



Gaining Value from Medical Directorships

By Gail Peace

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Hospitals are starting to base medical directors' compensation partly on performance.

Hospitals frequently appoint a medical director to a department, a section of practice or a unit in the hospital. The medical director, a physician, is responsible for overseeing the medical practice of his or her specialty. To gain the most value from a medical director, hospitals must act wisely to define the duties of the directorship, choose a candidate to fill that role and then compensate the director fairly.

Defining Duties

In every hospital department, care must be taken to ensure that the medical practice is current and evidence-based. There is no better source to oversee patient care than a high-quality physician practicing at the hospital. The physician serving in the medical directorship serves a legitimate function in setting medical policy associated with his or her specialty.

The duties of medical directors typically include:

- setting the direction for evidence-based practice;
- establishing criteria for admission to the medical staff in the department;
- reviewing patient charts;
- initiating processes for physician peer review;
- providing direction to the non-physician staff on the current practice;
- making budget and equipment recommendations.

Medical directors are paid by the hospital primarily to accomplish administrative and leadership duties. A formal agreement is signed in advance, with all of the duties clearly defined. Most hospitals will have at least a handful of these agreements; larger facilities may have as many as 50 of them.

Choosing Wisely

Because a physician candidate can be an independent physician, his or her appointment also can be considered part of a hospital-physician alignment strategy. It is important for the hospital to identify a physician who can make an impact on the clinical practice at that hospital.

The physician's formal compensation as medical director gives the hospital an opportunity to align external and internal incentives for meeting the quality and efficiency goals of the hospital. Physician alignment strategies describe the different legal structures that can be used to create this alignment. However, the physician candidate first must have the appropriate clinical credentials and the charisma to serve as a leader of peers.

Compensating Fairly

In structuring compensation agreements, hospitals must work with counsel to confirm that the payment to the physician fits within fair market value, or typical payment for this service, and is not an enticement to the physician. This safeguard will ensure that there are no legal violations, especially related to Stark Law. Care needs to be taken to make sure the agreed compensation is not based on the volume or value of business the medical director brings to the hospital.

Until recently, medical directorships have involved a maximum number of hours worked per month for a defined set of medical duties. The compensation has been based solely on the hours worked. However, due in large part to payment reform, performance-based measures are becoming more prevalent in determining final compensation.

Bundled-payment pilots and other gainsharing strategies are changing how physicians can be compensated. There is a small but growing movement toward including performance measures for clinical outcomes in medical directorship agreements. More and more hospitals are tying a portion of the compensation to the achievement of clinical outcomes related to annual targets for the department, practice or unit.

Thinking Ahead

Hospital leaders should consider three questions when adding a medical director to their leadership team or in renewing a current agreement.

1. What is the real work to be done? Clearly articulate what the specific job duties are for this role. Outline what tasks will be filled by this role, with an eye toward improving and ensuring quality of care at the institution. Outline the specific duties the director is expected to perform.

A well-rounded list of duties should balance meeting attendance, leadership in the specialty, teaching of staff, policy-setting and even business development activities, with the duty to set clinical objectives for the department. The duties should include the integration of evidence-based practice into the performance expectations of the department.

Pay-for-performance systems, clinical co-management and bundled-payment models have introduced clinical outcomes-based reimbursement arrangements to the hospital. When determining compensation for the medical director, consider a balance of pay for time spent on administrative tasks and rewards for achieving clinical outcomes.

2. What will we measure? Previously, time was the only measure, but today, a variable component on the work performed is emerging as a trend in annual review. For example, the medical director of a cardiac catheterization lab may have a component of his or her annual compensation based on the facility's measures on door-to-balloon time. In many cases, these measures are set to line up with the administrative team's annual goals. Compensation should include a fixed component for time spent working for the hospital, and a variable component dependent on a set of annual quality measures.

3. What are we paying for? A discussion should occur annually with the medical director and hospital leaders on the value of the relationship. As in any good partnership, it should be a win for both sides.

The medical director should feel the compensation is fair, and he or she should feel ownership in the program. This approach aligns the physician's goals and incentives with those of the hospital.

The hospital also should feel that the director's appointment was worth the investment. The hospital should be able to determine whether improvements have been made in the department, practice or unit. Is the hospital really better off a year later?

What Medical Directors Add to a Hospital

Medical directors play an important role in helping a hospital manage the clinical care delivered to patients. Hospitals that enjoy the most success with this alignment strategy are evaluating their agreements with medical leaders each year.

While the nature of medical director compensation is evolving with the changing payment systems, it appears as though medical directorships are here to stay. Future directors, however, are more likely to have compensation agreements that include a fixed component for time spent working for the hospital and a variable component related to clinical performance.

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