Our Age of Anxiety is, in great part, the result of trying to do today's jobs with yesterday's tools.
—Marshall McLuhan

This chapter is divided into two parts. Part I covers the organization of medical group practice and deals with the various structures, characteristics, methods of governance, and other important issues related to the many forms of medical group practice. Part II discusses the operations of medical group practices and how these operations are organized into functional departments, or divisions in the case of large groups. The issue of quality and the management implications of quality are also addressed.

Part I: Organization

When Home State Mining Company opened the first medical practice in 1,870 to care for its growing workforce in the remote parts of the West, it could not have been predicted that medical groups would become such a significant modality for physician practice in the delivery of medical care in the United States. Although over 140 years have passed, consolidation of group practices has been slow, and group practice size on average has remained small.\(^1\)

The reason for this, very likely, lies in the nature of medical practice itself and the nature of technological uncertainty as described by James Thompson. Thompson classified technologies as being either long-linked, mediated, or intensive. Medical practice is an example of an intensive technology where a "customized response" to a given set of circumstances or contingencies is necessary,\(^2\) as shown in Figure 2-1.

In addition, Robbins discusses the concept of decision maker divergence as a significant reason why organizations and decision makers' interests do not coincide. In this construct, the ability of an organization to grow and become

![Figure 2-1](image-url)
structure at all; a simple general partnership is the next step in the development of a group practice.

**Taxonomy of Medical Groups**

By definition, medical groups must contain at least three practitioners working within a common organizational structure. Groups share expenses and services and almost always bill under a single tax identification number. Special requirements for designation as a group practice are also defined by the U.S. Department of Health and Human Services Office of the Inspector General and will be discussed later in this chapter. Furthermore, one can think of groups as being either confederate models, in which the practices tend to be loosely affiliated, or centralized models, in which the practices tend to be closely affiliated.

Figure 2-3 shows a taxonomy of medical groups and the relationship of the different forms. There are many variations in the structure of a group practice, but all typically fit into one of these categories.

Of course, this taxonomy is incomplete. Groups are also organized by single- or multispecialty status. Single-specialty
groups are common in cardiology, surgical specialty, OB-GYN, pediatrics, orthopedics, behavioral medicine, rehabilitative specialties, internal medicine, neurology, and many others. The more divergent the specialties in terms of their economics and the nature of practice, the more difficult they can be to bring together under one structure.

The many organizational forms of medical groups have evolved in response to the needs and interests of medical practitioners as they have sought to adapt to a changing environment and to overcome the inherent nature of practices to stay small. In this sense, the medical group practice is a pragmatic entity. The definitions of each form are constantly varying and assuming characteristics of several forms.

One question needing to be answered when considering which group practice structure to use is: How will the structure influence the culture of the group and the governance system that the group envisions? As illustrated in Figure 2-4, the governance structure of a group affects the culture, which ultimately influences the operational nature of the group. For example, if there is not a centralized governance system and the culture of the group is biased toward significant physician autonomy, then operations will likely be variable with standardization lacking.

The degree of integration varies widely according to design and group type. Solo practices obviously have no integration with other practices, whereas in confederate models such as independent practice associations (IPAs) and management service organizations (MSOs), some services, identified in Figure 2-5 as “soft resources,” are shared and integrated by the organization. In the fully integrated centralized group, all resources are shared.

**Considerations for Structuring Practices**

Choosing a practice form requires the consideration of a number of points. In general, organizational forms offer...
different advantages and disadvantages to the physician
and patients. They are generally related to:

- Liability of owners
- Control
- Continuity of the business entity
- Transferability of assets and ownership
- Capital formation
- Taxation
- Benefit plans

Virtually every state has adopted statutes that govern
the formation and operation of corporations, partnerships,
and other forms of commercial ventures. Since 1961, most
states have special statutes specifically related to the orga-
nization of professional organizations. In some states,
these are referred to as “service corporations,” signified
by the designation SC. In other states, the designation
PA is used, which stands for “professional association.”
The principal feature distinguishing these organizations
from other incorporated entities is that medical profes-
sionals are not protected by malpractice liabilities in an
incorporated medical practice. A malpractice claim can
and does pierce the corporate veil, and the physician is
held liable individually for any acts of malpractice.

The other major difference in the treatment of PAs
and SCs is in the area of taxation. These entities are essen-
tially treated as individual taxpayers. They are taxed at
the highest individual tax rates and are required to have
a calendar year for their fiscal year for tax purposes. This
was a response by the IRS to the use of the professional
corporation by small practices to defer income between
tax years.

In addition, centralized practice structures and con-
ferate forms have different attributes that determine
the level of satisfaction of the physician with the practice
form. Figure 2-6 shows a list of several attributes that
have been identified by physicians as being important to
their satisfaction with practice. Centralized forms have a
tendency toward certain attributes and confederate forms
tend to move in the opposite direction.

**Organizational Forms**

A large number of practice structures and variations
of those structures are possible for a medical practice.
Although clear distinctions are sometimes made among
these forms, they often have much in common and, in
some cases, vary more by name than function.

General partnerships (see Figure 2-7) are the simplest
form of group practice organization. Partnerships are cre-
ated by a contract commonly referred to as a partnership
agreement, which specifies the terms of the partnership.
These entities are characterized by the following:

- There is an agreement on the nature of the enterprise. Two or more individuals (remember that a corporation is an artificial person in the eyes of the law, and therefore may form partnerships) agree to work together by contributing their assets, skills, and efforts in whole or part in the pursuit of the practice activity.
- Partnerships are pass-through entities for taxation. Profits or losses are divided in accordance with the partnership agreement, and the partners then declare those profits as income on their personal tax returns.
- General partners have unlimited liability for the debts and torts of the partnership and their partners.
- Upon the death of a general partner, the partnership ceases to exist.

The greatest advantage of a partnership is that it is easily formed. Partnerships are generally controlled by the owners, and decision making is usually by consensus.

Unlike a partnership, a corporation (see Figure 2-8) is an artificial person created by the law. However, state legislators have placed a number of limits on what a corporation can do and what its legal rights are. First, corporations have a right to buy and own assets, borrow money, enter into contracts, sell interests or shares in the ownership of the corporation, commit torts, may also commit crimes, and make income. They can be taxable or tax exempt, but are taxed under the corporate tax provision of the Internal Revenue Code. Ownership of the corporation is seen as having some level of independence from the corporation. Individuals that have an interest in the corporation are called shareholders. An important distinction between corporations and partnerships is that corporations and their shareholders can easily exchange their ownership interests without dissolution of the corporation. This allows a medical group practice to add shareholders and remove shareholders as needed while the integrity of the organization remains intact.

Although it is seen as a person under the law, a corporation does not have all the rights of a living person. A corporation may not vote and has no Fourteenth Amendment rights, so states may tax and impose fees on corporations for the privilege of doing business in a particular state.

Corporations are created by filing articles of incorporation in accordance with state law. A charter is then granted for the corporation to operate and engage in the lawful activities it was created to do. It is important to note that corporations may not practice medicine and may not be licensed to practice medicine. Furthermore, corporations, being constructs of legislation and having no free will, are required by law to operate according to their charter or bylaws. It is, therefore, essential that a group practice carefully consider the operating parameters established in its organizing documents.

Most large medical groups operate as corporations. Physicians typically join the practice under an employment agreement. Unlike publicly traded companies, becoming a shareholder in a group practice is usually not automatic and often requires more than a simple purchase of the stock. The incoming shareholder purchases the stock in the medical group in accordance with the stock purchase agreement. These agreements specify the terms for the purchase and sale of group stock and any restrictions related to its sale. One common restriction, for example, is that the stock must be sold back to the corporation upon death or departure from the practice for any reason. The use of a stock restriction agreement is extremely important, because, although states have statutes that require all members of a professional corporation to be licensed professionals, the state does not require that stock be sold to members of the existing corporation or to the corporation in the absence of a stock restriction agreement.
Figure 2-9 shows the organization of a typical group practice.

**Hybrid Corporate and Partnership Forms**

Although the corporate form is the dominant practice organizational form for medical groups today, they can vary in form.

The limited liability partnership (LLP) is a variation in the partnership form that has some characteristics of a corporation in the area of taxation and extends liability protection to its partners. Similarly, limited liability corporations (LLCs) and the S-Corp are variations of the corporate form and have some characteristics of the partnership. S-Corps, for example, are pass-through entities for taxation much like a partnership, but still have the corporate veil for protection from nonprofessional liability. A more detailed discussion of this can be found in J. Stuart Showalter’s book, *Southwick’s The Law of Health Care Administration.*

**Physician Hospital Organization (PHO)**

One form of group practice that combines the hospital and the physician group or groups into a single organizational structure is the physician hospital organization (PHO; see Figure 2-10). This form usually occurs when a hospital or its parent company acquires a medical group through the purchase of the group practice’s assets and the employment of the physicians directly by the hospital corporation or through a medical services agreement executed by the corporation.
A large MSO has the ability to employ more highly skilled and, consequently, more expensive people in the organization and leverage more expensive technologies for more efficient operations because these costs can be spread over a larger number of physicians. In most cases, MSOs are capitalized by outside investors and are managed independently of the medical group.

The disadvantages are largely related to the difficulty of separating out these essential functions from the practice should the relationship with the MSO prove to be unsatisfactory. Once the arrangement is in place, it is extremely difficult to undo, rehire staff, and rebuild the necessary aspects of the practice operation. It is essential that practices contemplating such an arrangement do so with great care and due diligence. Performance

Parent Healthcare Organizations

Hospital Division

Foundation 501(c)3

Physician Organization 501(c)3

Can be a 501(c)3 corporation or a C-Corp. Individual hospital, IDS, or multihospital system

For-Profit Division

Physician Organization for Profit

Figure 2-10 Physician hospital organization.

This form offers some clear potential advantages. Many arrangements that would be prohibited or very difficult and complex can be accomplished in the routine course of business for the PHO. This includes such things as joint marketing, contract negotiation for professional services contracts, managed-care contracts, purchasing, and the sharing of such assets as information technology. Another advantage is the access to capital for the purchase of increasingly expensive new technologies and practice development.

The major potential disadvantage is the loss of control over decision making and the potential inflexibility of a larger organization.

Management Service Organization (MSO)

Management service organizations (MSOs) are not actually medical groups at all; the MSO and the medical practice are usually two distinct organizations (see Figure 2-11). MSOs are entities that provide management service support to practices through a contract relationship. The MSO generally contracts with several practices to provide similar services. These contracts specify the nature of this relationship, which generally involves billing and collection of practice accounts receivable, personnel management contract administration, and most of the administrative functions of any medical practice. The advantage of this arrangement is the potential for having higher quality management and administrative service at a lower cost.

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Figure 2-11 Management service organization (MSO).
Independent Practice Association (IPA)

An independent practice association (IPA) is a loosely affiliated entity that is not as widely employed today as in the recent past. Many IPAs formed when managed-care plans were seeking to contract with a smaller number of providers at discounted fees with the promise to direct larger numbers of patients to those providers. The IPAs often share risks with the managed-care plans and accept a defined number of patients while agreeing to provide care at a fixed price or capitated fee (see Figure 2-13).

IPAs are usually operated by a board or management committee derived from the practice participants and a professional staff.

The popularity of IPAs has waned as capitation and risk-sharing arrangements with physicians have declined. IPAs that experienced difficulties did so because it was often difficult to properly evaluate risk for the patient population being serviced. Managed-care organizations also had difficulty in providing enough patients to an IPA so that the risk associated with the contract was predictable in actuarial terms.

IPAs may also function similarly to MSOs by providing management services and a way for many practices to share resources. In the case of the IPA, however, such relationships tend to be partnerships between the practices, and the IPA agreement is actually a partnership agreement.

The need to generate profits from aggregated businesses accustomed to distributing 100% of the income to the physicians as income seemed to be a clear problem with the model. PMCs simply could not live up to their promise of increasing income to physicians, improving group performance, and providing an acceptable return to public shareholders. PhyCor, one of the largest and oldest of the PMCs, was delisted by the National Association of Securities Dealers (NASD) in November 2000 after posting over a $400 million loss.5

In contrast, Pediatrix is a publicly traded medical group that has met with great success, even though its business model is similar to a PMC. The PMC is not a complete relic of the past, and as with many medical business models, it requires a careful examination of asset acquisition cost and operations to produce an optimal outcome.

**Practice Management Company (PMC)**

Practice management companies (PMCs; see Figure 2-12) largely have fallen out of favor, with some notable exceptions. These entities essentially took the MSO concept a step further by serving as a vehicle to amalgamate practices under one corporation. Many of these organizations were able to tap large amounts of capital for acquisitions by becoming publicly traded companies. The advantage of this practice form is its ability to raise capital in the financial markets, but that has turned out to be as much a problem as an advantage.

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Typical Activities of Service Organizations (MSOs and IPAs)

MSOs and IPAs serve a variety of functions for the practices they support, and in many respects can replace some or all of the administrative functions traditionally

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**Figure 2-12** Practice management company (PMC).
operate as a single large group practice (see Figure 2-14). These structures may be tax exempt under 501(c)3 of the Internal Revenue Code.

Faculty practice plans and medical foundation models offer several advantages to the physician practice.

- They allow several independent practices to come together and contract as a single entity, which may offer strength in numbers to the managed-care company.
- Because the organization is tax exempt in most cases, more flexibility is available to the physicians for certain employee benefits such as nonqualified deferred compensation plans.
- The legal barrier to joint activities with the parent organizations is greatly reduced because they are a single organization.
- In the case of a physician with a faculty appointment at a medical school, it simplifies the ability of the practice to provide teaching services and maintain a private practice at the same time, with less legal concerns and barriers, because these activities are coordinated by one administrative organization.

The greatest potential disadvantage concerns the complexity of the organization and some of the unique regulatory challenges of working within a tax-exempt environment. Many medical groups distribute all or most of the organization’s income to the physician owners. IRS regulations have standards on reasonable compensation for employees of tax-exempt organizations, so care must

MSOs and IPAs also offer:

- Practice assessment
- Billing assistance, or provide the billing function
- Wage and hour administration
- Practice positioning, by serving as a clearinghouse for managed-care contracts
- Telemedicine
- Promotion and other marketing activities
- Continuing medical education
- Quality initiatives
- Vendor leverage and other economies of scale
- Access to capital
- Data collection and management
- Contract administration

**Faculty Practice Plans: Medical Foundation Model**

Faculty practice plans are group practices within a university setting or integrated delivery system (IDS). They have sometimes been referred to as “clinics without walls.” These organizations are mechanisms by which the medical school faculty or physicians servicing the IDS can

contained within the medical group. These services typically include:

- Assessing and developing local marketing plans
- Providing practice management support through the employment of professional managers
- Increasing coding expertise
- Developing a compliance plan
- Developing and complying with an Occupational Safety and Health Administration (OSHA) plan

Figure 2-13 Independent practice association (IPA).

Figure 2-14 Faculty practice plan—foundation models.
be taken to properly implement compensation plans to avoid private inurnment.

**Joint Venture (JV) Relationship**

Joint ventures (JVs) are special partnerships. They are usually entered into for a specific project or service. They can be between medical groups, between hospitals and a medical group, or among other entities (see Figure 2-15). These entities are highly regulated by the Office of the Inspector General (OIG) of both the federal and state governments because of the potential for fraud and abuse. JVs are often permissible when there is a low potential for abuse or the potential for community good exceeds the potential for harm to the Medicare or Medicaid program.

Most JVs attempt to comply with the various regulatory requirements by fitting into one of a number of safe harbors:

- **Investments in group practices:** Physicians are protected when they invest in their own practice if the practice meets the physician self-referral (Stark) law definition of group practice. This does not apply to physician or group-practice investments in ancillary services joint ventures, but those ventures may qualify under other safe harbors.

- **Investments in ambulatory surgical centers (ASCs):** Certain investment interests in four categories of freestanding, Medicare-certified ASCs are protected: surgeon-owned, single-specialty, multispecialty, and hospital–physician owned. The ASC must be an extension of a physician’s office practice for the physician to be protected as an investor.

- **Specialty referral arrangements:** A physician or entity is protected when referring a patient to another provider with the understanding that the patient will be referred back to that physician or entity at a certain time or under certain circumstances. Referrals must be clinically appropriate.

- **Cooperative hospital services organizations (CHSOs):** CHSOs are relations between two or more tax-exempt hospitals to provide specific services, such as purchasing, billing, and clinical services, solely for the use of the patron hospitals. The CHSO can be supported through operational costs and payments from a CHSO to a patron hospital.

- **Joint ventures in underserved areas:** Raises the limit on investments in a venture in an underserved area by “tainted” investors—those who refer to or provide services to the entity—from 40–50% and allows unlimited revenues from referral source investors.

- **Practitioner recruitment in underserved areas:** Protects recruitment payments made by entities to attract needed physicians and other healthcare professionals to areas in need of health professionals. Places certain restrictions on patient percentages and payment time limits.

- **Sales of physician practices to hospitals in underserved areas:** Allows hospitals in underserved areas to buy practices of retiring physicians for the purpose of holding them until the hospital can find a new physician buyer. The sale must occur within 3 years.

- **Subsidies for obstetrical malpractice insurance in underserved areas:** Protects entities that pay malpractice insurance premiums for practitioners engaging in obstetrical services in areas in need of health professionals.6

In addition, there are five standards of the group practice safe harbor:

- **Equity interests must be held by licensed professionals who practice in the group or by solo professional corporations owned by individuals who practice in the group.**

- **The equity interest must be in the group itself, not a subdivision of the group.**

- **The practice must meet the definition of a “bona fide group practice under the Stark law and implementing regulations.”**

- **The practice must be a “unified business” with centralized decision making, pooling of expenses and revenues, and a compensation–profit distribution system that is not based on satellite offices operating as if they were separate enterprises or profit centers.**

- **Ancillary revenues must be derived from services that meet the Stark law and implement the regulations’ definition of “in-office ancillary services.”7**

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![Figure 2-15](image)
The complexity and extent of the various legal restrictions on JVs has made them less attractive as possible business models for group practice. The penalties can be so onerous that, frequently, JVs will not service patients with Medicare or Medicaid because the JV cannot qualify for harbor status. The most serious economic penalty for the medical group and its physicians is exclusion from the Medicare and Medicaid program.

**Governance**

One of the most significant issues for medical group practice today is the issue of governance. What makes a group practice a focused and effective organization has much more to do with how the governance structure is organized than the practice's legal structure. As Figures 2-16 and 2-17 illustrate, the effective interaction of governance and operational activities are essential for the execution of the group's mission. Such interaction also ensures that the organization's mission is advanced by monitoring operational and governing activities.

Medical groups are traditionally viewed as professional collegial organizations. They have many unique features, but some that affect governance include that the primary producers are all the owners (in many cases), the governed are also the governors (which leads to many policy quandaries), and the notion that “My view should be considered above all else.”

This issue becomes more difficult, as well as more important, the larger and more diverse the group gets.
As groups grow, the need for a more centralized form of governance becomes important for many reasons:

- It becomes more difficult for members of the group to find time and to get adequate numbers of the group together to make policies.
- Information disequilibrium increases. Some people are aware of and understand the issues, and some do not. This may be due to poor communication or the lack of time to understand the issue or to be informed.
- The geographic limitations of attendance at meetings, calls, and other necessary absences from meetings make it difficult to deal with important issues.
- There is a lack of interest in topics for discussion.
- There is a sense that members do not understand the issues or that their participation is not needed or welcomed.

The Role of the Governing Body
The governing body of the medical group must deal with a number of stakeholders in its quest to provide effective governance of the group, such as:

- Physicians in the practice
- Other physicians in the community
- Employees
- Patients and families
- Payers
- Federal, state, and local government
- Communities at large
- Hospitals

There is widespread agreement that the principle role of the board is to:

- Develop the organizational mission
- Provide institutional goals and target (and monitor them)
- Hire, evaluate, compensate, and interact with senior management (e.g., CEO)
- Be responsible for providing quality of care
- Deal with external constituents (media, community, and government)
- Monitor the organization
- Develop plans (financial and other)
- Evaluate its own performance as a body

In medical groups, most members of the board are physicians; although their duty is to the group as a whole, they may find it hard from time to time to let their own interests or the interests of their specialty take a back seat for the good of the whole. Much of this may be a matter of experience on a governing body, adequate structure in the group for operational concerns that address individual and specialty needs, and education. Members that value the group tend to have a much easier time serving in a nonparochial manner.

A Board Job Description
It is very important that every potential member of the board understand his or her role and the expectations of the job. As an example, the following is what a board prospect sheet might look like.

**Member of the Board Job Description and Expectations**

**Purpose:** To advise, govern, oversee policy and direction, and assist with the leadership and general promotion of the clinic so as to support the organization’s mission and needs and to work closely with the administration of the clinic in order to achieve its goals.

**Number of Members:** Specify the number of members. The typical number is between 5 and 11, depending on the size of the group.

**Major Responsibilities:**

- Organizational leadership and advisement
- Organization of the executive committee officers and committees
- Formulation oversight of policy and procedures
- Financial management (to be defined)
- Reviewing and adopting a budget for the organization; reviewing quarterly financial reports, and assisting administration with budgetary issues as necessary
- Oversight of program planning and evaluation
- Hiring, evaluation, and compensation of senior administrative staff
- Review of organizational and programmatic reports
- Promotion of the organization
- Strategic planning and implementation
Length of Term: Specify length of term, which may be staggered.

Meetings and Time Commitment: Specify the time and location of meetings, such as, “The executive committee will meet every other Friday commencing at 7:30 a.m. and meetings will typically last one (1) hour (this may need to be revised).” An alternative is to have monthly meetings (2–3 hours) in the afternoon or evening (consider payment to participants).

Expectations of Board Members:
- Attend and participate in meetings on a regular basis and special events as possible.
- Participate in standing committees of the board and serve on ad hoc committees as necessary.
- Help communicate and promote mission and programs of the clinic.
- Become familiar with the finances and resources of the clinic as well as financial and resource needs.
- Understand the policies and procedures of the clinic.

Board and Committee Structure Establishing Committees: It shall be the responsibility of the executive committee to establish ad hoc and permanent standing committees as necessary to assist in the functioning of the clinic. Whenever possible, these committees should contain a representative of the executive committee to provide a proper liaison as well as an administrative staff person.

Typical Committees: Include finance, personnel, marketing, quality care, and technology. In an area where managed care risk contracting is a significant part of the business environment, a utilization management committee is common to oversee the risk management of such contracts.

Board Selection
Board members are typically selected by election. Election rules are specified in the bylaws of the organization. It is extremely important that the bylaws be properly adopted and that the procedures adopted by the bylaws be adhered to carefully. Failure to follow an organizational process correctly could result in a challenge to the legitimacy of the process and invalidation under state law.

Board Retreats
An essential element of group planning and strategic activity is the board retreat. This event combines educational time, by internal and external speakers, with time to consider issues that are of strategic interest to the group. These issues are often related to:
- Growth
- Competition
- Change in or development of new services
- Examination of future scenarios and how they will play out: what their effect will or will not be on the organization
- A reexamination or development of a mission statement

Outside Board Members
Increasingly, groups are beginning to behave more like traditional business corporations. As part of this change, groups are adding outside persons to the board to improve the governance process and to bring new ideas and perspectives to the board. These individuals must be chosen carefully with consideration to a number of important criteria. An example of these selection criteria for a clinic’s outside board member might be:
- Has a general understanding of the region, its business climate, political environment, and some of the key community drivers; has some perspective on healthcare and what is happening in the broad view
- A strategic thinker
- Willing and able to attend meetings
- Able to treat information discretely
- Some experience as a member of a board
- No conflicts of interest or its appearance (not someone looking to do business with the clinic)
- General business acumen
- Someone who can contribute to but not dominate the board
- Someone who has a history of working well in a group setting—a good fit
- Willing to sign a confidentiality agreement
- Willing to accept fair compensation

The Process of Governance Change
Many groups have boards that consist of all of the physicians or all of the physicians that have reached full shareholder or partnership status. Although this method may address the perennial question of autonomy and control, it does little to improve decision making or the speed at which decisions are made. To improve the speed of decision making, many large boards elect an executive committee that has the ability to make certain decisions on behalf of the organization without the vote of the full
Monitoring by the Board

It is important to develop a series of benchmarks that can be tracked by the board over time to monitor the progress and status of the group’s performance. This includes quality indicators, such as results of quality initiatives, comparisons with peer databases, and financial indicators such as:

- Gross revenue per RVU
- Collections per RVU
- Profit/net income per RVU
- RVU per MD
- Operating cost per RVU
- Employee salary per RVU

Relative value units (RVUs) make excellent measurement tools because they have become a standard part of group-practice management and reimbursement systems.8

Benchmarks need to be understandable and communicate a clear message as to their meaning, be reproducible over time, and be timely (old news is no news, and it is not helpful for quickly reacting to changing situations). Benchmarks also need to measure a key competency or key success indicator for the practice.

Having discussed the structural aspects of group practice, Part II explores the functional and operational components found in most physician practices.

Mission

One of the most important, but often most neglected, aspects of a group practice organization is the lack of a clear mission statement that is consistent with the values of the organization’s members. Here is an example of a mission statement:

The Good Clinic will provide care of the highest quality to our patients within an environment that is compassionate, ethical, and economically sound. We will accomplish this by:

1. Always putting patients first, maintaining clinical excellence, and seeking to improve care through research, system enhancement, innovation, and continuing education.
2. Being ethical in all of our dealings with patients, colleagues, employees, our hospitals, third-party payers, vendors, and our community.
3. Providing value to our patients, insurance carriers, and hospitals, and being seen as an asset to our community.
4. Having an effective organization that provides quality care, efficient service, effective communication, cost-effective treatment, and a competent and positive workforce.
5. Recognizing the value of the group—that we are greater than the sum of our parts.
6. Being focused on the creation of a positive environment that shows compassion and caring for our patients and our staff members.
7. Providing attractive salary and benefit packages that are competitive with all national standards, allowing the Good Clinic to attract and keep the most talented physicians and employees.

Part II: Operations

Administration
Nonphysician leadership and implementation of board policies is the principle role of medical group administration. This is accomplished by a coordination of the group’s departmental functions to produce the desired outcome. One of the most critical activities is the translation of policy to procedure (see Figure 2-18).

Policies must be stated in terms of actionable steps and procedures that can be communicated to employees. Policies should be documented in a way that allows for consistent application of policy in a reproducible way.

The function of administration varies in groups depending on a number of issues:

- Size matters. Larger groups often have more departments headed by professional managers that require less supervision and management by administration. In small groups, functions such as human resources (HR), marketing, and finance may be combined under the title of administration. In the context of this chapter, administration is synonymous with executive management.

- How involved are the physicians in the management structure of the clinic? The physician administrator team has been recognized as an important success factor for groups.

- The skill and education of the administrative group.

Administration generally falls into three board domains of group-practice administration:

1. The strategic, which can be either mission oriented or competitive in nature
2. The adaptive, reactive, or proactive
3. The operative, maintenance, or implementation

Figure 2-18 Policy and procedure development cycle.
Strategic planning and marketing are major functions found in the strategic domain. Michael E. Porter talks about three general aspects of strategy:

- Cost leadership
- Differentiation
- Focus

The medical reimbursement system does not provide a mechanism for strategies based on price. In the medical group system, pricing has very little to do with what is actually paid for a service, and price elasticity is not as relevant a concept as in most industries. Differentiation and focus have been the dominant strategies for medical groups. Group differentiators are becoming an increasingly important concern. Chief among these are quality and customer satisfaction. Focus is another widely used strategy. The single-specialty group and the specialty hospital are clear examples of focus strategies.

The American College of Medical Practice Executives (ACMPE) has developed an extensive document that seeks to define all of the critical areas of knowledge and skill necessary for an individual to be a successful administrator of a medical group practice. The ACMPE Body of Knowledge defines five general areas of competency for the group-practice administrator.

1. **Professionalism:** Achieving and preserving professional standards
2. **Leadership:** Supporting the organization's strategic direction
3. **Communication skills:** Interacting and presenting information clearly and concisely
4. **Organizational and analytical skills:** Solving problems, making decisions, and developing systems
5. **Technical and professional knowledge and skills:** Developing the knowledge base and skill set necessary to perform activities unique to the job, role, or task within the eight performance domains or areas of responsibility:
   - Financial management
   - Human resource management
   - Planning and marketing
   - Information management
   - Risk management
   - Governance and organizational dynamics
   - Business and clinical operations
   - Professional responsibility

**Best Practices**

A significant body of research exists on medical group practices and the traits that distinguish better performing organizations. According to data published by the Medical Group Management Association, better-performing groups have the following characteristics:

- Physician compensation usually rewards productivity.
- There is excellent communication between physicians and administrative staff.
- There is a productivity-oriented culture in the group.
- An emphasis is placed on quality care, reputation, and patient satisfaction.
- There is a physician administrative leadership team in place.
- A good relationship exists with referral physicians.
- Excellent control systems and budgets are used.
- Cost structures are known and understood.
- Central organization (delegation of decision making as opposed to consensus) is key.
- The entire staff focuses on customer service.
- New physicians are recruited to fit with the group and its culture.
- Management is delegated to administration.
- Administration is seen as professional colleagues and specialists in business.
- A culture of respect is in place.

**Risk Management**

Another important function for medical group administration is the area of risk management. The purpose of risk management is the mitigation of risk. Groups need an active risk management program. In very large groups, the function of risk management may be performed by an entire department within the organization or as a part of the legal department, but typically it is a part of administration. Risk management activities involve:

- The purchase of insurance for physical assets and liability (fiduciary liability directors and officers, malpractice, and bonds); however, these activities are certainly not limited to those that can be insured against
- Antitrust, fraud and abuse, criminal acts of all kinds, Health Insurance Portability and Accountability Act (HIPAA) violations, unfair trade practices, contract disputes, private inurement issues, and Stark I and II, all issues that have the potential to cause considerable harm to the practice, even as much as malpractice suits can
- The development of an effective quality assurance program, as described later in this chapter
- Contract administration, which includes a number of documents common to all medical groups
Contracts and Other Legal Considerations

Healthcare, including the medical group practice, is one of the most highly regulated industries in the United States. It is essential that the well-managed medical group consider this and be familiar with this enormous body of law and how it applies to the practice. This information is also critical in the proper development of policies and procedures to ensure compliance and legal operation.

Although malpractice is the first subject to come to mind in a discussion of legal matters that affect medical group operations, it is by no means the only issue. These issues can be generally divided into the following categories:

Patient care issues: Standards of care, informed consent, medical records, advance directives, malpractice, and reporting requirements.

Business issues: Reimbursement, Medicare and Medicaid, Stark and antikickback rules, credit and collection, contracts with payers and vendors.

Employment contracts: A host of laws devoted to human resource issues.

Licensure issues: Physicians, physicians’ assistants, nurses, nurse practitioners, and clinical laboratory, nuclear medicine, radiology, and cytology technicians are a key management concern for the medical group. Corporations and partnerships are also required to maintain business licenses, which requires filing with states in which the organization has been incorporated, and in which it operates.

Credentialing: Thousands of applications and renewals must be handled by this functional unit of the practice on an annual basis. Managed-care companies, hospitals, insurance companies, state regulators, and federal programs such as Medicare and Medicaid require an application for provider status and maintenance of pertinent records on a regular basis. Unfortunately, this activity varies dramatically from state to state and from company to company. A practice of 50 physicians could easily have over 2,000 pieces of credentialing that must be handled each year.

A medical license is required for each state in which the physician or other licensed professional practices. A practice also must maintain a Medicare provider number, a Medicaid provider number, and a provider number for managed-care organizations and insurance companies such as Aetna, CIGNA, United Healthcare, and Blue Cross and Blue Shield (several across the country).

Contract negotiations: The complexity of contracts and the significant consequences of signing a “bad” contract make this a considerable duty for administration to either carry out this function or manage the process if it is delegated to a law firm or in-house counsel.

Patient Flow

Effective group-practice operations begin with a well-organized and -managed patient flow system. Front office activities include the scheduling of patients and preparation for their visit to the clinic, as shown in Figure 2-19. These systems are usually integrated with the information technology systems of the organization and may be divided into smaller department functions for:

- Registration
- Appointment scheduling
- Patient arrival and check-in
- Patient management during their visit
- Patient exit

The physical layout of the practice is also critical for efficient patient flow. The steps that patients need to follow in preparing for and receiving their services should be logical, communicated carefully to the patient (verbally and through well-written information), and prompted by well-done and informative signage, as well as the careful observation of a staff that is well trained in customer service and the hospitality arts. Employees for a well-managed medical group should always be selected for their ability to interact well with patients and visitors and not just for technical skill. It is often possible to teach technical information, but it is much more difficult to train for customer service attributes.

Because patient waiting is one of the most frequent sources of dissatisfaction, waiting areas should be comfortable, with plenty of reading material or other activities such as patient education, either in written form or as video material.

Billing, Credit and Collections, and Insurance

Managing the revenue cycle is an essential function for the successful medical group. This is a very dynamic process that is constantly changing because of revisions in billing requirements by payers and as information technology continues to improve. Most medical groups use medical-practice software packages that contain all of the subsystems necessary for the effective documentation of
Electronic claims submission and remittance of payments through electronic data interchanges (EDI) These systems then provide for the creation of claims for reimbursement to Medicare, Medicaid, and all commercial insurance payers, as well as the creation of patient bills. Although attempts have been made to standardize claims processing, almost no standardization of billing and payment processes exists among the more than 1,000 health insurers in the United States. (The Centers for Medicare and Medicaid Services [CMS] has created the standardized 1,500 claim form, however, and HIPAA has

---

Figure 2-19 Patient flow.
mandated some standardization of coding and submission of claims.) Among the areas of variability are:

- Patient eligibility verification procedures
- Payer documentation requirements for certain procedures
- Bundling policies
- Modifiers and formats for explanations of benefits (EOBs)

The failure of our healthcare system to standardize the billing process has led to high error rates, denial of payments, and difficulty for everyone involved—the patient, the practice, and the payers.

The billing and collection process is covered by a significant number of rules and a large body of law. In addition, the billing process is very complex and varies greatly among payers. In an article published in the New England Journal of Medicine, authors Steffie Woolhandler et al. found that the cost of administration in the United States was $1,059 per person in 1999, compared to $307 in Canada. Although some are critical of the study and felt it overestimated the cost of the administrative burden of the U.S. health system (some $300 billion annually), no one doubts that the administration of our healthcare system is fragmented and cumbersome.

Because these systems vary by their specific functionality, each system requires a significant amount of training by the medical group for all employees that will use the system. Many groups maintain training facilities for this purpose because the cost to the practice for having poorly trained employees can be substantial in terms of revenue loss and potential penalties by payers, not to mention the delay in receiving payment.

Figure 2-20 outlines the revenue cycle for most medical groups from the entry of patient service information until the claim is paid and the cycle is completed.

**Medical Records**

The maintenance and safekeeping of a patient's medical record is the principal function of the medical records unit. These records contain the proof of what was done, who did it, how it was done, why it was necessary to be

![Diagram](attachment:Figure_2-20.png)
done, and where it was done; in addition, it contains a plan for future care. One could argue with great success that this is the most valuable and important document within the medical practice.

Most group-practice records contain:

- Physician notes including a treatment plan and treatments provided
- Operative notes
- Laboratory test results and orders
- X-ray test results and orders
- All other ancillary services that may be applicable to the patient
- Communication from other providers in the form of letters or other forms of communication, such as copies of records
- Hospital records, such as discharge summaries, operative notes, and copies of test results from the hospital
- Consultative reports
- Treatment plan
- Demographic information about the patient
- Identification of the last organization to provide service to the patient
- Details of the admitting or receiving clerk
- Patient demographics
- Insurance or health plan information
- Relevant appointments
- Diagnoses
- Allergies
- Medication list
- Physician orders
- Anticipated goals (care plan), including rehabilitation plans
- Home health or hospice information
- Follow-up
- Nurse detail
- Self-care status
- Disabilities and impairments
- Equipment requirements
- Nutrition details
- Therapist details
- Social service detail

One of the great challenges of medical records management is completeness. Patient records come from so many sources, as shown in Figure 2-21.

HIPAA

The new emphasis on patient privacy has also led to new challenges. The Health Insurance Portability and Accountability Act of 1996 (HIPAA) is a very pervasive law that affects many aspects of group practice. The law deals with:

- Privacy of patient information
- Security of patient information
- Transaction and coding standards
- Patient identifiers

It is essential that all employees are properly trained regarding HIPAA, and that all systems within the organization, including physical space, are vetted for HIPAA compliance.

Electronic Medical Records (EMRs)

One of the most dynamic areas of the medical group practice has been, and continues to be, the electronic patient record. After many years of development, however, electronic records are beginning to fulfill their promise of creating a reduced amount of paper records in the office. Although there have been electronic records systems for a number of years, and many of them have been capable systems, adaptations have been very slow, principally because innovation can be adopted only so quickly (see Figure 2-22). This fact can largely be attributed to the inherent difficulty of getting 100% adoption of the innovation, which is necessary to prevent the need to maintain multiple records systems.

Another problem is the multiple systems of medical records material; often there is a plethora of technological platforms and media formats. It is frequently impossible to find compatible ways to integrate the records, and these different medical records formats produce a regression to the lowest technological denominator. In many cases, it is paper. Scanning technology and the development of e.interfaces with computer systems, making them easier
Medical Records Institute, the driving force for implementation continues to show an upward trend, as shown in Table 2-1.

**Finance**

The financial structure of medical groups is not substantially different, or at least should not be substantially different, from other organizations. One significant exception to this operation is the fact that most medical groups still maintain their financial records on a cash basis accounting system as contrasted to an accrual system. Cash basis systems recognize expenses when they are paid and income when it is received. Accrual systems recognize expenses when incurred and income when it is earned. Cash basis systems are analogous to the way our income tax system works and is undoubtedly a remnant of proprietorship, which must operate in this way. Another reason such a system has endured is at least in part the nature of medical receivables, which at times can be difficult to determine. In addition, the reversion to an accrual system once a cash system has been in place represents a formidable challenge because it requires the recognition of receivables as income. In addition, most medical groups are privately held, which means a strict adherence to generally accepted accounting principles (GAAP) is not required.

![Figure 2-22 Adaptors.](image)

Table 2-1 Trends

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve the ability to share patient record information among health care practitioners and professionals within the enterprise</td>
<td>90%</td>
<td>83%</td>
<td>85%</td>
<td>73%</td>
</tr>
<tr>
<td>Improve quality of care</td>
<td>83</td>
<td>83</td>
<td>80</td>
<td>72</td>
</tr>
<tr>
<td>Improve clinical processes or work flow efficiency</td>
<td>82</td>
<td>78</td>
<td>68</td>
<td>61</td>
</tr>
<tr>
<td>Improve clinical data capture</td>
<td>81</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Reduce medical errors (improve patient safety)</td>
<td>70</td>
<td>73</td>
<td>71</td>
<td>59</td>
</tr>
<tr>
<td>Provide access to patient records at remote locations</td>
<td>70</td>
<td>69</td>
<td>66</td>
<td>58</td>
</tr>
<tr>
<td>Facilitate clinical decision support</td>
<td>63</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Improve employee/physician satisfaction</td>
<td>60</td>
<td>59</td>
<td>54</td>
<td>40</td>
</tr>
<tr>
<td>Improve patient satisfaction</td>
<td>40</td>
<td>38</td>
<td>36</td>
<td>n/a</td>
</tr>
<tr>
<td>Improve efficiency via previsit health assessments and postvisit patient education</td>
<td>30</td>
<td>28</td>
<td>29</td>
<td>n/a</td>
</tr>
<tr>
<td>Support and integrate patient health care information from Web-based personal health records</td>
<td>9</td>
<td>9</td>
<td>7</td>
<td>n/a</td>
</tr>
<tr>
<td>Retain health plan membership</td>
<td>0</td>
<td>4</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>729</td>
<td>293</td>
<td>296</td>
<td>358</td>
</tr>
</tbody>
</table>

In spite of the inherent difficulties involved in the move to electronic medical records, this is a trend that will continue. In a survey of providers conducted by the
Financial systems typically maintained by a medical group are:
- Payroll
- Accounts receivable
- Billing
  - Insurance
  - Government third party
  - Self-pay
- Employee benefits
- Accounts payable
- Financial reporting
  - Balance sheet
  - Profit/loss statements (income statements)
  - Budgets
  - Variance analysis
  - Service and receipt (and its various forms)
- Financial control and audit functions
  - Internal
  - External
- Compliance
- Maintenance of fee schedules and charge masters
- Chart of accounts

**Human Resources**
The human resources department is responsible for the orderly management of the most important resource in the medical group practice, its people. As shown in Figure 2-23, this involves a large number of functions:
- Evaluation of positions needed by the organization
- Creation of position-control procedures
- Establishment and preparation of job descriptions
- Salary administration, which includes the establishment of pay ranges
- Recruiting, which includes seeking candidates, interviewing, and testing
- Credential evaluation and verification
- Selection of applicants

![Figure 2-23 Human resources.](image-url)
Part II: Operations

- Hiring and the required statutory and organizational documentation
- Orientation
- Evaluation of performance
- Documentation of work to payroll

In addition, administration of employee benefits is a vital function. Some benefit plans include the following:

- **Paid time off or PTO:** This is sick leave and vacation or personal time off.
- **Statutory benefits:** FICA, Medicare, FUTA, and state unemployment benefits.
- **Pensions:** Money purchase pensions, 401k and 457 (b) plans in the case of not for profits.
- **Insurance benefits:** Health, dental, life, and disability.
- **Section 125 plans:** These are special employee reimbursement plans that allow pretax reimbursement of certain expenses, such as noninsured medical expenses, copays, deductibles, and child care. They are so named because they are enabled by Section 125 of the Internal Revenue Code.

Another critical function of the human resources department is development and management of personnel policies, which cover a vast number and variety of issues beyond the scope of this book. However, a typical personnel manual, which contains an extensive list of issues that must be addressed by the human resources department, might look something like this:

**Introduction**

Welcome .................................................................1
Introductory Statement ...........................................2
History of Clinic ..................................................3
Mission Statement ................................................4
Employee Acknowledgment ...................................5
Customer Relations ...............................................6

**Employment**

Contributions and Solicitations ...............................9
Donations ................................................................9
Equal Employment Opportunity .........................9
Business Ethics and Conduct ................................9
Gifts/Gratuitities ................................................10
Conflicts of Interest ..............................................10
Security and Privacy ............................................11
Hiring Relatives ....................................................11
Immigration Law Compliance ...............................11
Outside Work .....................................................12
Job Posting ........................................................12
Identification Badges ..........................................12

**Employment Status and Records**

Employment Categories ......................................14
Access to Personnel Files ....................................14
Employment Reference Checks ..............................14
Personnel Data Changes ......................................15
Introductory Period .............................................15
Employment Applications .....................................15
Performance Evaluations ......................................15

**Employee Benefit Programs**

Paid Time Off (PTO) ............................................19
Sell Back PTO ......................................................19
Service Years .......................................................19
Holidays ............................................................20
Bereavement .......................................................20
Uniform Allowance .............................................20
Jury Duty ............................................................20
Workers Compensation .......................................21
Health Insurance ...............................................21
Dental ...............................................................21
Change of Status ..................................................21
Short-Term Disability ..........................................22
Long-Term Disability ............................................22
Life Insurance .....................................................22
Retirement .........................................................22
401(k) and Profit Sharing Plans .........................23
Continuing Education ..........................................23
Family Medical Leave Act (FMLA) .....................23
Educational or Personal Leave ............................24
Military Leave ....................................................25
Parental Involvement Leave .................................25

**Timekeeping/Payroll**

Timekeeping .....................................................27
Paydays ............................................................27
Administrative Pay Corrections ..........................27
Pay Deductions and Garnishments ....................27
Overtime ........................................................27

**Work Conditions and Hours**

Safety/Reporting Injuries ...................................29
Work Schedules ................................................29
Use of Phone and Mail Systems ........................29
Business Use of Personal Auto ............................29
Parking .............................................................29
Media Inquiries ................................................30
Information technology (IT) is widely used for many of the functions found in medical group practices. Most larger medical group practices have now developed integrated networks to provide ready access to information and the ability to instantly update records and information related to various activities within the practice.

The IT department touches virtually every department in the clinic and provides the opportunity to share data and information and to easily access information for management and clinical use.

Often these networks include many subsystems that carry out a specific function, such as accounting, financial management, personnel and file maintenance, accounts receivable, accounts payable, billing, medical records, clinical reporting, quality assurance, and training. Figure 2-24
which can be greatly reduced when the referring specialist is connected to the patient care network. In interviews with physicians, here are some of the most common statements and findings:

- Referral coordinators are often on the phone 20 to 30 minutes to get an appointment.
- Managed-care influences access and administrative burden.
- Appointments are difficult to get in a timely fashion.
- Despite the proliferation of information technology, the referral process continues to lack sophistication, clear customer interfaces, and information flow.
- Specialist feedback, when provided, is written and sent through the mail.
- Patient records are often misplaced.

Patient Communication and Access

Some 25% of patients use the Internet for health information.\textsuperscript{15,16} The Internet is becoming the great “democratizer” of healthcare information. Patients, however, want that information to come from their physicians. In a recent survey of 400 patients with an average age of 59.1 years, 44.1% indicated they had access to e-mail; of those, 58.6% said they would like to communicate with their physician in this manner. Certainly, this finding supports the idea that healthcare is becoming a more collaborative venture between the physician and the patient.

Facilities Management

For smaller practices with a single location, facilities management may be a function within administration. The function of facilities management is to acquire and maintain the physical facilities of the organization. This involves:

- Leasing or purchase of the space
- Construction management of building or renovation projects
- Acquisition of fixtures, such as office furniture and equipment
- Maintaining the property and equipment to ensure that the clinic is able to function at all times

These activities may also be done through a series of outsourcing and maintenance arrangements, such as maintenance contracts, but the coordination and supervision of this function cannot be overlooked. Facilities that are in poor condition or not functioning not only are ineffective, but also can be a considerable liability to the practice.
Purchasing and Supply Management

The purchase of supplies and other necessary items for the practice requires special attention to the following concerns:

- Dependability
- Discounts for bulk orders
- Price and quality
- Relationship with current vendors
- Customization
- Market exclusivity
- Value
- Delivery schedules
- Guarantees
- Safety for the purchasing agent

In addition to control, automated procurement provides the practice with better opportunities for inventory control and taking advantage of economies of scale when purchasing.

Clinical Activities and Departments

Medical group practice provides a large variety of patient services in addition to the physician visit. Physician services are often loosely divided into office-based services and hospital-based services, but the line is rapidly beginning to blur. Group clinic operations often include:

- Clinical laboratory services
- Radiology services
- Ultrasound
- Nuclear medicine
- Computerized axial tomography
- Nuclear magnetic resonance imaging
- Outpatient surgery, sometimes within the context of the ambulatory surgery center
- Dietary counseling services

Other clinical services such as preventive care are often organized into a unique department of the group practice.

The organization of each medical service department requires careful attention to a host of legal, licensing, and regulatory requirements. It also may be necessary in many states to obtain a Certificate of Need (CON) or other regulatory approval for certain services, depending on the cost of the service and the compliance of the service with community standards of care and state health plans.

Clinical services must be organized and managed by properly licensed and knowledgeable professionals. Such services also require adherence to standards that are established by various professional societies and credentialing bodies. Approval and certification of operations often are required by state departments of health and by major payers before payments are made on behalf of covered individuals.

Quality Assessment: An Important Focus

A major barrier to change and improvement activities in medical groups is the problem of variation. Variation equals cost. This variation, as noted earlier, is one inherent reason for the slow growth of group medical practice. In addition, the variability in the delivery of care has
been associated with the fragmentation of quality and the inability to leverage economies of scale to any great degree in physician practice.

This has become one of the most important areas of concern for the medical group. The Institute of Medicine (IOM) released a report, “To Err Is Human,” which has been a hotly debated topic, but nonetheless has strong support from the social science and economics disciplines. These are issues that everyone in group management needs to understand, and these issues should be the basis for quality assurance and risk management activities. Regardless of our feelings on the matter, there are many critics of the healthcare system and all of its components. These voices are increasingly being heard and simply cannot and should not be ignored. The medical group is a quasi-public organization, although most groups are privately owned. To illustrate this point, consider that 60% of all healthcare in the United States is paid for by government entities, and public scrutiny of healthcare and its regulations is increasing. Medical groups will continue to be a source of public interest and debate.

It is important to have some background on the nature of quality improvement and the critical need for it in the medical group. Unlike in most other industries, quality is difficult to define and measure for the typical consumer/patient. First, consider the asymmetric nature of healthcare, which is characterized by situations in which the parties on the opposite sides of a transaction have differing amounts of relevant information. Examples of asymmetric knowledge include:

- Vendors typically know more about the strengths and weaknesses of their products than do purchasers.
- Employees typically know more about their health problems than do human resource or health plan managers.
- Subordinates typically know more about the effort that they have put into assignments than do their superiors.
- Providers typically know more about the treatment options than do their patients.

Another widely discussed concern by critics of the medical industry is that physicians and other healthcare providers have the unique ability to create supplier-induced demand (SID). SID is characterized by a change in demand for medical care services associated with the discretionary influence of providers, especially physicians, over their patients. This is demand that provides for the self-interest of providers rather than solely for the patients’ interests.

Critics of the healthcare system, and of physicians in general, have often pointed to small area variations (SAVs) as evidence of a physician’s ability to increase the use of services. SAV was documented by John Wennberg, and is defined as large variations in the per capita rates of utilization across small, homogenous areas for many medical and surgical procedures.

The Social Concerns for Healthcare Delivery

The detractors of our healthcare system do not stop with Wennberg and, in fact, go much further. In his book Medical Nemesis, Ivan Illich delivers a stinging indictment of the healthcare system. He says, “The major threat to health in the world is modern medicine. The medical community has actually become a great threat to people. Doctors and others (pharmaceutical industry) serve their own interests first. People become consumers and objects.” He identifies three levels of damage:

1. Clinical treatment actually often harms people. Patient safety has not been a high priority.
2. More and more problems are seen as amenable to medical intervention. Pharmaceutical companies develop expensive treatments for nondiseases.
3. Over 100,000 people a year die from adverse drug effects.

It is a new idea that everything, including labor and culture, can be assigned a market value. However, such a practice destroys traditional ways of dealing with death, pain, and sickness.

Thomas McKeown, a leading expert on social medicine and another prominent critic of our healthcare system, asserts in his book, The Role of Medicine, that the role of medicine and doctors in improving human health has been greatly overstated. Rather than through treatment of the disease state, disease is best addressed through prevention and only secondarily through treatment.

Longevity of life has increased through factors such as:

- Reduction in infectious diseases because of genetic reactions
- Better nutrition
- Elimination of infanticide

McKeown goes on to say medical research is of limited value and researchers too often focus on “basic research” at the expense of socially useful research.

It is essential that we have programs to demonstrate quality care that is appropriate, cost-effective, and in the
produces superior outcomes, so why the variations: differ-
ent standing admission and discharge orders for patients,
treatment protocols also vary for the same disease or con-
dition, surgery vs. medical treatment, for example? There
are many potential causes.

So what do we do about it? Quality must be a core
value of medical group practice, and that value must be
expressed by having a systematic way of monitoring and
improving quality in the medical group practice.

Identifying Issues That Require Examination
and Correction

There are many opportunities to evaluate the practice.
Some of the most fruitful areas in which to find projects
for quality improvement activities are:

- Patient satisfaction surveys
- Malpractice claims review
- Benchmarking clinical and nonclinical data
- Standards established by specialty societies
- Review and understanding of national data such
  as all of the departments of the National Institutes
  of Health (see http://www.nih.gov/icd) and the
  Agency for Healthcare Research and Quality (see
  http://www.ahrq.gov)

Initiatives on quality require a systematic approach to
reduce the influence of bias and emotions on the process.
Many techniques have been used, including:

- Total Quality Management (TQM)\(^23\)
- Continuous Quality Improvement (CQI)\(^24\)
- Six Sigma\(^25-27\)

All of these processes use statistical measures to eval-
uate an identified process to determine the source of error
and variation in outcome. There are many resources on
the actual techniques, and the reader is referred to these
sources for more complete information.

However, all of these techniques have the same fun-
damental premise. They all involve the following steps:

1. Plan and determine the process to be examined
   and a clear delineation of the process.
2. Measure the process activities.
3. Analyze using various statistical techniques.
   This can involve one or more of the tools shown
   in Table 2-2.

All of these techniques seek to identify the variation in
outcomes and then assign the nature of the cause of
variation or error. These are often referred to as special
causes, such as human error, or common cause, which are
the results of the process itself. An example of this might

best interest of patients. We need to understand our out-
comes and our process so we can better explain away the
“black box” nature of the profession to our detractors.

Quality Improvement and the Effective
Medical Group

The issue of the quality of the service provided by group
practices is paramount to group-practice operations
and the future of healthcare. In addition to the critics of
healthcare services, paying for performance is becoming
a reality. Being capable of responding to the changes in
payment systems, such as pay or performance, starts with
understanding what the medical group is really about. The
first section of this chapter discusses the many structures
and attributes of group practice. Organizing for delivery
of quality has not been a central theme in group practices
because many structural and operational considerations
have been focused on issues other than the quality of care.
The lack of standardization, the absence of any formal
adherence to best practices, and the lack of formalized
quality improvement for programs all contribute to a lack
of progress in delivering quality service.

This is not to say that financial issues are not impor-
tant. Medical group structures are not designed, or in
some cases are antithetically designed, to invest in quali-
y initiative. The extreme short-term focus of finan-
cial performance is a chief culprit. Groups do not invest
either financially or in the training needed to carry out
large-scale improvement initiatives. Investment dollars
can only come from the shareholders’ pockets, a pros-
pect that has long curtailed the development of modern
groups.

In his book Out of the Crisis, W. Edwards Deming
asks a question that should serve as the cornerstone of
any group’s quality initiative:

What are you doing about the quality that you
hope to provide to your customers four years
from now?\(^22\)

The issue of quality in the U.S. healthcare system is an
increasingly important one as we begin to better under-
stand what quality means. For most of history, quality has
been virtually undefined. As Voltaire would have said, it
is indeed “in the eye of the beholder.” However, that is
changing dramatically as the ability to measure quality
evolves and expectations of the quality of health services
become higher.

As mentioned earlier, variation, or put another way,
lack of standardization, is a central theme throughout
group practices. We know our healthcare system usually
produces superior outcomes, so why the variations: differ-
ent standing admission and discharge orders for patients,
treatment protocols also vary for the same disease or con-
dition, surgery vs. medical treatment, for example? There
are many potential causes.

So what do we do about it? Quality must be a core
value of medical group practice, and that value must be
expressed by having a systematic way of monitoring and
improving quality in the medical group practice.

Identifying Issues That Require Examination
and Correction

There are many opportunities to evaluate the practice.
Some of the most fruitful areas in which to find projects
for quality improvement activities are:

- Patient satisfaction surveys
- Malpractice claims review
- Benchmarking clinical and nonclinical data
- Standards established by specialty societies
- Review and understanding of national data such
  as all of the departments of the National Institutes
  of Health (see http://www.nih.gov/icd) and the
  Agency for Healthcare Research and Quality (see
  http://www.ahrq.gov)

Initiatives on quality require a systematic approach to
reduce the influence of bias and emotions on the process.
Many techniques have been used, including:

- Total Quality Management (TQM)\(^23\)
- Continuous Quality Improvement (CQI)\(^24\)
- Six Sigma\(^25-27\)

All of these processes use statistical measures to eval-
uate an identified process to determine the source of error
and variation in outcome. There are many resources on
the actual techniques, and the reader is referred to these
sources for more complete information.

However, all of these techniques have the same fun-
damental premise. They all involve the following steps:

1. Plan and determine the process to be examined
   and a clear delineation of the process.
2. Measure the process activities.
3. Analyze using various statistical techniques.
   This can involve one or more of the tools shown
   in Table 2-2.

All of these techniques seek to identify the variation in
outcomes and then assign the nature of the cause of
variation or error. These are often referred to as special
causes, such as human error, or common cause, which are
the results of the process itself. An example of this might

be billing error due to improper coding. Run charts are very commonly used to evaluate data for common and special causes, as shown in Figure 2-25.

Variation is depicted as upper- and lower-control limits once the data are plotted. The run chart then shows the natural variation in the system, or the areas between the upper- and lower-control limits. Special causes can then be said to be those that fall outside these limits.

These quality assurance (QA) processes depend heavily on virtually everyone involved in the activity being trained to use the measurement tools needed to evaluate the process. The time and expense involved in doing this is one of the major difficulties in having an effective process-improvement program.

One of the more popular systems being used in process improvement today is Six Sigma. It is interesting considering the level of performance that Six Sigma implies and what users of the system are able to achieve.\(^2\)\(^8\) Six Sigma takes the absolute number of unacceptable outcomes as a percentage of all outcomes to determine the sigma level, as shown in Table 2-3.

U.S. industry is seeking the Six Sigma level of performance as a quality standard. It is probably unrealistic to achieve this in group-practice activities. For example, can many medical groups produce an error rate less than 3.4 per million appointments, transaction postings, or filed claims? How about diagnostic or treatment errors? The usefulness of Six Sigma in the medical group practice remains to be seen; even if sigma level six is not achievable, improvement is certainly possible using tools such as Lean and other quality management concepts.

Another important issue is the concept of the Type I and Type II error. Type I errors in process improvement occur when the evaluator concludes incorrectly that the observed outcome is caused by the data point being considered. Figures 2-26, 2-27, and 2-28 show examples of a potential Type I error.\(^a\)

It might be logical to conclude that group size would influence total medical revenue per FTE physician (as reviewed in Figure 2-26), but when regression analysis is carried out, R-squared is only 0.0001, meaning that this has almost no effect on the outcome. (R-squared is a measure of the percentage of cause that can be accounted for by the variable under analysis while holding all other variables consistent.) Figure 2-27 shows a similar analysis for cardiology groups who accept Medicare. Logic might say that groups with high percentages also have lower total incomes, but this is not true according to these data.

A final example of Type I error, as seen in Figure 2-28, shows the effect of commercial insurance on total income. The conclusion must mean that other factors are more

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Table 2-2  Methods for Measuring/Monitoring Quality

<table>
<thead>
<tr>
<th>Technique</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Histogram</td>
<td>Shows the range and depth of variation in a group of continuous data</td>
</tr>
<tr>
<td>Frequency plot</td>
<td>Displays discrete “count” data (number of defects)</td>
</tr>
<tr>
<td>Process maps</td>
<td>Charts a series of tasks (rectangles) and decisions/reviews (diamonds), connected by arrows to show the flow of work</td>
</tr>
<tr>
<td>Pareto chart</td>
<td>Stratifies data into groups from largest to smallest</td>
</tr>
<tr>
<td>Time series plot or run chart</td>
<td>Chart show how things change from moment to moment, day to day, etc. (see Figure 2-25 as an example)</td>
</tr>
<tr>
<td>Scatter plot</td>
<td>Shows the correlation between two factors that vary by count or on a continuum</td>
</tr>
</tbody>
</table>

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Figure 2-25  Chart control.

\(^a\) Charts in Figures 2-26, 2-27, and 2-28 were prepared with assistance from David N. Gans, MSHA, CMPE, MGMA Practice Management Resources Director, Denver, Colorado.
responsible for effects on total income than those examined. If action is taken to correct an erroneous cause of an effect, tampering occurs and then systems may actually become more variable.

Type II errors result from situations in which the cause is not recognized as being produced by the variable being analyzed. This is most likely caused by a failure in the process, improper data collection, or improper analysis. A type I error would conclude, for example, that drug A is better than the drug B, when in fact it is not. A type II error would conclude that drug A and B are equivalent when in fact the drug B is superior. In some cases the system may be so complex that it defies the use of these techniques. The results would be affected by the tendency

### Table 2-3  Sigma Level Determination

<table>
<thead>
<tr>
<th>The absolute number of unacceptable outcomes per million observations</th>
<th>The percentage of unacceptable outcomes</th>
<th>The Six Sigma level</th>
</tr>
</thead>
<tbody>
<tr>
<td>690,000</td>
<td>69.0000%</td>
<td>1.0</td>
</tr>
<tr>
<td>500,000</td>
<td>50.0000%</td>
<td>1.5</td>
</tr>
<tr>
<td>308,000</td>
<td>69.2000%</td>
<td>2.0</td>
</tr>
<tr>
<td>158,700</td>
<td>84.1300%</td>
<td>2.5</td>
</tr>
<tr>
<td>66,800</td>
<td>93.3000%</td>
<td>3.0</td>
</tr>
<tr>
<td>22,700</td>
<td>97.7300%</td>
<td>3.5</td>
</tr>
<tr>
<td>6,210</td>
<td>99.4000%</td>
<td>4.0</td>
</tr>
<tr>
<td>1,300</td>
<td>99.8700%</td>
<td>4.5</td>
</tr>
<tr>
<td>320</td>
<td>99.9800%</td>
<td>5.0</td>
</tr>
<tr>
<td>30</td>
<td>99.9970%</td>
<td>5.5</td>
</tr>
<tr>
<td>3.4</td>
<td>99.9997%</td>
<td>6.0</td>
</tr>
</tbody>
</table>

**Figure 2-26**  Revenue by number of FTE physicians.
Figure 2-27 Revenue by percentage of charges from medicare.

Figure 2-28 Revenue by percentage of charges from commercial insurance.
to undercontrol the process. This is the inherent nature of healthcare, and Type II errors are probable.

It is impossible to monitor all activities of the practice continuously in real time. Consider, for example, that in a large practice with 100 physicians, depending on the specialty, there can be as many as 1,000 visits a day, with other services adding thousands of additional transactions to the system, all of which have a “customized” feature. Control charts, the patient satisfaction survey, and the other techniques available to the practice are essential to help identify areas of the clinic that need to be examined in a systematic way.

**Research**

Many medical groups are engaged in significant research as part of the clinical activity of the group. This is almost always clinical research as opposed to basic research, and is usually divided into two general categories:

1. Premarket research
2. Postmarket research

This research is regulated by the Food and Drug Administration (FDA). As the name implies, premarket research is conducted prior to the FDA’s approval to market the device or medication, and postmarket research is conducted to “monitor the ongoing safety of marketed products.” This is accomplished by reassessing drug and device risks based on new data learned after the product is marketed, and recommending ways of trying to most appropriately manage that risk.29

The key players in the research department are:

- **The principle investigator (PI):** Usually this is a physician; the PI is responsible for conducting the clinical research.
- **The director:** Responsible for the administration of the project and often involved in the acquisition of projects.
- **Research nurses:** Conduct research, collect data, and manage the research information as well as reporting.
- **Support staff:** Assist the nurses and director in their duties by providing logistical support such as clerical work.
- **The institutional review board (IRB):** An independent body responsible for reviewing and approving proposed research involving human subjects. The role of the IRB is principally to help ensure that research is as safe as possible and that the potential benefits of the research outweigh any possible harm that could be caused to the experimental subjects.

A protocol is also needed. This is the written procedures and processes required by the project. It indicates which patients are eligible to participate in the research, what the endpoints of the research are to be, what measurements and data are needed, and what must be reported. Follow-up care of the subjects is also typically specified.

Figure 2-29 illustrates the process of medical research in the practice environment. As more new drugs and devices are discovered, research opportunities will continue to increase and become an increasingly important part of the medical group. Research also offers the advantage of intellectual challenge, and can be a source of great professional satisfaction.

**Reform, New Forms, and Medical Practice Management**

The U.S. healthcare system is caught up in a virtual whirlwind of information about the Patient Protection and Affordable Care Act of 2010 (PPACA),30 and many people are trying to understand what reform means and how to respond to it. The overwhelming amount of information about this act puts healthcare practitioners in the position of trying to drink from a fire hose. Though little of the actual regulatory framework is completed, the bill is already enormous and it is likely that much of what is now known will change in some way. The wiser organizations are those focusing on the principles of the act, rather than the specific details. It is better to see the lake than just the ripple. With that said, this act will likely cause the most rapid transformation of an industry in U.S. history, so not to prepare and consider what is happening, to just wait and see, is probably a foolish approach.

Healthcare is discussed in the media or in political circles nearly every day. This discussion is often infused with a great deal of rancor and emotion. On the one hand, some believe very strongly that the plan goes too far. Indeed, there is a serious effort underway to repeal the reform bill, albeit few expect it to be successful; however, constitutional challenges are underway nonetheless. On the other hand, many believe the plan does not go far enough and does not focus enough on true reforms of the broken healthcare system. Regardless of providers’ emotions and personal feelings on the issues of healthcare reform, they are involved in a trifecta of issues: access, cost, and quality. As illustrated in Figure 2-30, these issues are inextricably linked, and affecting the outcome of one issue will affect the others. Much of the debate and political activity has centered on how it is possible to obtain optimal outcomes for each of these important factors.
The economic crisis makes healthcare reform an even more popular topic. In a recent article in *BusinessWeek* entitled, “USA, Inc.: Red, White, and Very Blue,” Mary Meeker makes a compelling case that the nation is in a fiscal crisis: “By our rough estimate, USA Inc. has a net worth of negative $44 trillion. That comes to $143,000 per capita. Negative.” She argues that this has much to do with our healthcare system and our Medicare and Medicaid programs. Indeed, the cost of healthcare is a major issue in U.S. society because it consumes almost 20% of gross domestic product. Because of this and many other reasons, it’s clear that the time has come for change in the healthcare system. In her book, *Sudden Death*, Rita Brown wrote, “The true definition of insanity is doing the same thing over and over again and expecting a different result.” In many ways this is what has occurred in healthcare. In spite of advancing knowledge and technology in medicine, the basic way care is delivered has changed very little. As was so eloquently stated by the Coen Brothers in the movie, *Oh Brother Where Art Thou*, we are still, “one-at-a-timin’” it, b instead of taking a more population-based approach to health and healthcare delivery.

There is increasing recognition that the system has to change, and at the center of this change is the physician. The rules and administrative regulations such as

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**Figure 2-29** Research project.

**Figure 2-30** Healthcare issues.

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b. *Oh Brother, Where Art Thou?* (2001). *Pappy O’Daniel*: I’ll press your flesh, you dimwitted sumbitch! You don’t tell your pappy how to court the electorate. We ain’t one-at-a-timin’ here. We’re mass communicating!
precertification and complex policy restrictions will not improve consumer health and will only provide temporary relief from rising cost. Without improvement of health there is little chance of achieving the goal to reduce cost and improve access and quality.

The lack of collaborative approaches to care delivery has not served the goal of improving health very well. Unfortunately, healthcare has a tribal culture. Healthcare providers have lived in silos, independent and competing to provide increasing amounts of service to poorly informed patient populations. This has been driven by a payment system fraught with perverse incentives, regulation that often makes little sense, and so much focus on cost that the bigger picture of health and healthcare has been ignored. The complexity of the healthcare system is now beyond anyone’s understanding. Karl Weick has aptly described this breakdown of understanding as a loss of “sensemaking.”32 (Sensemaking is the process by which people give meaning to experience.)

The healthcare profession must make an effort to return to sensemaking. One of the ways to do this is by understanding the most important pieces of the reform puzzle and how they affect the bigger picture of healthcare in the United States. Accountable care systems are one of these important pieces. The concept of an integrated delivery system (IDS) is not a new one by any means; however, the PPACA significantly increased the importance of this arena. The transition to more accountable care models and de-emphasis of activity-based reimbursement as a mechanism of payment has moved healthcare providers to consider new ways to organize and deliver care to large numbers of people and to consider care as a population management function rather than a series of care episodes.

Payment for outcomes, not just activities, also changes the strategic and operational focus. Value-based purchasing requires a major change in thinking about how to provide incentives to organizations and define success. The Public simply cannot pay for volume of service. We must pay for outcomes and quality.

The other major challenge will be the transition. Currently, physicians are largely paid based on production of services; few, if any, are prepared to make an abrupt switch to other reimbursement methodologies. Realistically, this transition is going to have to be an incremental process, but it will have to occur if the necessary fundamental change is to occur.

**Basic Changes from PPACA**

PPACA created a sea change in federal policy. In spite of the fact that the bill is thousands of pages long and will likely produce tens of thousands of pages of regulations, it has fundamentally created a three-legged policy stool for healthcare’s future, focusing on the following:

- **Meaningful use:** The reform emphasizes the use of electronic connectivity to improve care for patients and the efficiency of that care. Figure 2-31 shows the three stages of meaningful use:
  - **MU Stage 1 (CMS Final Rule):** Provide patients with electronic copy of (and access to) their health information, discharge instructions, clinical summaries.
  - **MU Stage 2 (Concepts):** Offer secure patient-provider messaging and access to patient-specific educational resources; upload data from home monitoring devices.
  - **MU Stage 3 (Concepts):** Provide patients with access to self-management tools; capture accountable care organizations (ACO): electronic reporting on experience of care.

- **Value-based purchasing:** The value of service has to be seen as a function not only of the service, but also of the quality of that service. It is easy to measure dollars, but not so easy to measure the quality of care; however, electronic records and contemporaneous recording of care information will make this a feasible process and increase the accuracy and transparency of the data dramatically. These concepts can be expressed by the following equation: \( \text{Value} = f(\text{cost} \times \text{quality}) \)

- **Accountable care organizations (ACOs):** These organizations are a centerpiece of the legislation and represent a fundamental structure for the delivery of high quality lower cost care and population management. The ACOs may also include another innovative care model, the patient-centered
when Paul Ellwood coined the term *health maintenance organization* (HMO). The key concepts are as follows:

- Collaborative business and care strategies
- Documentation
- Cost
- Connectedness

Health and Human Services Secretary Donald Berwick talks about accountability as the “triple aim” of reform:

- Population management
- Patient experience
- Per capita cost

At the heart of what organizations must do to create meaningful reform is this triple aim. Berwick’s focus on these three fundamental issues is similar to what is being suggested by everyone, regardless of their political perspective.

**The Accountable Care Continuum**

Accountable care ranges along a continuum of care from solo practice to extensive employment of physicians in a large healthcare system (see Figure 2-34). The alignment of these physician practices allows a number of functions to be integrated and also allows for greater clinical integration and care delivery. This, at a minimum, includes having the following elements:

- Care standards
- Coordinated infrastructure
- Performance measurement and management
- Meaningful incentives for accountable care
- Joint contracting, bundled payments, and value-based payment models
- Virtual care networks based on specialties or service lines

As defined by the Centers for Medicare and Medicaid Services (CMS) in the March 31, 2011, publication, there are a number of possible management and formal legal structures that would qualify as ACOs involving group medical practice:

- ACO professionals in group practice arrangements
- Networks of individual practices of ACO professionals

ACOs and PCMHs are receiving a lot of attention as potential solutions or responses to reform. Both seek to create structures that are more responsive to the issues raised by, and the goals of, reform. The PCMH actually fits nicely into the ACO model, which this chapter will touch on—at least as it has been conceived and piloted to date.

The ACO broadens the scope and depth of services offered by an organization and requires the full engagement of the medical practice. In fact, the medical practice is core to the ACO model. It requires a move from a silo mentality to a collaborative approach to care that will lead to meaningful clinical integration (see Figure 2-33).

PCMHs were more clearly defined and explored by in an article by Wagner entitled, “Chronic Disease Management: What Will It Take to Improve Care for Chronic Illness?” The medical home has a number of definitions, but its essential elements are the provision of primary-based care and the coordination and management of other services through the primary care home. The PCMH as proposed by Wagner is gaining a significant amount of attention and has now become a mainstream concept in accountable care. The National Committee for Quality Assurance (NCQA) now has guidance and certification guidelines for the PCMH.

**Accountable Care and Accountable Care Organizations**

The concepts of accountable care are not new. Many of the ideas embodied in the PPACA harken back to the days of medical home (PCMH). ACOs are a major focal point of reform, and physicians are an inherent part of ACOs because a physician organization must be the founding partner of an ACO (see Figure 2-32).

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**Figure 2-32** Group practices are one potential cornerstone for the ACO

**Figure 2-33** The integration of clinical services promises to improve quality by decreasing the fragmentation of care.

**Figure 2-34** The integration of medical practice into IDS and ACO model.
Partnerships or joint venture arrangements between hospitals and ACO professionals
- Hospitals employing ACO professionals
- Other groups of providers of services and suppliers deemed appropriate by the Secretary of the Department of Health and Human Services (DHHS)

Regulations have now been published by CMS that define specific requirements for the ACO.

- Each ACO will have shared governance and leadership that makes joint decisions in operations, and provide administrative and clinical systems.
- Each ACO must have an agreement with DHHS to participate in the ACO program for no less than a period of 3 years.
- A minimum of 5,000 Medicare beneficiaries are required.
- The ACO must both receive and administer payment of shared savings to participant organizations.
- The ACO must use patient and caregiver assessments or individualized care plans.
- The ACO coordinates care through the use of Telehealth, remote patient monitoring, and other enabling technologies.
- The ACO will promote evidence-based medicine and patient engagement.
- Each ACO must use specific quality measures identified by DHHS and also include care transitions across care settings. Additionally, this reporting will incorporate requirements of the physician quality reporting initiatives (PQRI).
- A benchmark must be established for each ACO’s 3-year period with the most recent 3 years of “per-beneficiary expenditures” assigned to the ACO. When an ACO beats established benchmarks, a percentage of the difference may be paid to the ACO and the program will retain the remainder.39

One potential barrier to participation is the concern about taking financial risk for patients in the ACO. The current legislation provided substantial risk to providers and providers within the same ACO must determine how to share the risk of potential revenue shortfalls. The old method of payment reform—a method of financial engineering in which money is moved around the board and squabbled about, without any real change in what is done or how it is done—is no longer a viable reform methodology. That incessant need to shift risk will prevent true reform, which has to be born out of a collaborative model, not a competitive one.40 Meaningful changes in the way care is delivered and in the way healthcare providers look at performance are essential in the new era, regardless of what legal, regulatory, or healthcare market changes occur. The healthcare profession has kicked the can as far down the road as possible in dealing with fundamental system improvement.

In the end, accountable care has several imperatives: the first is to act. There must be uniform standards, open structures, and process that allow the “liquefaction” of information, allowing information to be easily shared and managed. These care models must have a code for prevention and managing care at their core, with local caregivers in a local environment connected to other networks and services either in a virtual way or in fact. These ideas will be expressed digitally and in a practice setting. In order to adopt truly accountable care, a team culture has to arise, one that is far beyond anything seen today. This team culture must pay serious attention to administrative capabilities and shared best practices.

The Effect of Scale on Reform Efforts

Scale is also significant, in two dimensions:

- **Size**: The practice must serve enough people to make economic and system scale a reality.
- **Depth of offerings**: One size does not fit all.

It may be a great irony that all the digital aspects and the size of developing organizations may actually allow healthcare providers to offer more personalized service. Banks can provide great service because customers provide services to themselves, on their terms, customized to meet their needs. The bank provides the platform, customers do the rest. Isn’t more of this needed in healthcare? In a recent study presented to the Health Information and Management Systems Society 2011 Annual Conference (HIMSS11), Wagner and Solomon were able to show a significant effect on patient activation by using online self-management tools.41 So patient engagement is a significant and currently missing ingredient in the U.S. healthcare system. Patients will need to be able to self-define what they need within the boundaries of sound medical practice. An example would be diabetes education. Currently many practices provide a single level of diabetic education. There is little reason this could not be interactive and self-managed, giving virtually an unlimited number of offerings unique to each patient’s educational level, interest, and understanding. All of this allows healthcare providers to create incentives that further their cause, not distract and detract from it.

The rules and specifics of reform and these new structures will undoubtedly change, but in the end, future
progress will depend on the answer an organization can give to these four questions:

1. **Are we prepared to govern in the new era of healthcare?** Developing leadership is imperative. Developing physician leadership will be essential and challenging.

2. **Do we have the management structure in place to deal with all of the tasks and requirements?** Developing new ways of collaboration and a culture of teamwork is imperative. Think about payments in a new way, not simply producing service.

3. **Do we have the infrastructure in place?** Developing infrastructure is imperative to being able to understand, manage, and account for care.

4. **Are we a patient-centered organization or can we be one?** Can this be done not just in name or by regulation, but in fact? Patient activation and engagement are imperative: we have to become a medical home in name and in spirit.

These are enormous cultural changes for many if not most healthcare organizations. Are they up to the challenge? The reality is that they may have little choice. This may be the last opportunity to reform in a way that is transformational rather than draconian. Few, if anyone, really thinks the present situation is optimal or sustainable. Either healthcare leads change or change will drive healthcare: remember there is a choice.

**Emergency Preparedness in Medical Groups**

The assessment of risk and preparation for the unthinkable has significantly changed in recent years. Hurricane Katrina, September 11th, and the Fukushima Daiichi nuclear plant incident have caused people to think about these unexpected and often unpredictable events more carefully. What do these changes mean to medical group executives? Medical groups, especially those that are part of larger systems, may no longer simply be able to close their doors in emergency situations, but may need to become an integral part of the resilience of the community. If a large-scale disaster occurs, clinic offices and physician practices may need to serve as an important part of the emergency medical care delivery system. Certainly, the resources of the medical group could play a vital role, but it must be adequately prepared to be in a position to do so.

Most medical groups have some sort of an emergency plan, but those plans deal largely with operations and business from an isolated and internal view. A plan of this nature only addresses the practice itself and frequently does not take into account how the practice fits into the context of the larger community. Medical practices need to consider their role in community preparedness and may seek to become a partner in the community emergency preparedness planning process. Every group will have to consider its own circumstances and how it might want to be involved or not, but this should be an active consideration rather than a decision made at a time of crisis.

A large number of resources are available to medical groups trying to make decisions about emergency preparedness and their role in the context of the larger community. The Federal Emergency Management Agency (FEMA) has a large number of specific planning tools and other resources that are freely available and easily accessed from the Internet.

Your group might also want to consider being a part of the National Mutual Aid and Resource Management Initiative, which helps to provide medical personnel in emergency situations.

Medical groups interested in emergency preparedness will need to focus on several important issues:

- Basic management of resources
- Organization
- Delegation of authority
- Coordination
- Communication
- Evaluation

At a minimum, the organization needs to consider the following elements and what they mean to the group practice:

- **Communication**: Communication strategies must be established to direct and communicate response information to staff, patients, families, and external agencies. There must be backup communication processes and technologies in place and a common terminology in use.

- **Resources and assets**: Resource and asset management strategies that continue to care for the group’s staff and patients are essential for an emergency response. Plans must be developed to address inventories of resources as well as critical supply procurement, possibly from multiple vendors.

- **Safety and security**: During an emergency, it is crucial that the hospital control the movement of patients, staff, visitors, and volunteers within the hospital. Processes for hazardous material...
management, decontamination, and control of access as well as egress must be developed, coordinated, and practiced with outside community partners.

- **Staff responsibilities:** Staff must be oriented and trained in their assigned responsibilities during an emergency based on a Hazard Vulnerability Analysis. The use of job action sheets and checklists to assist staff members could be instituted. Cross-training of personnel to perform other than normal duties during an emergency is an important consideration as well. An example of this would be training accounting staff to serve as patient transporters.

- **Utility management:** Hospitals must find alternative means to provide potable and nonpotable water, sanitation, fuel, and electricity. Memorandums of understanding and/or relationships with suppliers and emergency community managers can enhance implementation of this process in a time of crisis.

- **Patient and clinic support activities:** Fundamentally, protecting life and preventing disability are the goals of emergency management. A process for swift triage of those patients able to be discharged should be in place. Management of patient treatment should include attention to the special needs population as well as personal hygiene and sanitation. The ability to scale back noncritical operations or elective procedures to open up space and personnel for the emergency is also critical. Hospitals must be able to create a scalable response to meet the needs of the emergency.

### Social Media for Medical Group Preparedness

Social media are becoming an increasingly important method of communications in today's society and may offer some especially attractive elements for emergency situations when more routine channels are down. The Centers for Disease Control and Prevention (CDC) provides information and resources for preparing for and responding to public health emergencies. The CDC has created four badges that healthcare organizations can copy and paste onto a website, social network profile, blog, or e-mail to provide people with access to information on how to prepare for emergencies like hurricanes or floods. Small computer applications are available, for example, CDC social media for badges, widgets, and content syndication and these may be useful in medical group emergency preparedness.47

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