design solutions and recommendations to fill the emerging gaps.

At this point you'll also begin to engage physicians in identifying ideas for joint hospital/physician planning to meet emerging needs, and you'll begin to come to a consensus around a common mission and vision for moving forward.

8. ***Collaborate on Opportunities:*** Once all this work has been completed you'll be in a position to develop a report that will summarize your process and findings to-date. The report would likely include the mission and vision, and relevant elements from the hospital's strategic plan that relate to process findings. In addition, it would include a projection of future medical staff development needs and opportunities, critical factors in ensuring alignment success moving forward, and joint recommendations to the board of trustees from medical staff leaders, administrative team members, trustees and others who worked together in the process.

9. **Come to a Consensus:** And finally, with a properly prepared and well-executed process will come a consensus that will be evident in the report that is presented to the board of trustees, the medical staff, the management team and others whose understanding and buy in to the process is critical.

- Assess the scope and value of the specific government's leadership your board is providing to ensure constructive hospital/physician relationships;
- Conduct a thorough, evidence-based, physician-centered community needs assessment; and
- Make hospital/medical staff alignment a strategic board priority, and back it with the appropriate resources.

Action Agenda

Real, effective alignment may not occur without strong leadership from the board. Here are some ideas for putting the power of governance to work:

- Have a focused discussion about the state of alignment at your hospital - your risks, needs and opportunities;
- Ask what initiatives are being pursued right now to improve hospital/physician relationships and alignment;

Conclusion

In the final analysis, trust between the hospital and the medical staff will be built on a foundation of collaboration, communication, common objectives and mutual dependence. Nurturing a trust-based hospital/medical staff relationship will help to ensure the hospital's ability to respond effectively to future issues and challenges.

Sources and Additional Information

1. Rice, J. Developing a partnering culture: the role of board and management in improving medical staff relations. *Healthcare Executive*. May/June, 2002.
2. Berenson et al. Hospital-physician relations: cooperation, competition, or separation? *Health Affairs*. December, 5, 2006.
3. Orlikoff, J. and Totten, M. The hospital-physician relationship: redefining the rules of engagement. *Trustee Workbook*. February 2005.
4. Are you looking for a fresh start with your MDs? *Hospitals and Health Networks*. May, 2005.
5. Mitretek Healthcare. Strengthening hospital-physician relationships presentation. *Trustee Conference*. January, 12, 2007.
6. Schoen et al. *Public views on shaping the future of the US health care system*. August, 2006.
7. Wilensky et al. Gain sharing: a good concept getting a bad name? *Health Affairs*. December, 5, 2006.
8. OIG. Fact sheet: federal anti-kickback law and regulatory safe harbors. November, 1999.
9. Jeffries, C. "Herding Cats: Leadership is Possible."
10. Bujak, Joseph. How to improve hospital-physician relations. *Frontiers of Health Services Management*. 20:2.
11. Schein, EH. *Organizational culture and leadership*. San Francisco: Jossey-Bass, 1992.
12. The Governance Institute.
13. Fabrizio, N. What can MDs bring to your board? *Trustee*. January, 1999.
14. HealthLeaders panel of experts. Physician leadership: more than clinical excellence. *HealthLeaders Roundtable*. October 2002.
15. Thrall. Money matters, but MDs want much more. *Hospitals and Health Networks*. February, 2007.
16. Peck. The Enterprise Circle. *The Physician Executive*. January/February 2001.
17. Boards and docs: a critical relationship. *Trustee*. February 2007.
18. Lifton and Bryant. Establishing principles for hospital-physician joint ventures. *Trustee*. February, 2006.
19. Developing a Partnership Culture. *Healthcare Executive*. May/June 2002.
20. Healthcare Financial Management Association. Baylor finds success with joint venture specialty hospital. *HFMA wants you to know newsletter*. February, 8, 2006.
21. Baylor Healthcare website. <http://www.baylorhealth.com/aboutus/press/2007/012607b.htm>. Accessed 6/13/07.
22. Healthcare Financial Management Association. Report 4: joint ventures with physicians and other partners. *Financing the future II white paper*. 2006.
23. Center for Healthcare Governance. Exploring hospital-physician business relationships: what trustees need to know. *Monograph Series*. 2005.



Larry Walker is the President of The Walker Company, a Lake Oswego, Oregon-based healthcare management consulting firm.

Larry has been a long-time governance leader, both as a consultant and a trustee. He served for six years as Chairman of the Board of Trustees of 107-bed Mt. Hood Medical Center, Gresham, Oregon. He has also been a trustee of Portland, Oregon's Legacy Health System and two of its predecessor organizations, Healthlink and Metropolitan Hospitals, with a combined 12 years of governing service to these three systems.

Larry serves as a special consultant to the American Hospital Association.



HEALTHCARE CONSULTING

4848 Hastings Dr.
Lake Oswego, OR 97035
TEL: 503-534-9462
FAX: 503-534-9462
Email: lw@walkercompany.com
walkercompany.com

One source. Many solutions.

The business of health care is changing—rapidly, dramatically, daily. Hospitals and health systems need fast, flexible, forward-looking solutions to the challenges that determine their future. The Walker Company offers a range of services that can improve governance effectiveness, sharpen organizational intelligence, and enhance strategic competitiveness to help you keep pace with today's turbulent change.

Our strength is our ability to clearly understand your unique needs, and create programs and solutions targeted at meeting those needs in a timely, cost-effective and outcomes-focused manner. We develop unique, customized approaches to meet your needs. We work in partnership with you to deliver the results you seek, always striving to ensure that the return on your consulting investment exceeds your expectations. Our services work together to provide you with the resources you need to improve organizational performance.

GovernanceWORKS™

GovernanceWORKS™ is a comprehensive governance development solution for hospital and health system boards of trustees. Through GovernanceWORKS™, The Walker Company serves as your dedicated governance development resource. We provide continuity, independent and informed outside viewpoints, and practical, organized and coordinated approaches to improving governance and leadership.

- Governance Diagnostix™, a top-to-bottom examination and analysis of governance structure, functions and effectiveness
- AssessmentWORKS™, a comprehensive board self-assessment
- KnowledgeWORKS™, a complete and wide-ranging governance education and knowledge-building resource, with education delivered both onsite and online
- SuccessionWORKS™, a total trustee recruitment solution
- PerformanceWORKS, a solution for conducting an accountable CEO compensation and performance evaluation process

RetreatWORKS™

Leadership workshops and retreats are a valuable tool to build understanding and teamwork, develop collaboration and consensus, and forge solutions and new directions. We custom-tailor our retreat planning and facilitation approach to achieve your critical objectives: Participation, interaction, creative thinking and results. Our services include:

- Pre-planning and preparation, including objectives and logistics
- Meeting materials, including agendas, name tents, case studies, background materials, retreat evaluations and other meeting support documents
- Meeting facilitation and management
- Development of a comprehensive, action-oriented summary retreat report
- Follow-up consultation on next steps

OpinionWORKS™

We plan, design and carry out a wide range of research solutions that improve organizational intelligence, build knowledge, and result in new success-building initiatives. We employ online surveys, printed surveys, focus groups and key informant interviews designed to meet your unique needs.

- Employee opinion surveys
- Medical staff surveys and needs assessments
- Community attitudes and needs assessments
- Key issues surveys
- Marketing effectiveness assessments

Leadership. Trust. Performance. Results.