Private group practices are at a crossroads due to the rapidly changing healthcare environment. Issues such as payment reform, capital investment, and technology are causing many private practice physicians to reevaluate their futures. For some, the future is in hospital employment and they will consider selling their practices.

Those who choose to remain independent will face both obstacles and opportunities. To survive and thrive in the new world of health care, group practices must have strong physician leadership, solid management, and good governance.

This article will examine some of the challenges physician groups face in exercising good governance and will provide a framework that can foster best practices in governance.

Governance challenges
When it comes to managing their patients and their practices, physicians often function as “captains of the ship.” Captains are most comfortable at the helm, so they may find it difficult to turn authority over to a trusted colleague. It is even harder to discipline that colleague.

As the competition does not end when the physician enters practice. Physicians struggle with the issue of whether, and to what extent, decisions should be made by a governing body. Because physicians tend to thrive in an autonomous environment, most decisions affecting a group practice—whether that decision is clinical, business, or legal in nature—are made by the individual physician. Although some physicians have been willing to cede certain business and legal decisions to a governing body, for most physicians it is unacceptable for someone else (even a fellow MD) to have the final say on medical decision making.

Another challenge is the need for self-policing. It is hard for any professional—whether a physician, attorney, or architect—to say “no” to a trusted colleague. It is even harder to discipline that colleague. Ironically, one of a physician’s most important skills—the ability to empathize—can be a hindrance when a colleague needs to be held accountable.

Similarly, a physician’s competitive drive can be an issue. For years, physicians have competed with one another in medical school, during residency, and for highly sought-after fellowships. The competition does not end when the physician enters practice. This creates possible conflicts of interest at the board level and can be an obstacle to physician/board alignment.

Finally, because physicians are highly intelligent and deal with life and death matters on a daily basis, they often find it difficult to trust someone else’s judgment, whatever the issue. An effective governance system requires the physicians to trust the advice of nonphysician advisors such as attorneys, accountants, and consultants.

A governance framework
A solid system of governance will not solve the many complex issues faced by private physician groups. However, it can serve as a powerful tool in dealing with these issues. The following characteristics are fundamental to a strong governance structure for a physician practice:

- The structure is based on the group’s mission, vision, and values.
- The structure is well documented.
- The structure fits within the current healthcare environment and is adaptable to changes in that environment.

Mission, vision, and values
Every group practice should establish and adhere to a common mission, vision, and set of values. These serve as a compass for the practice’s strategic direction—just as they do for Fortune 500 companies.

Because each group is unique, the mission, vision, and values of every practice will differ. However, they should be grounded in the following principles:

- Patient care and service
- Sound business and financial management
- Integrity

Well-documented governance
Before the advent of the limited liability company (LLC), physician practices were typically organized as medical or professional corporations. As such, the documentation relating to the group’s governance could be found in a number of places, including the corporation’s articles of incorporation, bylaws, shareholders’ agreements, and, in some cases, an actual governance agreement. With an LLC, all governance provisions can be consolidated in one document, the operating agreement.

Usually, a group’s operating agreement focuses on financial issues, such as buy-ins and buy-outs, with provisions tailored to meet the needs of the particular group. When it comes to governance, many operating agreements merely recite what is already contained in the applicable state’s LLC act. However, a good operating agreement should devote as much attention to governance issues as it does to financial issues, and the governance provisions should be customized to address the particular dynamics of the practice.

LLCs are governed by a manager, a board of managers, or the members (or owners). The power and authority of the managers are central to governance, yet many operating agreements are vague or even silent on this issue. A well-drafted operating agreement will outline the governing entity’s authority in great detail. It should have specifically enumerated powers, much like the federal government has in the U. S. Constitution. Above all, the governing body should have real authority and should act on that authority.

Current and adaptable
Historically, a practice’s governing board devoted most of its attention to business and strategic matters, leaving quality issues to the individual physicians or the hospital medical staff. But recent changes to the reimbursement system and the shift to quality-based reimbursements require that governing boards pay more attention to outcomes and quality issues.

Any governance structure that was created before the passage of the Affordable Care Act (ACA) may need to be revisited. A flat organizational structure, with a board that has very little authority, may have been appropriate prior to 2010. However, with the increase in pay-for-performance reimbursement systems, physicians will need to implement more robust internal systems. A strong, engaged board, led by a board member with chief medical officer responsibilities, is in the best position to make that happen.

Even before the ACA, reimbursements were decreasing, while overhead and capital expenditures for technology were increasing. The ACA has accelerated that trend. It is therefore critical that physician organizations operate efficiently and effectively.

Although they do not have to operate like Fortune 500 companies, physician practices must do a better job of incorporating proven business methods, such as business plans, internal cost accounting analysis, and entity capitalization, into their practices. Difficult