Questions Physicians Should Ask When Considering Employment by an Integrated Health System

By Daniel K. Zismer, Ph.D

In this article...

Examine the questions you need to ask to better evaluate how physicians are treated in an integrated health care system.

An increasing percentage of physicians leaving residency and fellowship training are likely to join large, complex and, perhaps, national integrated health systems. An “integrated health system” is one that offers an employment opportunity to physicians (typically an employment contract with a defined compensation and benefits package).

The mature integrated health systems seek to establish long-term relationships with physicians as employees. These systems can provide satisfying professional opportunities for physicians. A substantial part of the success of the relationship for the physician and the health system is getting the relationship right from the beginning, establishing clarity regarding expectations for all concerned.

The rationale for integration should be clear and be supported by system leadership. If the organization is moving in the direction of integration “reluctantly,” a warning signal should sound. If integration is embraced enthusiastically (meaning leadership is supportive of physicians as employees and partners), the interested physicians should apply an “analytical framework” to evaluate the situation.

The framework provided is organized into four quadrants (see Figure 1):

1. Organizational compass
2. Organizational strategy
3. Organizational structure
4. Organizational finance and related financial strategy

Within each quadrant three questions are provided to kick off discussion. Each question should not be difficult to answer for the well-prepared integrated health system leader. A context for evaluation of the answers is provided for each quadrant.

Organizational compass

Question 1: What is the mission of the organization?

A succinct organizational mission statement should exist. A mission statement is a declaration of why the organization exists, the people it serves and the promises it makes to those served (the “value proposition” of the organization). Missions should not only be stated, they should be “lived.” When an organization lives its mission it’s obvious. The mission should be conveyed with ease and enthusiasm to those who may join.

Question 2: What values guide the organization?

“Value sets” are clear and concise and should roll off the tongues of leaders with ease. Values are the basis for organizational culture, behaviors, and behavioral management. Typically only a handful exists, but these are an important few words. It’s also fair to ask how values translate into behaviors for the organization. Examples are useful here: “Tell me how values guided a challenging decision for the organization.”

Question 3: What roles do physicians play in the culture of the organization?

In the more organizationally advanced integrated health systems, physicians will play key roles at four levels: governance, senior leadership, service-line operations and physician practice management. Maturing integrated health systems will readily evaluate the roles and importance of physicians in these four areas. The organizational design should be explicit regarding how and where physician...
Organizational direction

**Question 1**: What is the vision for the organization?

A vision statement describes a destination. That destination may not be temporally bound. In other words, pursuit of the “end-state” may be timeless, such as: “Recognition for superior clinical quality, safety and value for those served.” A well-crafted vision statement distinguishes an organization from its peers. It’s inspirational and lofty, but practical in scope and application.

**Question 2**: What are the organization’s goals?

Big goal statements should exist. They should support the vision statement. They should indicate organizational direction and strategic investments, and should imply measurable outcomes. Only a handful may exist. A handful is sufficient. Too many and the organization can easily lose perspective on priority of effort. The obvious related question is, “How should physician resources and potential be applied to help achieve these goals?”

**Question 3**: What is the organization’s strategy?

Strategy is the road map to goals. Without a clear roadmap the journey is “Brownian motion.” The strategy is how goals are achieved. The best strategies are clear and easily understood. They may be challenging and not without the question, but they are clear nonetheless. Of particular importance here are areas of innovation for the organization; especially innovations around the clinical programs, clinical models, operations and the application of physician efforts to innovation in the strategy.

Organizational structure

**Question 1**: Where do physicians “fit”?

Physicians should be more than advisors to management within the organization. The organizational structure (described within the organizational chart) should identify specific jobs (roles) for physicians. Job descriptions should exist, as should responsibilities and accountabilities. Physician leaders and managers are paid for this work and rank and file physicians should have clear reporting accountabilities vis-a-vis physician managers and leaders. If physicians aren’t directly accountable for the mentoring, managing and leading of peers, the organization is not sufficiently mature.

**Question 2**: Do physicians have assigned and funded roles as managers and leaders within the organization?

Physicians should “fit” at four levels: governance, management, operations and practice management. If physicians are viewed as production workers only in the health system, there is reason for pause. Physicians, like other professionals, are knowledge workers within successful integrated health systems. Knowledge workers contribute beyond roles assigned to the production lines.

**Question 3**: How are physician leaders and managers developed and what are my opportunities?

Advanced organizations will have a defined physician leadership development program, a method and model for identifying, nurturing and educating the emerging physician leader. Many integrated systems will have funded programs in this regard.

Finances and employed physicians

**Question 1**: What is the most recent financial performance of the organization and what are the historic and projected trends?

The goal here is an understanding of the financial health of the organization in a context of peers and the strategic (and financial) plans of the organization. The organization should be able to benchmark itself against peers and provide a summary of how credit agencies view the organization.

At least five metrics are useful here (others pertain):

1. **Operating margin**: This ratio measures the net operating income produced per dollar of operating revenue earned. Think of this ratio as the net profit or “net bottom-line” of the organization. A ratio of from 3.2 percent to 4.5 percent should be expected. This ratio does not include returns from investments.

2. **Cash-on-hand**: This measure is expressed in “days” (days of operating cash available to the organization.) It, in essence, demonstrates how many days the organization could support (fund) budgeted operating expenses with no operating income. The higher the number, the better here. Days cash on hand should fall above 150. If above 275 (for example) which is on the high-side, a reasonable question is “are you under-investing in the organization?” There is no right or wrong answer here. The point is too little cash-on-hand is problematic; too much may be an indication of under-investment in the organization and its strategy.

3. **Debt to revenue**: Here the question is one of leverage; does the organization carry too much or
too little debt. Too much and the organization is not positioned well for future investments in facilities, technologies and strategy; too little may be an indication of an overly conservative leadership. This ratio is, perhaps, the most simple of all in this category. This ratio combines short- and long-term debt divided by operating revenues. A lower number can be better here; typically lower than about 38 percent. If, for example, the ratio was 40 percent, the relevance is for every dollar of operating revenue earned in a year, there is 40 cents of debt carried by the organization. Again, an organization can carry too much or too little debt. The goal here is a discussion regarding debt ratios and how debt is managed.

4. **Capital spending ratio:** An important question for a practicing physician in an integrated health system is “does my organization invest in facilities, technologies and equipment at a rate equal to or greater than the rate at which it wears out?” (Generally referred to as the depreciation rate.) Here a capital spending ratio above 1.0 indicates that an organization is, in fact, investing at a rate beyond normal depreciation. Some in the industry would denote a positive difference between 1.0 and the actual rate as the strategic investment rate. Look for a range of from 1.5 to 1.8. Higher is better here to a point meaning from about 1.5 to 1.8, the organization is investing at a rate above normal depreciation; if the ratio is above 1.8, a reasonable question is “How long can this rate of investment last without jeopardizing the overall financial health of the organization?”

5. **Revenue mix ratio:** The question here is to what extent the revenue performance of the organization is balanced, at least balanced between inpatient and outpatient services. While there are no established industry standards here, research in this area demonstrates that the balance could be 1:12, meaning for every dollar of inpatient services revenue there is a dollar earned from outpatient (ambulatory) services. Integrated health systems are likely to see more growth in the ambulatory services areas with more profitability associated with these services. Again, no industry standards exist here. The conversation should, however, be had. The issue is one of future strategic development and related investments and clinical services portfolio balance.

**Question 2:** How is the organization investing in its future overall as well as within my area of clinical interest specifically?

Organizations that are financially healthy (according to readily accepted industry standards) will be investing in the ongoing growth and development of the organization in at least five areas:

1. Clinical programs and technologies
2. Informatics and information systems
3. Revenue mix ratio
4. Capital spending ratio
5. Financial structure

Figure 1
Questions to Ask When Joining an Integrated Health System

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<thead>
<tr>
<th>Quadrant #1: Organizational Compass</th>
<th>Quadrant #2: Organizational Strategy</th>
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The four-quadrant framework for evaluating an opportunity for physician employment by integrated health systems is sufficient as a conversation starter. There is no tried and true analytical model for making an important career decision. Questions beyond those offered are fair game, especially those with a focus on clinical quality and the customer experience.

Physicians moving from training to employment, especially in complex, integrated health systems, should feel comfortable leading a structured interview process. The mature, integrated health system will welcome the prepared, physician employee/partner candidate.

References