ESSENTIALS OF PHYSICIAN PRACTICE MANAGEMENT
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The purpose of this book is to provide a comprehensive and practical guide to the issues inherent in physician practice management, as well as tools and techniques to deal with those issues. Although primarily designed as a textbook for students interested in the field, this book will also provide physicians and their practice managers with a fundamental understanding of the financial and regulatory issues that influence today’s medical practice and with insight into the cultural, human resource, and governance issues that make physician practices unique among health care organizations. (Businesspeople who work in medical practices are known by a variety of titles, such as administrator, practice manager, or office manager. For consistency we have chosen to use the title practice manager throughout this book.)

Physicians and medical groups face increasing challenges to compete as the cost to provide health care services continues to rise. Because reimbursement from governmental and other third-party payers is flat or decreasing, improvements in technology, increases in costs of pharmaceuticals and for medical malpractice coverage, and the costs of complying with the Health Insurance Portability and Accountability Act (HIPAA) and other legislation have put a strain on practice financial margins. As a result many physicians and their practice managers now realize that they need additional knowledge and administrative skills to understand and deal with the changing regulatory and fiscal environment.

Physicians seldom learn about medical practice management issues and techniques during their years of medical education, and many practice managers have
no formal training as health care administrators. Lack of awareness of critically important practice issues such as the organization’s cost structure, the negotiation of managed care contracts, and the importance of federal and state regulations can cause the practice to lose income or, even worse, face civil or criminal action.

In this environment physicians and their practice managers must have a general understanding of the many elements of practice management and a depth of understanding in a few. To ignore these concepts could lead to loss of income as well as sanctions for violations of regulatory requirements. The practical tools and references in this book will help those who lead and manage physician practices to understand the principles behind effective practice management and increase their own proficiency.

As the external environment has changed over the last few years so has the internal environment in which the physician has to practice. Physicians coming from their residency programs face issues resulting from changes in the way practices do business. The loss of control in medical decision making is very much on the minds of many physicians in today’s managed care environment. Newer physicians entering an existing practice also need to understand the culture of that practice and be aware of governance and equity issues. Physicians and their practice managers must work collaboratively to maximize the success of the practice.

The Framework of This Book

In July 2002, the American College of Medical Practice Executives (ACMPE) published *The ACMPE Guide to the Body of Knowledge for Medical Practice Management*. It summarizes the body of knowledge and skills that the ACMPE considers a practice manager must possess to be effective in today’s health care environment. The “general competencies” that the ACMPE believes necessary are

- Professionalism
- Leadership
- Communication skills
- Organizational and analytical skills
- Technical knowledge and skills

Technical knowledge and skills should be developed in eight domains:

- Financial management
- Human resource management
- Planning and marketing
• Information management
• Risk management
• Governance and organizational dynamics
• Business and clinical operations
• Professional responsibility

This book provides the reader with practical, easy-to-implement information related to the majority of these topics. Each chapter contains illustrations of important concepts or management techniques as well as tools and templates that can be used in practice. The book is organized in logical divisions based on the eight domains of the ACMPE body of knowledge, as follows:

Part One, “Financial Management,” provides the reader with the information necessary to understand how to turn strategic plans into financial reality. Beginning with a description of developing budgeting templates to model financial performance in Chapter One, the chapters in this section also discuss increasing net reimbursement through management of the revenue cycle (Chapter Two); understanding the cost of providing medical services and management accounting (Chapter Three); the taxation of physicians and of the profits from their practice (Chapter Four); capital budgeting for the most efficient allocation of practice resources (Chapter Five); and monitoring financial performance through variance analysis, benchmarks, and ratios in order to maintain the practice’s competitive edge (Chapter Six).

Part Two, “Regulatory Environment and Risk Management,” provides the reader with the information necessary to understand the risks that physician practices face in today’s regulatory and litigious environment. The reader will learn how to combine the knowledge obtained in the section on understanding practice costs with knowledge of legal and contract terminology in order to negotiate contracts with third-party payers and minimize risk to the practice (Chapter Seven). Chapters Eight and Nine address federal and state regulations and corporate compliance and will help the reader interpret those complex laws and regulations and know when to seek the advice of legal counsel. Finally, Chapter Ten, on risk management, will help the reader understand the risk of medical malpractice suits and how to reduce that risk.

Part Three, “Human Resource Management,” provides the reader with the information necessary to understand and implement the various governance models appropriate to physician practices. The reader will also learn to interpret and integrate the various laws and regulations that affect the practice’s human resource policies and procedures and to design recruitment and retention strategies (Chapter Twelve); to understand, choose, and apply the best physician compensation model for the practice (Chapter Thirteen); to understand the role of midlevel providers in a practice (Chapter Fourteen); and to understand the impact on the practice of nursing workforce issues and how to address those issues (Chapter Fifteen).
Part Four, “Strategic Considerations: Planning, Marketing, and Management,” provides the reader with the information necessary to create and implement a business plan for the practice, including creating or refining the mission and vision; performing, analyzing, and interpreting market research; building consensus for the plan among key stakeholders; and communicating the plan and obtaining buy-in for the plan from all parties (Chapter Sixteen). Chapters Seventeen, Eighteen, and Nineteen offer information on how to add a new service or program to the practice, develop an effective marketing plan, and integrate a program in clinical research into the practice. Chapters Twenty and Twenty-One present information that will help the reader develop skills in dealing with relationships between medical practices and community hospitals and in working with physicians in academic settings.

Part Five, “Information Management,” provides the reader with the information necessary to assess the short- and long-term needs of the practice and incorporate that information into the strategic plan. The reader will also learn to write requests for proposals (RFPs), understand the various laws and regulations affecting security and transmission of information, and gain awareness of technologies that can add to practice efficiency and quality (Chapter Twenty-Two). Chapter Twenty-Three includes information on performance improvement, teamwork, and monitoring outcomes that is critical to practice management because medical practices are obligated to provide data on clinical results and practice quality to regulatory agencies. The reader will come to understand the necessity of developing databases to gather information that will aid in quality control without providing detrimental information in the event of litigation. Finally, Chapter Twenty-Four discusses the realities that medical practices are facing in the twenty-first century.

Many examples are included as illustrations. All the practices and physicians used in these examples are hypothetical examples developed out of the authors’ experience or based on contemporary medical news stories.

**Essentials of Physician Practice Management Practice Aids**

To assist our readers in gaining the most value they can from this book, we are also providing supplemental materials on the World Wide Web. Included are

- Answers to the discussion questions at the end of each chapter
- Selected mini–case studies
- Two comprehensive case studies, one on human resources and one on general practice management issues
• Templates where appropriate, in the form of checklists and spreadsheets, that illustrate best practices that can be used by physicians or their practice managers to effect change in the practice
• Teaching notes to the comprehensive case studies (for instructors only)
• Sample tests with answer keys (for instructors only)
• PowerPoint slides to accompany each chapter (for instructors only)

Essentials of Physician Practice Management is a collaborative effort between a physician and a businessperson. We have tried to address the needs of physicians and their practice managers in practices of varying sizes (small to large) and types (for-profit and nonprofit group practices and faculty practice plans). Our goal is to give the readers of this book practical knowledge about and insight into the operation of medical practices. It is our belief that the challenges faced by practices today cannot be solved by either the physician or the practice manager alone. A team effort is needed to acquire and apply the deep knowledge and skills necessary to thrive in today’s challenging environment.

June 2004
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Chapel Hill, North Carolina
PART ONE

FINANCIAL MANAGEMENT