

The
*Physician
Manager's*
Handbook

*Essential Business Skills for
Succeeding in Health Care*

Second Edition

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Introduction

SUCCEEDING AS A PHYSICIAN MANAGER: ESSENTIAL BUSINESS SKILLS

Many physicians think of physician managers as having developed an alternative employment path to traditional clinical practice. Generally, this path is seen as one that emphasizes management responsibility instead of clinical practice—in some cases to the total exclusion of clinical practice. The focus of this book is at odds with this limited view of who is the physician manager. It is my contention that management skills should now be an essential part of *every* physician's repertoire, and that physicians who do not possess these skills are less able to provide their patients with the highest levels of clinical care, as well as to personally survive and prosper in the current healthcare environment.

Many physician managers are employed by large healthcare organizations, including hospitals, healthcare systems, HMOs, insurers, and large single-specialty or multispecialty private practices. There is another physician manager, however, who often is overlooked and who needs to be as much the physician manager as his or her colleagues working in large organizations. This physician manager works in, and probably owns part of, a small group or solo practice. Historically, private-practice physicians have always had to manage their practices' business affairs. Often, one physician undertakes these responsibilities, perhaps reluctantly, through default, rotation, or self-interest. All too often, important management responsibilities are delegated to a practice business manager, without retaining sufficient physician involvement or control. This can be a formula for disaster because there are many situations in which a business manager's self-interest does not coincide with those who own the practice. Other physicians, realizing the importance of their participation in management decision making, actively manage their practices, although many do so without adequate management skills.

All of these physicians are in situations that call for physician management skills and can benefit from this book. The core knowledge areas that physician managers need are the same irrespective of whether they manage in a large healthcare system, a solo private practice, or anything in between. What varies, as one progresses from a solo practice to a large healthcare system, is the complexity of the situation, the amount of data available, and the degree to which and the immediacy with which decisions will directly affect the physician. All physician managers must become proficient in the *same* body of knowledge. *How* a physician uses this knowledge, and the extent to which it will be the central focus of his or her work, will vary depending on the specific nature of the physician manager's responsibilities.

Medical practices, hospitals, and healthcare systems *are* businesses. Health care currently constitutes about 16 percent of the U.S. gross domestic product.¹ Unfortunately, the recog-

¹Smith, C., Cowan, C., Heffler, S., Catlin, A. "National Health Spending in 2004: Recent Slowdown Led By Prescription Drug Spending," *Health Affairs*, 2006, 25(1), 186–196.

nition of this fact by physicians and those who train them is only now beginning to occur. Medicine has been slow to acquire management skills for two reasons. First, for most of the 20th century, medicine was very profitable. When times are good, patients are plentiful, and an industry is growing, many don't feel the need to operate efficiently. A thick salve of cash will cover many business mistakes and inefficiencies. Second, medical academicians, who are often unfamiliar with and uninterested in the nonmedical aspects of health care, design medical school and residency curricula. As such, they generally have little appreciation of the need for their students and their profession to acquire business and management skills. As a result, these skills are generally not adequately represented in their curricula.

THE PHYSICIAN MANAGER'S ROLE DEFINITION

In working and consulting with medical practices, I have seen two fundamental errors as physician managers try to determine their appropriate role. Some physician managers make the mistake of being a micromanager. Micromanagers look over everyone's shoulder. They routinely second guess subordinates' and perhaps colleagues' daily operational decisions, and in general become very intrusive in everyone's lives. This reduces employee discretion and initiative, and in some cases employees become fearful and resentful of not being trusted to do their work. In addition, practice-based micromanaging physician managers are doing less of what arguably is the *most* critical function in their job description, and what only they can do: generate revenue! Time devoted to micromanaging is time taken away from clinical work.

The other role definition error that physician managers make is to be the absentee physician manager. These physician managers often say, "I hired a business manager and staff to take care of all that stuff," or "The hospital has numerous administrators to take care of all those business issues," and in both cases the physician concludes, "so I'm not going to get involved in any of it—I'm going to focus on my patients." Going to this other extreme also creates problems. If the physician manager is uninvolved in important decisions, then choices will be made without physician perspective and input. It's not necessarily that the others who will be making decisions are trying to be malevolent. It's just that business managers, employees, nurses, administrators, and other stakeholders have different perspectives and self-interests, and as a result the physician's point of view will not be adequately represented when important decisions are being made.

To help you define the appropriate level of physician manager involvement, I propose the following criteria. Physician managers should know enough and be involved enough in business decision making to:

- Know when they are getting a good job from employees and others. For example, a physician manager must know enough about employment methods so that he or she can lead the business manager or human resources director to move beyond unstructured anecdotal interviews. The physician manager will not be involved in the employee selection process. That is getting too far down in the trenches, unless the position is directly reporting to him or her, such as a surgical assistant. The physician manager's role in this case is to make certain that the *employment system* is functioning appropriately.

- Ask questions and obtain critical information for decision making. For example, if a physician manager is on a hospital committee considering purchasing new laparoscopic surgery equipment, then he or she needs to know enough to ask for the necessary financial information to make a *financially*, as well as medically, informed decision. The physician manager needs to know, for example, that he or she should see a breakeven analysis sensitized to several critical success factors, such as volume and fees (Chapter 1). He or she also wants to see the financial investment characteristics of the project, such as the project's internal rate of return (IRR) and net present value (NPV), once again sensitized to critical success factors. The physician manager will *not* be collecting the data his or herself to do these analyses, nor will he or she be assembling them into spreadsheets, because if the physician manager did he or she would be too far down in the trenches. However, the physician manager will know enough about these issues to be certain that he or she sees this information or causes it to be generated, and makes an informed clinical and business decision.
- Achieve outcomes that meet his or her needs. For example, his or her practice's healthcare system is in the process of selecting an electronic medical record (EMR). The physician manager has seen several of the proposed systems and notes that from a physician's perspective, they are all deficient in fundamental ways, such as easy access to appropriate fields, intrusive data entry, decision support, security, and so forth. He or she needs to have a vision of the physician manager's appropriate role in the EMR system selection and design process, so he or she can effectively negotiate with administration, information technology, pharmacy, and whoever else necessary in order to get a system that works better for physicians. This also means that as a physician he or she recognizes that he or she is a very important constituency in delivering an *integrated* medical service, the sum of which is what the customer (patient, patient's family, employer, insurer, etc.) desires.

PHYSICIAN MANAGER SKILLS

Physician managers must develop skills in several business disciplines in order to achieve the three goals listed here. These skill areas form the chapters of this book. The following is a brief description of some of the major subject areas.

Management

Management is the glue that holds all organizations together. It is the process of obtaining, organizing, and directing all the human resources associated with a healthcare organization. Whether the physician manages in a solo practice with one secretary, in a group practice with many physicians and diverse job descriptions, or in a large multihospital healthcare system, the quality of management will determine whether personnel operate as an effective team. In some organizations, employees and groups are constantly fighting border disputes; in others, they work together synergistically to achieve a common vision of what needs to be achieved.

There are many aspects of managing a healthcare organization's human resources. They include the following:

- *Leadership*: guiding and inspiring physician and nonphysician employees to work toward a common goal. Leadership skills can range from being directive, to consulting with others, to delegating tasks to others. It also can involve empowering others, such as giving subordinates decision-making responsibilities that might normally be reserved for more senior managers. Often, in larger healthcare organizations, physician managers are working with groups of employees where there is no clear manager–subordinate relationship. Physician leaders also must learn, therefore, to lead when they do not have line control. Leadership is not only leading through inspiration, but knowing how to involve others, such as when to be directive and when to hand off a decision.
- *Performance Appraisal*: evaluating the job performance of employees, and using this information to make personnel decisions, such as training needed, compensation, discipline, termination, promotion, etc. Appraisal of physician performance is becoming increasingly important. Medical outcomes, patient satisfaction, and cost are increasingly being used to evaluate physician performance. The physician manager’s role is to ensure that performance appraisal systems are in place to motivate appropriate employee, peer, and partner behavior.
- *Employment Methods*: knowing how to hire both professional and clerical employees. Knowledge of this function fits the classic physician manager role definition. The physician manager will not be doing the hiring personally, but as a physician he or she clearly has to live with the *consequences* of good or poor employment decisions. The physician leader should have a vision of what a good employment process looks like, so that he or she knows enough to turn to the business manager or the human resource department and say, “Using unstructured anecdotal interviews isn’t good enough. We need to consider the following methods. . . .”
- *Motivation*: understanding what drives employees to act in specific ways when given a task to perform or a goal to achieve. By understanding what motivates employees, the physician leader can structure the work–reward relationship to best achieve his or her objectives. Similarly, he or she can influence his or her organization to structure rewards to better meet employees’ needs.
- *Compensation*: determining equitable pay and benefits for employees, including physicians.
- *Organizational Integration*: getting the parts of the healthcare organization to work together in a synergistic manner. All too often, parts of healthcare systems and practices operate as separate silos. Information stays locked within and people do not work collaboratively across organizational boundaries. For example, the contracting team that is negotiating a contract for a multispecialty practice to provide services to a large regional employer does not know that the orthopedic surgeons have just revised their critical care path for a hip replacement. The surgeons do not know that the contracting team is negotiating a contract that is very sensitive to cost issues, which their new care path affects directly.
- *Managing Change*: all organizations are confronted with the need to change. Changing medical procedures, information technology, competition, and legal issues, to name a few, all result in healthcare organizations having to change. Often, people resist change, because it

threatens their own self-interest. Physician leaders must be able to recognize the need to change and be able to prevent or overcome resistance that may hinder them from putting needed changes into effect.

- *Negotiation*: physicians are constantly negotiating with patients, employees, partners, vendors, landlords, and colleagues.
- *Quality Improvement*: understanding that a primary component of the physician manager's job description is managing systems as well as people. These systems may include the employment system, collection system, management information system, clinical treatment systems, and others. Quality improvement is a management philosophy that emphasizes fixing processes and creating incentives for employees to point out problems and look for ways to improve processes. It uses statistical control and charting methods to document and plan for improvement.

Marketing

Most physicians assume that marketing is simply a different word for advertising. This is not the case. Marketing begins with identifying customers' needs and then proceeds to identify internal and external factors when determining services offered, location, promotion, and pricing. Advertising, which is a form of promotion, is one small part of the marketing process.

The marketing concept is distinctly different from that of selling, which is the process of persuading patients, for example, that they need a particular service. Sellers ask, "Where and how can I find patients to buy the services that I currently offer?" In contrast, physicians and health providers that adopt a marketing approach begin with customers, determine what they need, can afford, where they would like to access the service, and then design, promote, price, and provide services so that customers will have a natural affinity for them.

A fundamental change that has occurred in health care is the nature of the customer. Healthcare providers have a very complex definition of a *customer* that generally includes, but is not limited to, the patient. Another customer is often the purchaser of health care, who may be employers, insurers, and governments. Often, the incentives of these different customers are not aligned. For example, patients may want unrestricted access to services, whereas an employer or payer may wish to restrict that access in order to obtain lower prices. This complicates the picture for the physician who accepts the marketing model, because he or she now must carefully determine how to balance these needs.

Some physicians question the ethics of including marketing considerations in medical decision making. The reality is that marketing considerations *are* very much involved in health-care decision making these days. What a physician considers ethical, given the local and national standards of the profession and the actions of competitors, is a personal matter. Certainly, what is generally considered ethically acceptable today is different from what was considered acceptable in the recent past.

Financial Management

Financial management is the process of using accounting and financial information to make management decisions. Practices, hospitals, and all other organizations create a lot of finan-

cial information in the normal course of their daily operation. It is critical for the physician manager to *use* this information to make management decisions. Often, physicians use financial information in an autopsy mode. They consider financial outcomes two years after a decision was made, and use the financial data to describe the financial hemorrhage: “That sure was a costly decision we made two years ago!” A better approach is to use the financial information *proactively*, before one makes a decision. By doing this, the physician manager can reduce the chance of failure and identify critical success factors that can be actively managed, so one can redirect a project *before* it becomes a failure. Similarly, a physician manager can redirect a succeeding project to achieve even more success by refining it as new opportunities arise.

Financial management skills will help a physician leader answer the following kinds of questions:

- If I increase the size of my practice, what effect will this have on my profit?
- If I introduce a new program or procedure, how much volume must I have at a given fee before I break even or achieve a profit target?
- How do I evaluate a capital investment, such as building a new hospital wing, purchasing a second MRI, or acquiring two primary care practices?

Business Law

Physician managers constantly interact with other entities, such as patients, insurance companies, landlords, suppliers, employees, and contractors. Many of these interactions have legal implications. Ideally, the time to address the legal implications of an arrangement is *before* the arrangement goes into effect. Agreements must anticipate anything that can go wrong, provide for what the physician manager would like to have occur if something does go wrong, and be legally binding. The physician leader certainly will want to consult an attorney during this process and have him or her draft all written agreements. There also will be situations that occur on a daily basis, when a physician manager makes decisions with legal implications. He or she will not want to or be able to contact his or her attorney for every negotiation with a vendor or for every employee hired. This book will acquaint you with basic business law concepts, so you will be able to appropriately respond to these daily business encounters, and know when and how to utilize your attorney.

Employment law is another area in which physician managers need knowledge. Knowing how to comply with Equal Employment Opportunity legislation, including compliance with provisions against sexual harassment and discrimination against those with disabilities, are critical for avoiding legal confrontations.

PROBLEMS FOR THE PHYSICIAN MANAGER

Those physician managers who also have some clinical responsibilities are probably thinking, “Easy for him to say! When am I supposed to do this? In the 60th through the 65th hour of each week?” This response does point out a challenge that physician leaders have in

attending to these management responsibilities. Many physician managers have a full-time job as a clinician and have to be a manager on top of that. To put this in perspective, however, this is the same challenge faced by all professions. Lawyers, accountants, and architects, for example, similarly must either reduce their professional hours or work additional hours to handle the management part of their business.

Another difficulty is that acquiring business skills requires learning a new language and developing new skills, which take time and effort. Physicians have several options for acquiring these skills. For those to whom a formal degree can add career value, an MBA from a business school can make sense. Some MBA programs offer the equivalent of a subspecialty in health care, and these programs are particularly appropriate for a physician.² If a formal degree is less significant, then certificate programs from organizations such as the American College of Physician Executives (ACPE) may provide a good cost, time, and skills outcome. This book is a good supplemental source to physicians pursuing either of these alternatives, as well as a primary source of information to those who are trying to acquire some “just-in-time” knowledge on their own. It does not deliver the full content of an MBA program, but it does present some of the most powerful ideas that are contained in an MBA program, and certainly the ones that are most useful to physicians.

Another difficulty is that occasionally clinical and business issues come into conflict. For example, several years ago I had the opportunity to work with physicians in an oncology practice who understood that their costs were an important business consideration. One particular cost of about \$3,500, which was never reimbursed, kept recurring. I asked one of the physicians about this, and he commented that this was for an antinausea medication that Blue Cross and many other insurers would not pay for. “Their attitude is that the patient will be sick as a dog for a few days, but 6 months from now they will not remember it,” he commented. He then went on to say that he and his colleagues decided to supply the medication to their patients in order to provide the standard of care with which they were comfortable.

As a consultant who is not a physician, I could not advise these physicians one way or another on whether to provide the medication. By teaching them how to evaluate financial issues, however, the physicians, *could* appropriately balance both the medical and business aspects of the decision. As business-skilled physicians, they were in the *best* position to decide whether to stop supplying the medication, selectively supply it, or provide it to all appropriate patients. In this case, the medical and financial considerations *did* come into conflict. I suggest, however, that the conflict was there all along. Acquiring financial *knowledge* simply brought it to the surface, and allowed the physicians to make a conscious, considered decision, as opposed to a decision without knowledge and by default.

Finally, it is important to recognize that providing medical services is not the same as producing computer software or selling soap. There are important qualitative considerations to health care that would be lost by simply transferring accepted business practices to the health-care setting. This uniqueness is a result of several factors. The close, personal relationship that

²Some MBA programs offer an executive MBA curriculum. Typically, these meet one day each week on Fridays or weekends for 12 to 18 months. They offer the practicing physician a more feasible schedule than the typical full-time MBA curriculum.

often exists between the patient and the physician removes many of the adversarial boundaries normally defining a customer's relationship to a business. If the nature of the physician-patient relationship is not properly addressed, a conflict can arise between the humanitarian and ethical aspects of health care, and the financial considerations that are necessary for organizational survival. Physician managers often make decisions that involve the quality and quantity of patient life, and these are interwoven with the cost of services, the history of accepted medical practice, and the welfare of their organization. Few managers in other industries face challenges with this magnitude of professional, ethical, legal, and organizational complexity.

THE BUSINESS CONTEXT

What would Apple Inc.'s CEO and top managers do before making a decision about the "next generation" iPod, *if*—

- They thought that price competition would force down the price of "MP3" (iPod) players?
- Consumers continue to demand ever-higher quality and more capable products?
- Technology continues to evolve rapidly—hard drives keep getting smaller while capacity increases, flash memory costs continue to decrease, power consumption improves, and video technology evolves?

What questions would they ask and what data would they want to see before proceeding?

I have presented many groups of physicians with this situation and these two questions. Invariably, they come up with many excellent suggestions that include considering market factors, customer desires including their perception of quality; evaluating competitors' products; financial considerations such as component costs, return on investment, cost of new production equipment, production strengths, and so forth. It is obvious to them that in a situation such as this, some business analysis is essential before proceeding. Interestingly enough, these are the same three challenges—price pressure, customer demand for higher quality, and rapidly evolving technology—that confront health care at all levels today.

Logically, therefore, the same types of business analysis should be used by healthcare providers prior to acting, as would be used by Apple executives.

- If you are living in an unforgiving financial environment, then you need financial skills to anticipate the financial consequences of your decisions. You need marketing skills to be certain that new services address real customer wants and needs. Finally, you need effective leadership, because there will be lots of contention about how to use limited human and financial resources and you cannot afford to be indecisive or wasteful.
- If there is pressure to increase quality, then you need financial skills to *selectively* limit costs by eliminating fat and not muscle. One aspect of quality is what the customer defines it to be, so we need marketing skills to assess this. Finally, the most basic aspect of quality is the quality that your employees provide on the job. Managing by using performance appraisal and quality improvement methods is basic.

- If new technology is endemic to health care, then you need financial skills to evaluate the consequences of buying this piece or developing that service line. You need marketing skills to be certain that the new wiz-bang technology actually satisfies some real customer need, and you need management skills to overcome the inevitable resistance that goes along with change.

Stated another way, healthcare organizations and physicians routinely encounter *business* problems, and they are amenable to the same types of business analyses and solutions as any other business problem. The real problem is change, and the real question is, “How will you respond to the changing rules of this game?”

Physicians who acquire business skills can make unique contributions. They are the only constituency that can balance the medical perspective with the business perspective. Consider what it tells administrators when physician managers can sit at the table and converse using *their* language? At a minimum, it tells them that they can’t fool you—but, more importantly it tells them that they can’t discount your ideas simply because you are a physician, and “don’t understand their world.” More positively, it means that you can be a participant in all those decisions, which have both business implications and medical consequences. It means that you can be an effective representative of physicians’ and patients’ interests. It means that you can help others to make medically informed business decisions. It means that you can foster integration between the parts of the medical delivery system, break down barriers and adversarial boundaries, and improve both business and clinical performance.