

Co-Management Arrangements: The Importance of Tracking Performance

Hospital/physician alignment strategies are increasing in popularity as government and private sector payors begin the transition to performance-based payment systems. The clinical co-management arrangement, which is based on two component parts: (i) the performance of base management tasks, which address the daily management requirements of the clinical service line; and (ii) performance-based initiatives, which place a portion of the management fee “at risk,” based on the achievement of specific performance objectives, is gaining significant traction at hospitals of all sizes.

Generally, compensation for completing the base management tasks is paid monthly or quarterly, whereas, the achievement of performance against preset incentive metric thresholds is usually paid on an annual basis. Together they comprise the total annual management fee applicable to the arrangement.

A fundamental assumption in the determination of the fair market value (“FMV”) of clinical co-management arrangements involves the “actual performance” of the base management tasks and the “achievement” of specific performance thresholds. Since these are clearly not *passive* arrangements, the lack of an effective plan, coupled with a reliable mechanism to track and document both task performance and the achievement of performance goals is the Achilles heel of the co-management arrangement.

Valuation Pitfall

The FMV compensation range is based on the performance of a number of very specific management tasks. Therefore, it is not enough to merely identify the management tasks to be performed by the managers and include such tasks in the formalized agreement. Rather, the hospital must track and document task completion, including receipt of associated deliverables, in order to demonstrate that the tasks have actually been performed and the performance metrics have been met.

We recommend the following:

- Operationally define each base management task and determine the required deliverable (e.g., specific protocols, staffing plans, training programs, etc.).
- Ensure that performance metrics include measurable goals.
- Establish a mechanism to track the progress made toward the completion of each base management task and performance goal on an annual basis, and ensure an annual “rebasings” of the performance metrics that have been achieved.