

# Creating a Cost-Effective Process for Physician Recruitment

**S**urveys show that the No. 1 issue keeping health-care CEOs awake at night is the need to recruit enough quality physicians to meet growing patient-care demands. The Council on Graduate Medical Education (2005) predicted that physician shortages in the United States may reach 10 percent, or 96,000 providers, by the year 2020. Studies show that a disproportionate number of physicians in this country are over age 50 and will reach normal retirement age in the next five to 10 years. (U.S. Department of Health and Human Services, Health Resources and Service Administration, Bureau of Health Professions 2006). At least one survey shows that as many as 20 percent of current physicians plan to retire if the country adopts universal health coverage (LocumTenens.com 2008).

There are many reasons to expect widespread physician shortages, including the retirement of Baby Boomer physicians, differences in work habits of younger physicians, population growth rates in an era of capped medical school and residency positions (American Medical Group Association and Cejka Search 2006), increasing numbers of patients seeking medical care under universal health-care programs, advances in



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medical testing and early interventions (Council on Graduate Medical Education, U.S. Department of Health and Human Services 2005), and the uneven distribution of physicians across the country. Clearly, finding and recruiting enough of the right kinds of physicians to care for patients will continue to be a problem for most health-care delivery systems in the years ahead.

### **THE TRUE COST OF FILLING AN OPEN STAFF POSITION**

Business relationships between hospitals and physicians are once again changing. Hospital executives understand that the economic engine driving the success of their organizations is the physician who admits patients to their institutions and utilizes their facilities. The formula is simple: no patients, no margin. At the same time, physicians are finding it more difficult to practice independently and profitably in the face of declining reimbursement.

Hospitals and physicians have a choice of competing with each other for every available health-care dollar, or forming closer partnerships to provide medical care more cost effectively. Many are choosing partnership over competition. Although joint ventures are becoming difficult to implement because of Stark 2.5, other arrangements, including direct employment of physicians by hospital systems, are on the rise. These new relationships are changing the role of hospitals in physician recruitment. When physicians are employed by private medical groups, hospitals often provide financial support for signing bonuses, relocation expenses or salary guarantees. When physicians are employed directly by a hospital or a health-care system, the employer must absorb all recruiting costs.

Health-care systems are finding the recruitment of physicians to be expensive and time-consuming, especially in light of current shortages. Even so, many systems fail to understand the true cost of filling medical-staff positions. The hard costs of recruitment, such as airplane tickets and hotel rooms, are easily quantified. But soft costs are typically overlooked, as is the cost of leaving a position vacant for a period of time. Both hard and soft costs must be considered if an organization wants to improve the efficiency of its recruitment efforts.

Soft, or indirect, costs properly include the time spent evaluating the need for a new physician before a decision to hire is made. If recruitment is necessary because of an overworked clinical department or growing demand for services, then little managerial leadership may be required to make the decision. But it is not uncommon for a system to feel a need to recruit a new physician despite the local medical community's opposition. For example, a hospital might want to bring in a bariatric-trained laparoscopic surgeon as a strategic move to maximize reimbursement at a bariatric center of excellence, even though surgeons in the local community believe they have the capacity to meet the surgical need. In this situation, CEOs and other executives must spend many hours selling the strategy to the medical staff. While costs associated with these activities are difficult to track, they are legitimate indirect costs of recruiting.

Many organizations have in-house HR professionals and support staff assigned to the recruiting function. Salaries and benefits for employees filling these roles are clearly indirect recruiting costs, although allocating a portion to a specific recruitment may be difficult.

Even hard costs are sometimes overlooked in the process of budgeting to fill an open position. For example, consider the cost of recruiting a new interventional cardiologist. Table 1 shows the typical cost of identifying, interviewing and relocating a physician.

As Table 1 illustrates, the typical cost of recruiting and relocating an interventional cardiologist in today's environment approaches \$100,000, especially if family members accompany the candidate for a site visit. The cost is steeper still if more than one candidate is interviewed. This budget reflects direct costs only, and not the indirect costs involved in the initial decision to hire and the use of in-house recruiting staff to screen candidates, arrange travel and lodging and develop interview schedules. Other indirect costs include the valuable time senior executives and practicing physicians take from their schedules to meet with and interview multiple candidates.

Counterbalancing the cost of recruitment is the opportunity cost health-care systems face when a position is unfilled for a period of time. A three-person interventional cardiology group that loses a physician while being fully staffed for three providers feels the loss acutely. Two providers simply cannot carry the patient load and call load of a three-person group for an extended period of time, yet they must maintain office staff and office space while working to recruit a replacement. Turnover is often referred to as the "silent killer" of an organization. Lost revenues, especially those stemming from a high-volume procedural specialist, can significantly impact a hospital's bottom-line performance.

For example, surveys indicate that an interventional cardiologist will generate average annual inpatient and outpatient net revenues of \$2,662,000 for the hospital

**TABLE 1** The Typical Cost of Identifying, Interviewing and Relocating a Physician

**Interventional Cardiologist Recruitment**

**Direct costs of recruiting:**

Advertising (Internet, print ads and mailings)	\$4,500
Site visit (travel, lodging, car rental, meals)	\$2,000
Second visit for home search*	\$2,000
Relocation costs	\$15,000
Signing bonus	\$40,000
Search firm fee	\$30,000
<b>Total</b>	<b>\$93,500</b>

\* Not including expense for family members' travel

(Merritt, Hawkins & Associates 2007). Also an interventional cardiologist will generate inpatient and outpatient net revenues and \$1,124,000 for the practice, on average (Medical Group Management Association 2008). Assuming a conservative 20-percent margin for the specialty of cardiology, the cost of recruiting a physician to fill an opening in an established practice can reach \$850,000 or more, as shown in Table 2, if recruiting the new physician takes 12 months.

Health systems often overlook opportunity costs when evaluating the cost of recruitment, but these need to be included if the cost effectiveness of the recruiting process is to be maximized. A process that is completed in a six-month timeframe is more cost-effective than one that takes a year, even if it requires greater outlays for a search firm, signing bonuses or relocation allowances.

Opportunity costs are lower for practices that are recruiting to expand services than at established practices that lose a practicing physician. Even then, efforts to shorten the recruiting cycle will pay dividends by maximizing productivity. And efforts aimed at encouraging loyalty and retention are important to reducing the need for physician recruitment in the long term.

## DEVELOPING A COST-EFFECTIVE RECRUITING PROCESS

As an organization begins the process of recruiting a new physician, it can increase its chance of success by focusing on these four key questions:

- 1 | How can the candidates needed to fill the practice openings be attracted?  
Is the correct pool of potential candidates being reached?
- 2 | How does the recruitment process distinguish this organization from others that may be trying to attract the same candidates?
- 3 | How can a financial proposal be structured to be attractive and fair for both the new physician and the hospital?
- 4 | What is the organization doing to retain this physician over the long term?  
Is enough being done to retain the current medical staff?

**TABLE 2** Interventional Cardiologist Recruitment

**Opportunity cost of an unfilled position over one year:**

Lost practice revenue (net)	\$1,124,000
Lost hospital revenue (net)	\$2,662,000
<b>Total lost revenue</b>	<b>\$3,786,000</b>

**Total cost of recruitment:**

Lost margin at 20%	\$757,200
Direct recruitment cost for successful candidate*	\$93,500
Travel expenses for 5 unsuccessful candidates	\$10,000
<b>Total</b>	<b>\$850,700</b>

\* Not including expense for family members' travel

Recruitment processes need to be well-designed from start to finish. Examine every step, from advertising, sourcing and interviewing candidates, and making an offer, through orienting and acclimating a new provider and his/her family to the community.

With more Baby Boomers reaching retirement age every year, and provider shortages growing across the country, physicians seeking new employment opportunities have literally dozens of openings to consider. Practicality makes it impossible to interview for every open position, so candidates are generally selective and contact only those organizations that make an impression, often on a “gut level.”

An organization must endeavor to reach the maximum number of qualified candidates through every available means, even as it focuses its recruitment efforts on those most suited to its openings. Using a variety of advertising modalities is a must, and the Internet is high on the list of information sources for today’s tech-savvy candidates. Institutions need to have a top-of-the-line Internet site to attract top-of-the-line physician talent. Don’t be shy about promoting an advanced level of technical advancement and a focus on quality patient care. These two factors are important to the young providers coming out of training.

One way to reduce recruiting costs is to limit the number of candidates brought in for a site visit. Many search firms suggest using telephone interviews to narrow the candidate list to three or four per opening. Remember that, after a first round of interviews, candidates will frequently narrow their options to the top three positions that made a positive impression.

On-site interviews will require a significant investment of time by members of the recruitment team. This team should include the senior operations executive from the physician practice, the chief medical officer of the physician group, a senior executive from the hospital or system, and the recruiter who has had the most contact with the candidate during the sourcing process. In addition to formal interviews, consider having an informal, social gathering including other physicians from the practice.

The connection between the recruiting team and the HR professions needs to be strong to ensure that the facility is offering a competitive salary and comprehensive

## RESOURCES PLUS

For more information related to this paper:

[www.worldatwork.org](http://www.worldatwork.org)

Type in any or all of the following keywords or phrases on the search line:

- “Recruiting methods”
- “Cost of turnover”
- Attract and retain.

[www.worldatwork.org/bookstore](http://www.worldatwork.org/bookstore)

- *Building Pay Structures: How-To Series for the HR Professional*
- *Determining Compensation Costs: How-to Series for the HR Professional*
- *Employee Engagement Fundamentals: A Guide for Managers and Supervisors.*

[www.worldatwork.org/education](http://www.worldatwork.org/education)

- Pricing Critical Skills and Unique Positions (Competitive Market Pay), Seminar
- Market Pricing — Conducting a Competitive Pay Analysis, Certification Course: C17
- Fundamentals of Equity-based Rewards, Certification Course: T11

benefits plans befitting the position. Pay careful attention to other factors such as work schedules, call schedules, integration of the physician into the organization's culture, and effective socialization for the family members within the community.

If candidates are coming from outside the immediate area, they will benefit from a tour that highlights the positive aspects of the community. Local real estate agents can be an excellent resource for this purpose. Rather than showing individual properties, ask the real estate agent to discuss the neighborhoods, school systems, amenities and resources within the community. This is an opportunity for the candidate and his/her spouse to relax and begin to envision their lives in what may be their new home town.

## **REDUCING PHYSICIAN TURNOVER**

Turnover is a reality that every organization faces. Newly trained physicians who are leaving their residency programs for their first clinical position are at the highest risk for turnover. Surveys show that 61 percent of physicians who leave a practice do so within the first three to five years (American Medical Group Association and Cejka Search 2006). The good news is that simply having an active retention strategy has been shown to increase physician retention. The components of a retention program should reflect the culture of the organization. A successful retention strategy addresses both financial and nonfinancial issues that impact a physician's decision to stay, including the quality of patient care, state-of-the-art diagnostic facilities, system responsiveness to issues and a reasonable call schedule.

To encourage retention, make sure close attention is being paid to how physicians are integrated into the management structure of the hospital or health system. Too many systems simply "paste" a new physician organization onto the side of the organization chart, giving little thought to the leadership roles physicians may expect to play, or to the outward signs of status and prestige they may expect to be accorded.

Remember that physicians who leave private practice to join a hospital or health-care system give up equity ownership in their practices, reducing their opportunities to accumulate wealth and defer income for retirement. A physician's benefits package should include attractive accumulation programs that are capable of generating retirement benefits comparable to those in private practice. Properly structured, these programs can be a significant factor in encouraging long-range retention.

## **SUMMARY**

Recruitment and retention of physicians has repeatedly been identified as the major issue being faced by hospitals and health systems today. Currently, open positions far outnumber new physicians coming out of training, and potential recruits have a wider range of openings to choose from than in the past. As shortages grow, retention will become an even-greater problem as job offers for good physicians will come from all directions. The cost of recruiting

combined with system losses related to open positions can easily approach the \$1 million mark. Inefficient, ineffective recruiting and retention strategies will magnify those costs as physician shortages worsen.

Health systems that develop an effective recruiting process, provide competitive compensation and benefit programs with wealth accumulation opportunities, and focus on creating a satisfying work environment for the medical staff will position themselves for success in serving the needs of their patients. ■

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