



*From the Desk of R. Lewis Dark...*

# THE **RD** DARK REPORT

RELIABLE BUSINESS INTELLIGENCE, EXCLUSIVELY  
FOR MEDICAL LAB CEOs / COOs / CFOs / PATHOLOGISTS

*R. Lewis Dark:*

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## COMMENTARY & OPINION by...

*R. Lewis Dark*  
Founder & Publisher



### Re-shaping the Profession of Anatomic Pathology

WHEN JANUARY 1, 2011, ARRIVED, IT MARKED AN IMPORTANT MILESTONE for the anatomic pathology profession. That is the day that the oldest pathologists in the Baby Boomer generation turned 65 years old and became eligible for Social Security and Medicare.

This is an event we have discussed our entire adult lives. The question is asked constantly. How will the “me generation” transform American society as they enter their retirement years? Now we are about to find out. Demographics indicate that the number of individuals reaching the age of 65 this year will be 50% greater than in any single year of the past decade.

One obvious consequence of this demographic fact is that clinical laboratories and independent pathology group practices will likely see a similar 50% increase in the rate at which pathologists and staff members reach retirement age. As you will read on pages 17-19, many laboratories are failing to put an effective succession plan into place. That leaves them vulnerable to the unexpected retirement of key physicians and managers.

Another consequence of this demographic fact is that many of the nation’s thousands of smaller, community hospital-based pathology groups will find it difficult—if not impossible—to recruit a younger pathologist to replace a retiring pathologist partner. Certainly that was a factor in the decision of **Davis-Sameh-Meeker Laboratory (DSM)** of Walla Walla, Washington, to sell itself to **InCyte Pathology, P.S.**, of Spokane Valley in recent weeks. (*See pages 3-7.*)

It is for that reason, among several others, that a growing number of independent pathology groups are beginning to explore consolidation and integration with cross-town colleagues. A full consolidation does not have to happen. Some form of collaborative test services may be the answer and shared laboratory testing networks are a visible sign of this trend. (*See TDR, March 21, 2011.*)

Add to these marketplace dynamics the triple threat of ObamaCare’s accountable care organizations (ACO), medical homes, and value-based purchasing. Each has the potential to change the way providers buy and use laboratory tests. When you consider the collective impact that all these trends may have to the profession of anatomic pathology, it is easy to conclude that a major transformation of this medical specialty is already under way. How fast this transformation occurs has yet to be determined.

# InCyte Pathology Buys DSM Lab in Walla Walla

► Pathology super-group has strategy to grow into an integrated provider in the Pacific Northwest

►► **CEO SUMMARY:** *For the nation's thousands of private pathology group practices, consolidation is now a growing trend. The latest example is last week's acquisition of the three-pathologist practice known as the Davis-Sameh-Meeker Laboratory in Walla Walla, Washington, by InCyte Pathology, P.S., of Spokane Valley. There are growing numbers of these mergers and consolidations involving independent pathology practices, but few are reported by local newspapers or other media.*

**O**NE MORE EXAMPLE of how the anatomic pathology profession will transform in coming years occurred last week in Western Washington. On April 1, 2011, **InCyte Pathology, P.S.**, of Spokane Valley, acquired the **Davis-Sameh-Meeker Laboratory (DSM)** of Walla Walla.

In the sales transaction, InCyte Pathology, a regional pathology super practice of 21 pathologists holding contracts with 23 hospitals in Washington and Idaho, acquired what was a three-pathologist practice in Walla Walla, Washington. The motivations behind DSM's decision to sell to InCyte are what gives this small laboratory M&A transaction significance.

The Davis-Sameh-Meeker Laboratory was founded in 1948 by pathologist Frederick Davis, M.D., who retired in

1971. Abbas Sameh, M.D., joined the practice that year, and David Meeker, M.D., joined in 1972. Meeker retired in 2009. After 41 years, Sameh, the last shareholder, also was retiring, leaving two employed pathologists with the option to purchase the practice.

"The retirement of Dr. Sameh, after a distinguished career of 41 years at DSM, created a business dilemma for DSM's two remaining employed pathologists," stated Gary Gemar, COO of InCyte Pathology. "The practice of anatomic pathology is evolving rapidly as new technologies and new diagnostic tests become available.

"To keep current, the Davis-Sameh-Meeker Laboratory needed an infusion of cash for new equipment to update their infrastructure," he said. "This recapitalization was necessary because the new histol-

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ogy processing equipment required today is costly. Then there is the cost to acquire and deploy digital pathology capabilities.

“DSM faced another challenge,” continued Gemar. “It is difficult to recruit pathologists to work in rural areas. That dovetails with another issue, which is the need for every pathology group to have the right mix of subspecialist pathologists that many clients demand today.

### ► Trends In Pathology Market

“At InCyte, we see these same trends,” he noted. “More and more of our clients demand subspecialty interpretations. Gastroenterologists want our GI pathologists to read their cases. Dermatologists want our dermatopathologists to read their cases.

“In this regard, the merger of DSM and InCyte benefits both groups of pathologists,” observed Gemar. “Our group has a wide range of subspecialty expertise. At DSM, the two pathologists joining our practice are both board certified in anatomic and clinical pathology. They are Alan P. Peterson, M.D., and Jon V. Rittenbach, M.D. They will continue to oversee the medical duties of InCyte’s new lab operations in Walla Walla and utilize the subspecialty expertise in the practice.

“The addition of Drs. Peterson and Rittenbach now gives us 23 pathologists and 20 of them are shareholders,” he commented. “Drs. Peterson and Rittenbach will be on a shareholder track and can become shareholders in two years.

### ► Pathology Sales Program

“In addition to the need for subspecialization, DSM recognized that it must have an effective sales and marketing program to stay competitive in the marketplace,” Gemar added. “Competition for specimens is increasingly intense and every pathology group needs to invest in sales development.

“Upon closing this transaction on April 1, InCyte has begun to implement an integrated laboratory informatics capa-

bility at DSM,” explained Gemar. “The pathologists and staff will run on our computer network and use our computer products so that both the Spokane Valley and Walla Walla sites are standardized.

“In addition to computerizing the whole facility, we also are remodeling and adding new equipment at DSM,” he explained. “The laboratory was built in a former physician practice. There were several small rooms throughout the facility. It will be opened up to create better lab, office, and meeting room space. A new grossing area will be built, and a gross workstation will be installed. DSM will have a cassette printer to print bar codes on the cassettes. This gives both our lab sites a common accessioning process.

### ► A Strategic Acquisition

“For InCyte, the purchase of DSM was done for very strategic reasons,” said Gemar. “We already have a large share of the market in Spokane but we have competitors now coming into this market.

“In 2007, we decided that we needed to expand our service range beyond the Spokane and North Idaho areas because of these competitors,” he said. “Since then, we have looked at pathology groups in our wider region that need a better business strategy to continue to serve those communities. InCyte believes it can be a part of that solution for these local pathology group practices.

“Walla Walla illustrates this strategy,” explained Gemar. “The DSM facility has histology and cytology services which we will use to continue service to the three hospitals in the community. These are **Providence St. Mary Medical Center**, **Walla Walla General Hospital**, and the **Jonathan M. Wainwright Memorial Veterans Administration Medical Center**.

“We will have medical directorships at all three of those facilities, which allows us to continue those relationships with those hospitals and gives us an opportunity to grow our services within the community,”

Gemar continued. “Also, because DSM didn’t do much outreach business, that is one opportunity we intend to develop.”

InCyte Pathology will use integrated informatics to support that outreach strategy. “Sometime this fall, we intend to interface our lab information system with the main hospitals in Walla Walla,” he said. “We will also offer electronic interfaces to those physicians in the community who have electronic medical record (EMR) systems.”

Gemar also pointed out that the Davis-Sameh-Meeker Laboratory gives InCyte a useful base for additional expansion. “This acquisition gives us an opportunity to move into some of the smaller communities in Northeast Oregon, which is very close to Walla Walla,” he stated. “We are already serving clients in Montana, Idaho, Washington, and Alaska, and we plan on moving into Oregon.

### ➤ The Southern Idaho Strategy

“Over the past year we implemented a Southern Idaho strategy,” explained Gemar. “We stationed a sales representative in Boise. Historically, we have provided services only to several counties in Northern Idaho. This market is made up of about 300,000 people. We have two pathologists at **Kootenai Health** in Coeur d’Alene every day, which is only about 30 miles or so east of Spokane.”

Gemar and his colleagues at InCyte expect to make similar acquisitions in the coming years as smaller pathology groups need to hire replacements for retiring pathologists and as these two- and three-physician groups need capital to upgrade equipment and computer systems.

InCyte’s goal is to create an integrated, multi-site pathology group practice that emphasizes its ability to be a local pathology provider in the smaller communities throughout its service area.

In this regard, InCyte demonstrates to other private pathology groups that it is possible to use consolidation and mergers

## InCyte Will Go Digital Because of Geography

**T**O DEVELOP AND SUPPORT REGIONWIDE PATHOLOGY SERVICES in the Pacific Northwest, InCyte Pathology, of Spokane Valley, Washington, is developing an efficient logistics system. It also plans to implement the use of digital pathology technology.

“The extensive geography of our service area makes it important for us to install digital pathology systems to shorten turnaround time on consults between the many hospital locations our pathologists serve,” stated Gary Gemar, COO of InCyte Pathology.

“Instead of having to send slides from Walla Walla to Spokane for consultations—which is 188 miles and three hours by car—that laboratory can prepare digital images and transmit those images to us electronically,” he stated. “Then pathologists here can perform the analysis immediately, eliminating the wait for the slides to be transported.”

“To move our specimens, we have to be very creative because we serve a rather large geographic area,” he said. “We have contracted with a courier service to do the local pickups and deliveries in the communities we serve in such states as Washington, Alaska, Idaho, and Montana.

“In most areas, our drivers pick up the specimens, package them, and put them on commercial air flights,” he added. “However, in Kalispell-Whitefish, Montana, couriers put the specimens on an Amtrak train that arrives in Spokane every morning at 2:00 am.”

to build a local pathology resource that can compete effectively against national competitors. Although the smaller pathology groups may lose their independence, they will gain access to the capital, subspecialists, and sales expertise they need to defend their market share from national competitors. **TDR**

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# Smaller Pathology Groups Explore Consolidation

► **Retiring partner pathologists in small groups are one reason why acquisition activity is climbing**

►► **CEO SUMMARY:** *In eastern Washington State, InCyte Pathology is developing a strategy that may well be repeated many times over in the coming years. As older pathologists who run smaller groups look to retire, they will consider selling their group practices to larger entities interested in forming regional pathology groups. These larger groups will consolidate the smaller practices, then invest in computer and digital pathology systems required to make them more competitive against national pathology companies.*

By Robert L. Michel

**I**N TODAY'S WORLD OF PATHOLOGY MERGERS & ACQUISITIONS (M&A), the recent acquisition of the **Davis-Sameh-Meeker Laboratory** (DSM) in Walla Walla, Washington by **Incyte Pathology, Inc.**, of Spokane, Washington, is not a big-dollar transaction.

After all, this was a three-pathologist practice founded in 1948. Located in a city of just 30,000 in the rural area of Western Washington, DSM is exactly like approximately two-thirds of the small community hospital-based private pathology group practices that dot the American landscape.

But this sale of a rather small independent pathology laboratory in Walla Walla is notable for a very important reason. It is an example of a wider trend of consolidation and regional integration now taking place in a growing number of communities across the nation.

Most of these transactions and business re-alignments happen quietly. Private pathology groups in the same town, or in nearby communities, have begun conversations to explore such business options as a

merger between the practices or some form of collaboration, including shared testing systems.

The transaction between InCyte and DSM is an example of this consolidation strategy. In the last two issues of **THE DARK REPORT**, we have presented case studies of shared laboratory testing networks.

## ► **Collaboration In Pathology**

In these lab networks, private pathology groups are collaborating with each other to take advantage of one group's existing infrastructure and test menu. This has two strategic business advantages. It allows the participating pathology laboratories to beef up their clinical offerings and service levels to referring physicians—thus making them more competitive with the national pathology lab companies that send sales reps into their towns.

It also allows the pathology group providing the collaborative service to reduce its costs, due to the higher volume of specimens. For the pathology group that uses this collaborative service, front-end capital costs are greatly reduced, which is a



significant benefit. It also gains competitive advantage because it can offer enriched pathology testing services to its own clients. (See TDRs, February 28, 2011, and March 21, 2011.)

### ➤ Under The Radar Screen

These developments happen without attracting much attention from the wider anatomic pathology profession. That's because the variety of acquisitions, mergers, and shared testing collaborations involving smaller community hospital-based private pathology groups attract little attention outside the city or town where these groups are located.

THE DARK REPORT believes that the anatomic pathology profession is now well into an important new trend of private practice consolidation and regionalization. This is happening for a number of reasons. These include:

- Surge in number of retiring partner pathologists, now that Baby Boomers are reaching the age of 65 years old.
- Need for private pathology groups to invest more capital just to hold on to existing clients and market share.
- Need for private pathology practices to launch and maintain an effective sales and marketing program to retain market share and expand specimen volume.
- Need for private pathology groups to have more clout at managed care contracting time, particularly as pre-authorization of genetic and molecular tests becomes more common.

### ➤ New Trend In Pathology

Overall, this new trend of consolidation and regional integration involving private practice pathology groups will be a healthy response to the changing health-care marketplace. But it does spell the end of the professional corporation (PC) partner practice model that dominated the second half of the 20th Century. **TDR**

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## Consolidation Trend Last Occurred in 1990s

**F**OR THE ANATOMIC PATHOLOGY PROFESSION, the last cycle of major consolidation happened during the 1990s. Two market forces drove regional consolidation and integration of private pathology groups during that decade.

One major factor was the consolidation of hospital ownership that took place between 1994 and 1998. Through these years, the number of multi-hospital health systems doubled, growing from around 300 to just over 600. As this occurred, it was common for the health system administrators to pressure the independent pathology groups serving the system's hospitals to come together and form a single pathology practice. Any number of pathology "super-groups" were formed in just this way.

HMOs (health maintenance organizations) were the other primary driver of pathology practice consolidation during the 1990s. In cities where managed care plans were a dominant force, their use of exclusive, capitated, full risk contracts motivated local pathology groups to come together and consolidate into a single practice. This much larger pathology group could then be a more successful bidder for managed care contracts, thus protecting and improving the pathologists' access to patients.

However, both of these market forces lost momentum by the end of that decade. The formation of new multi-hospital health systems tapered off. Gatekeeper-model HMOs fell out of favor. These developments eased the market pressure on smaller pathology groups, particularly those with one to four pathologists. They could remain independent and enjoy a degree of financial stability.

From 2000 forward, new market forces emerged. For example, specialist physicians began to build in-clinic pathology laboratories. This deprived local pathology groups of access to an important source of specimens and revenues.

# G-Men Mistakenly Raid Pathology Lab in Calif.

► At least 15 agents arrive at a pathology lab to execute a search warrant and seize records

►► **CEO SUMMARY:** *On February 10, 15 armed agents from the Department of Justice (DOJ) arrived at a pathology laboratory in Chico, California, to serve a search warrant and seize billing records, computers, and other evidence believed to be associated with fraudulent billing for CPT code 88175. However, in the weeks since this raid took place, facts leaking out indicate that the search warrant was prepared based on an inaccurate understanding of laboratory billing practices. That would indicate that this raid by armed agents was made in error.*

**F**IFTEEN ARMED FEDERAL AGENTS descended on a pathology laboratory in Chico, California, on February 10, and disrupted normal clinical services as they executed a search warrant for billing records, computers, and other evidence to support a government allegation that the pathology laboratory was fraudulently billing government health programs.

By itself, any raid by armed government agents of a long-established and reputable clinical laboratory or pathology group is an extraordinary event. That alone would make this a noteworthy story for the clinical laboratory industry. But this story has an added twist.

## ► Was The Lab Raided In Error?

Accumulating facts point to a possible conclusion that armed federal agents raided this law-abiding pathology laboratory in error! Both the government and the pathology lab have declined to speak on the public record about this episode, but THE DARK REPORT has learned facts that would point to government incompetence and poor communication involving state and federal agencies.

The February 10 raid was directed at **Pathology Sciences Medical Group (PSMG)**. This group, located in California's Central Valley, has seven pathologists and has been in operation for more than 50 years. Principals at PSMG did not return THE DARK REPORT's calls and emails.

At California's **Department of Health Care Services (DHCS)** a spokesman stated that the department would not comment on the raid of the PSMG laboratory nor other aspects of this case.

In its monthly newsletter, the **California Society of Pathologists** said PSMG was served with a search warrant by at least 15 armed agents from the federal Department of Justice (DOJ) asking for records related to billing for Pap smears.

"They [PSMG pathologists] were informed that there were allegations of fraud in the billing of liquid-based Pap smears and CPT 88175, screening by automated system and manual rescreening, under physician supervision," the article said. "It appears that DOJ was informed that this code would require the patient to return for a second Pap smear, i.e. re-screening."



“Since they had interviewed some of the patients who had been the recipients of that service,” continued the CSP article, “and had been informed that only one specimen collection occurred, the conclusion was that it represented fraudulent billing. There obviously is a major misunderstanding on that code and what it represents.”

### ➤ **Records Seized During Raid**

An attorney representing PSMG did speak with THE DARK REPORT about aspects of the DOJ raid. The lawyer acknowledged that the federal agents did execute a warrant associated with the lab’s billing for CPT code 88175 and that, during the raid, records were seized from PSMG’s lab.

When asked if the Medi-Cal fraud control team had made a mistake, this attorney responded with carefully phrased language, noting that government officials had a “misapprehension” about what was going on and that decisions which led to the raid were, in his view, based on “some bad information” and a “misunderstanding” about CPT code 88175.

So far, news that armed government agents raided and disrupted a legitimate business in California, based on wrong information from a Medi-Cal fraud team, has not caught the attention of newspapers or television stations in the state.

### ➤ **Pap Smear Billing**

Yet, if the known facts are accurate, then DOJ agents executed a search warrant that was based on flawed information. If true, this is a major violation of the constitutional and civil rights of PSMG, its owners, and its employees.

In cases where a drug raid happens in error, and the home of a law-abiding family is entered in error by armed government agents, the media regularly publicize such incidents. In response to these news accounts, the responsible government agencies are often seen on the evening TV news apologizing for executing a wrongful search warrant upon an innocent family.

Many pathologists and laboratory administrators will interpret this raid—assuming it was made in error because of a wrong interpretation of CPT code 88175—as an abuse of government power. Further, it caused considerable disruption to the daily operation of this long-established and respected pathology laboratory.

For example, having billing records and computers suddenly seized and removed from the premises certainly caused major problems for PSMG during the days and weeks that followed. If this search warrant was based on wrong information, then the responsible government agencies should—at a minimum—publicly state the true facts about PSMG’s compliance with billing requirements and apologize for the raid and its expensive consequences.

### ➤ **How Things Went Wrong**

It would serve the entire laboratory testing industry well if the full details of this episode were made public. Similarly, the government agencies involved for this raid should publicly acknowledge what went wrong and provide assurances to the state’s medical laboratories that a similar mistake will not be made again in the future.

To summarize this affair, THE DARK REPORT observes that a strong offense against government abuse of power is just as important as a strong defense. Assume that state and federal agencies made a mistake in issuing the search warrant and executing it against a long-established pathology laboratory that was innocent of the accusations that supported the search warrant.

If this was true, then leaders of lab associations at both the state and national levels should publicly support the victimized laboratory. It would benefit all their members if these laboratory associations spoke to the media and called for full disclosure and an apology to the laboratory that had to endure an unjustified raid by armed agents and significant disruption to its clinical services.

## Survey of lab consultants identifies specific problems

# Seven Deadly Sins of Lab Management Are Much Too Common

►► **CEO SUMMARY:** *Pity the poor laboratory manager of today. Lab budgets are shrinking. It is difficult to staff adequate numbers of skilled medical technologists. Baby boomers are now retiring. At the same time, accreditation and licensure inspections are becoming tougher. Recently, an experienced laboratory management consultant polled her peers to identify the specific problems that were most often encountered in lab consulting assignments. The survey identified what Anne Daley of Chi Solutions, Inc., calls the “Seven Deadly Lab Sins.”*

**I**F A MANAGEMENT EXPERT WAS TO COME TO your clinical laboratory or pathology group and issue a report card on the organizational effectiveness of your organization, what grade would your lab’s management team earn?

Because the lab industry lacks universally accepted benchmarks or performance standards, it would be a challenge to choose a letter grade to go on your lab’s report card. On the other hand, it is exactly this lack of universally accepted management benchmarks that motivates many laboratories to participate in one of the various peer comparison programs offered by the **College of**

**American Pathologists** (CAP) and different laboratory consulting companies.

Independent of these laboratory peer comparison programs, there is another source of useful knowledge about what distinguishes a well-run clinical laboratory from a poorly performing clinical lab. This source is the management and operations consultants employed by *in vitro* diagnostics (IVD) manufacturers and laboratory consulting companies.

As part of their job, these laboratory operations consultants come into client laboratories and assess the effectiveness of various operational activities. They have access

to that lab’s proprietary performance data as part of the consulting engagement. And because their work regularly takes them into different laboratories, these lab management consultants quickly recognize which laboratory organizations are top-performers, simply average, or struggling.

THE DARK REPORT recently tapped that source of management insight and expertise when it invited Anne Daley, a Senior Consultant at **Chi Solutions, Inc.**, of Ann Arbor, Michigan, to deliver a presentation at the *Lab Quality Confab* last November in San Antonio. Her session was titled “Seven Deadly Sins of Laboratory Practice.”

Daley was up to the challenge. To prepare for this presentation, she conducted a survey of her co-workers. Her goal was to identify the most common management and operational weaknesses that are regularly seen in the nation’s clinical laboratories and pathology groups.

For example, does your lab have a well-defined and well-communicated strategic direction that is integrated with your budget? If not, your lab is probably guilty of committing one of what Daley has come to call the “Seven Deadly Sins of Laboratory Practice.”

“Last year, I polled all the consultants here at Chi Solutions to identify the specific types of problems they encounter in their consulting work with different lab organizations,” she continued. “Because we work with so many lab clients, it gives us the opportunity to see the best of the best and the worst of the worst.”

“When I tallied the problems identified by our consultants, this list of seven sins emerged,” Daley explained. “These are the seven poor operational practices that were mentioned by 80% of the consultants participating in my survey. One finding of this survey was a unanimous choice of these consultants. They believe the number one sin committed by laboratories in this country is the lack of a strategic direction.”

### •• DEADLY LAB SIN NO. 1 ••

#### Lack of Strategic Direction



“As it turns out, the other six sins are often symptoms of sin number one,” she added. “So the first commandment of good laboratory management is ‘Thou Shalt Have a Strategic Direction!’”

According to Daley, one reason that lab managers and directors neglect strategic planning is that, in many cases, their parent hospitals also neglect that level of planning. “Stand-alone laboratories and commercial lab companies almost all have a strategic direction,” she emphasized. “By contrast, laboratories that are part of a larger institu-

tion, like a hospital or health system, are most likely to commit this sin.

“Obviously, a laboratory in a hospital must align with and support the strategic direction of its institution,” stated Daley, “Therefore, if the parent institution does not have an established strategic plan and strategic direction—or these are not well communicated—then its laboratory administrators and managers are left in the dark.

“But the institution’s lack of a strategic plan doesn’t mean that its laboratory is left rudderless,” said Daley. “We often see that, in such situations, when the laboratory defines a direction—such as building a laboratory outreach testing program—this activity reinforces the hospital’s primary service goals and so that institution will often follow with additional support.

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**“We often see that, in such situations, when the laboratory defines a direction—such as building a laboratory outreach testing program—this activity reinforces a hospital’s primary service goals and so that institution will often follow with additional support.”**

“Thus, to repent of this sin, when your laboratory is part of a hospital or health system, step number one is to fully understand your organization’s direction,” offered Daley. “If there is no strategic plan, then the next place to look for direction is at the institution’s statements of its mission and values. Use these to establish management priorities for your laboratory that you think will work to the institution’s advantage.

“An effective strategic planning tool for your laboratory can be as simple as a one-page document that states your critical success factors and how you will measure success,” she continued. “It should

include something about patient safety and quality goals. It should also include goals for financial performance, customer service, and the lab’s working culture.

Daley says another element of this strategic plan could be a formal, prioritized space plan. “In many labs, when a new piece of equipment is added, it’s put wherever there is the most space,” she explained. “Over time, the result is a layout that doesn’t fit the lab’s workflow and uses the space poorly. The lab ends up feeling crowded and this is a drag on both staff productivity and quality.”

To measure progress against strategic goals, Daley recommends use of a “balanced scorecard,” which is a set of metrics established to measure ongoing performance of each identified critical success factor.

## •• DEADLY LAB SIN NO. 2 ••

### Poor Financial Discipline



“Once you establish a strategic direction for your laboratory, the next step is to integrate your goals with your budget,” observed Daley. “This brings us to the second deadly sin, which is poor financial discipline.

“Good financial discipline is knowing the numbers and managing to those numbers,” she said. “It surprises me how often I can ask a seasoned lab director to tell me something basic, like how many FTEs work in their laboratory, and they don’t know the answer!

“It is a fundamental tenet of good laboratory management that you know the level of staffing authorized within your laboratory, the specifics about the monthly budget, and—most importantly—whether your laboratory is on target to meet its financial goals. These are basic things that underpin the financial and clinical success of the laboratory,” commented Daley.

Another major failing in financial discipline is when laboratory management has only a fuzzy idea about the profitability of outreach work. “It is always surpris-

ing to arrive at a hospital laboratory and find that neither the lab managers nor the hospital administrators understand whether the laboratory outreach program is making money or losing money,” commented Daley.

“It is common for a hospital or health system laboratory to tell us that they ‘think’ they make a profit on their outreach work,” she added. “But they admit that they don’t know the precise numbers.

“As we gather solid financial data, we determine that many of those ‘thinks’ about the profitability of the lab outreach program are incorrect,” observed Daley. “To correct this deadly lab sin, it is necessary to drill down and understand the core financials of the laboratory outreach program.

“For example, do you know which outreach clients are profitable and which clients are not?” asked Daley. “In situations where a customer refers only stat tests and other work that costs more to perform than it brings in reimbursement, it might be wise to terminate that account.

“At a minimum, this type of client should be made aware that, if they want to continue to send their stat tests to your laboratory, they need to meet a specified volume level to continue to receive that level of service,” she recommended.

### ► Pay Attention To Billing

Daley also advises working closely with the billing department staff, particularly to make sure that they don’t automatically write off the small dollar accounts that typically make up many lab test claims. “Hospital billing departments regularly deal with sizable bills representing thousands of dollars,” Daley said. “To these billing clerks, a \$15 or \$25 lab bill looks like small potatoes. Yet these small amounts represent a substantial part of laboratory test revenue and can add up quickly. It is imperative that these claims be collected if the lab outreach program is to optimize its financial success.”

Another consequence of the sin of poor financial discipline is that the lab

## Seven Deadly Lab Sins Identify Common Issues

**O**F COURSE, LABELING THESE COMMON CHALLENGES in laboratory management as “Seven Deadly Lab Sins” is a bit of tongue in cheek. However, it is a clever way to call attention to everyday problems that many laboratory administrators and pathologists allow to go unaddressed—sometimes for years!

Raising awareness of these common issues was a primary goal for Anne Daley, who is a Senior Consultant at Chi Solutions, Inc., in Ann Arbor, Michigan. This list of “Seven Deadly Lab Sins” was derived from the survey she conducted with her consulting colleagues. Each was asked to identify management and operational problems that were encountered most frequently during consulting assignments.

At the *Lab Quality Confab*, which took place last November in San Antonio, Anne Daley’s presentation of these seven deadly lab sins was delivered to a crowd that was standing room only. This audience was highly interactive, and attendees affirmed the validity of Daley’s survey findings.

Daley’s PowerPoint of this presentation can be accessed by visiting: <http://www.lab-qualityconfab.com/wp-content/uploads/2010-presentations/Daley.pdf>.

### Anne Daley’s Seven Deadly Lab Sins

- 1: Lack of Strategic Direction
- 2: Poor Financial Discipline
- 3: Bad Staff Attitudes and No Accountability for Performance
- 4: Focusing on Productivity Ahead of Quality and People
- 5: “Feast or Famine” Process Flow
- 6: Failure to Use the Automation Purchased by the Laboratory
- 7: Buying and Storing Excess Inventory

often must struggle to obtain capital for new equipment. “This happens surprisingly often because lab managers fail to thoroughly document the lab’s need for new instrument systems,” she stated.

“In these cases, the remedy is fairly simple,” continued Daley. “Approach the finance department and work with them to assure that the lab’s request for capital clearly demonstrates the need, with compelling data to justify it. When money for capital spending is available, the institution’s CFO is more likely to fund a laboratory request that is supported by an accurate and detailed financial analysis.”

### ●● DEADLY LAB SIN NO. 3 ●●

#### Bad Attitudes—No Accountability



“No laboratory organization can succeed if employee morale is poor,” observed Daley. “This is the third deadly lab sin. In these situations, it is common to find that lab management is failing to hold staff accountable during the daily work routine.”

Daley has a clever way to sniff out poor attitudes among staff in a laboratory. “As you walk around the lab, look to see if the laboratory staff has posted a number of the Dilbert or Dilbert-like cartoons in public areas,” she suggested. “Consider that the lab staff may have posted those cartoons because they see correlations between the message of the cartoon and their direct working environment in the lab.

“When you ask staff members working in that area what the message of the cartoon is, the answer is often a candid assessment of a longstanding problem in the laboratory that management is allowing to go unaddressed,” explained Daley. “Any emotions associated with that problem will become clear as the staff members discuss why that particular Dilbert cartoon was posted in that work area.

“Don’t overlook the impact that a staff member can have if they are marking time until retirement,” she said. “With labora-

torians now averaging around 55 years old, there are a lot of folks who want to simply mark time until retirement.

“Anticipate the consequences of retirement or the unexpected departure of a highly-experienced lab staffer,” she noted. “Among your staff, encourage knowledge sharing. Make sure at least two people in your laboratory are competent in every key activity or process.

“It is good management practice to identify a successor to a staff member approaching retirement, then take active steps to provide that person with the experience and training he or she needs to be ready to take over when the existing staff member retires.”

### ●● DEADLY LAB SIN NO. 4 ●●

#### Focusing on Productivity Ahead of Quality and People



“It should surprise no one that, at a time of shrinking lab budgets and the shortage of qualified technical staff, a disturbing number of laboratories have a primary focus on productivity,” declared Daley. “Putting productivity ahead of quality and people is the fourth deadly lab sin.

“In the daily rush to handle ever-increasing volumes of specimens, it is very easy for quality to suffer and for employees to become overworked and overstressed,” noted Daley. “The good news is that, over the past decade, the new management methods of continuous improvement and Lean offer lab managers the tools needed to improve this situation.

“Remember, it was W. Edwards Deming who consistently pointed out that people want to do good work, and it is the system that is responsible for most of the bad work and the quality problems,” she stated. “In your laboratory, no one comes to work planning to mess up. If they are not performing to expectations, it may be due to an inefficient work environment. Too often, processes are poorly defined and/or the staff has not been well trained.



“Correcting this deadly lab sin starts with a careful definition and documentation of each work process,” Daley said. “Next, train people to do that process the same, standardized way.

“Better documentation will also benefit your laboratory in another way,” added Daley. “In recent years, CLIA inspections have increasingly cited laboratories over the lack of documentation of process. Thus, making the effort to improve the documentation of your lab’s processes will improve consistency in performance as well as contribute to better outcomes when your lab experiences its next inspection.

“There is another management strategy that is useful to correct this deadly lab sin,” she continued. “It is essential to create a viable career path for those entry level people in your laboratory who are most likely to leave.

“Take specimen processing as an example,” said Daley. “These people have one of the least attractive jobs in the lab. Yet the work they perform involves some of the most critical steps in the technical process. However, too often we short-change their training.

“On the other hand, by nurturing these individuals and providing them effective training, the quality of work done in specimen processing will improve,” she added. “We should encourage and celebrate a career path toward becoming a technician or technologist.”

#### •• DEADLY LAB SIN NO. 5 ••

##### “Feast or Famine” Process Flow



“The fifth deadly lab sin is found in laboratories that continue to operate from the ‘batch’ mindset and are organized to react to the flow of specimens arriving in the laboratory,” observed Daley. “We call this ‘feast or famine’ process flow.

“This deadly lab sin can be corrected by adopting the management methods of continuous process flow and quality management principles,” she said. “In fact,

over the past decade, laboratories have used these techniques to create a new operational paradigm.

**“In recent years, CLIA inspections have increasingly cited laboratories over the lack of documentation of process.”**

“Most laboratory managers now recognize that batch processing slows down turnaround times, but they continue to do it,” explained Daley. “Recently, I visited a lab where the entire staff went to lunch at the same time.

“During that entire hour, work was backing up!” recalled Daley. “Mapping your lab’s work flow is the first step to correcting this deadly lab sin. Identify the bottlenecks and match staffing levels to the demand.

#### •• DEADLY LAB SIN NO. 6 ••

##### Failure to Use the Automation Purchased by the Laboratory



“This is one of the more surprising findings when our consultants were surveyed about the deadly sins they see in laboratories across the country,” declared Daley. “It is very common for labs to install expensive automation systems, but then only use a small portion of their lab automation’s capabilities.

“One simple example illustrates this issue,” she continued. “Many laboratories establish autoverification criteria that are too tight. In turn, this results in unnecessary human handling or excess work.

“Similarly, QC systems criteria are often set so tight that the MTs end up performing excessive repeats,” Daley said. “Another classic example is when paperless systems have been installed in the lab, but the staff continues to keep all that paper around ‘just in case’ and the lab proceeds to pay for long-term storage of the unnecessary paper.



“The message here is, when you buy automation, take the time to optimize all the work processes by inviting the vendor back three to six months after installation to assess your performance,” she recommended. “Take time to learn all the capabilities of the automated systems and use them!

### ◆◆ DEADLY LAB SIN NO. 7 ◆◆

#### Buying and Storing Excess Inventory



“Did you ever walk into someone else’s laboratory and find yourself stumbling over boxes of supplies stored in hallways and placed under benches?” asked Daley. “This is a good indication that the laboratory has committed the seventh deadly lab sin, which is purchasing and storing excess inventory.

“In the case of your own laboratory, you might want to ask yourself two questions,” recommended Daley. “The first question is: ‘Does my lab appear cluttered?’ The second question is: ‘Does my lab have more than one month’s worth of supplies within the work area?’

“Should you answer yes to either question, your laboratory is most likely buying and storing excess inventory,” she said.

“To address this deadly sin, a good place to start is to work with Purchasing,” she advised. “Together, assess your current supply inventory system. Establish reorder par levels. A good move is to implement a Kanban system, which is a common Lean inventory management tool.

“The next step is to develop Vendor Contract Briefs on all major contracts,” Daley added. “These should include shipping/handling expenses and service maintenance options. Then educate your staff so that they understand the budget consequences of various actions.

“Of course, another useful step is to go searching for those ‘personal’ stashes of inventory that some staff like to hoard,” she said. “They do this so they won’t run out of supplies, possibly as a result of a vendor back-order issue that occurred 10

years ago. Everyone needs to understand why hiding inventory like this creates excessive costs for the lab.

“Another tactic that catches peoples’ attention in a positive way is to conduct an internal ‘rummage-o-rama,’” recommended Daley. “A great example is to tally the black marker (aka Sharpie) population in your lab. You’ll be amazed at how many of these relatively expensive marker pens are being hoarded and hidden. Activities like this help lab staff understand why inventory management is an important management objective.”

#### ► Why Problems Are Common

By creating this list of “Seven Deadly Lab Sins,” Daley hopes to call attention to management problems that are common to many labs—and which can be corrected with rather simple and persistent efforts.

In fact, Daley likes to quote a famous American to illustrate why such problems are so common. “Benjamin Franklin once said that ‘common sense is not necessarily common practice,’” stated Daley. “If your lab organization is committing any of these sins, realize you are not alone.”

For lab managers who recognize some of these problems in their own laboratory, Chi Solutions has created several useful tools. These include examples of strategic roadmaps and balanced scorecards and these tools can be downloaded from their website. “There is no charge to use these tools,” stated Daley. “Simply register with the web site, which is [www.chisolutions-inc.com](http://www.chisolutions-inc.com). Next, click the ‘Knowledge Center’ button at the top of the page and select ‘Presentations.’ The tool kit is on that page.”

For laboratory administrators and pathologists, the list of “Seven Deadly Lab Sins” can be the basis for a planning session with all the lab team members. It can help people recognize similar problems in their own lab and how to fix them. **TDRE**  
Contact Anne Daley at 800-860-5454 x414 or [adaley@chisolutionsinc.com](mailto:adaley@chisolutionsinc.com).

—Karen Branz

# Lack of Succession Plan Now Hurts Many Labs

➤ **More labs find themselves short of leaders following a sudden retirement or regulatory issues**

➤➤ **CEO SUMMARY:** *Throughout the past decade, laboratory administrators and pathologists have been reminded about the importance of having a succession plan in their laboratory. Now one veteran lab industry CEO says the lack of a succession plan, unexpected retirements, the discovery of serious compliance deficiencies, or failure to achieve financial targets are the reasons why a growing number of hospital labs find themselves leaderless. In such cases, these labs are forced to hire interim managers.*

**L**ACK OF AN EFFECTIVE SUCCESSION PLANNING PROGRAM for key managers and administrators is about to become a major issue for both large and small hospital and health system laboratories across the nation.

That's the opinion of G. Robert Ainslie, Ph.D., MBS, a semi-retired former lab CEO. Ainslie has spent much of the last decade accepting interim leadership positions at hospital-based laboratories where the retirement or sudden departure of the senior laboratory administrator created a leadership void that the parent hospital could not fill in the short term.

"There are both obvious and subtle reasons why a lab CEO or senior administrator has not prepared a successor to him- or herself," observed Ainslie. "Some administrative directors of the hospital laboratory may simply be so overburdened and understaffed that a succession plan is never developed. That means promising managers within the laboratory don't get the mentoring and training they require in order to step up to the highest position of authority within the laboratory.

"I've also seen cases where the ego was involved," he added. "In such instances, these lab directors hope that, if and when they ever leave their positions, the lab will fail without them," noted Ainslie. "Another mindset found in some lab managers are those who see succession planning as a threat to their own job security. Ask these individuals about succession planning in their laboratory and they will answer: 'Why would I do that? I don't want to be training my replacement.'"

## ➤ **Leadership Development**

Ainslie is not alone in his observation that the laboratory industry is failing to devote adequate time and resources toward succession planning and leadership development. Over the past two years, THE DARK REPORT has offered several learning opportunities on this subject in the form of audio conferences and special presentations at the *Executive War College*. Attendance and participation in these sessions tends to be significantly less—despite the imminent need to properly train the next generation of CEOs and senior lab administrators.

Ainslie points out that three significant reasons make succession planning and management development a critical success factor for all clinical laboratories and pathology groups. “The first reason is the most obvious,” he declared. “Baby boomers—who represent a disproportionate majority of a lab’s key leaders—are now actively retiring. Going forward, the typical lab’s staff retirement rate will be much greater each year than was true of the last decade.

“The second reason might surprise many lab administrators and pathologists,” exclaimed Ainslie. “In recent years, on-site inspectors for accreditation and for CLIA compliance have become much more aggressive in enforcing state and federal compliance regulations.

### ► Removing The Senior Leader

“Major compliance failures at the inspected lab are a common cause of leadership turnover,” he noted. “Faced with the need to take immediate corrective action or the possibility of losing the lab’s license, hospital administrators act quickly to remove the senior leader in the lab who was responsible. But, because there was no succession plan, the lab is left leaderless at a critical moment. Going outside to find a capable replacement is a process that can take months.”

Ainslie stated that the third reason involves the growing trend for hospitals and health systems to act more swiftly to address financial underperformance in their laboratory organizations. “Nowadays, many hospital administrators are fully prepared to step up and change the lab leadership whenever the lab fails to achieve its financial goals.

“Collectively, these three factors make lab directorships much less stable than they have been in the past,” observed Ainslie. “Because most lab organizations fail to do succession planning, they have no obvious leaders ready to fill these vacancies.

“Independent of these three powerful trends in the lab marketplace, succession

planning should be part of every management development program at every lab,” he commented. “Management turnover is inevitable, so it is truly a failure of leadership not to have a succession plan.

“My role as an interim manager only exists because the lab that invites me in has failed to prepare qualified managers who can immediately assume higher responsibilities,” he continued. “My phone only rings when the lab has that leadership vacuum.”

### ► Need For Interim Manager

His phone rings much more often these days. “In the past year, I have fielded twice the number of calls with offers of an interim management assignment,” Ainslie commented. “A look at the reasons behind these calls is instructive.

“A couple of those calls involved filling in for managers who reached mandatory retirement age,” he noted. “In my view, there is no reason why a laboratory should need an interim manager when a lab director reaches the age of mandatory retirement. If a lab has mandatory retirement, it should also have mandatory succession planning.

“At least three other calls to me were the result of serious problems that were not being addressed in the lab,” continued Ainslie. “These were either compliance problems that were a direct result of the more intense inspections these days, or the failure to meet the productivity and/or financial expectations of the organization.

“By the way, senior lab managers are getting more intense pressure by hospital administration to fully meet financial and performance goals,” he explained. “This is a direct result of the need to contain health care costs and maximize productivity.

### ► Lab Labor and Productivity

“Another reason for turnover among senior lab administrators is that hospital and health system managers are evaluating the labor component in every department,” Ainslie continued. “Personnel costs are a

favorite target among cost-conscious executives. They are measuring the value of personnel against productivity standards.

“Today, labs and hospitals are much smarter about using productivity measurement tools and comparing their lab’s performance against national benchmarks,” he added. “Some hospitals use the same productivity tool throughout the facility. Other hospitals will use a lab-specific productivity tool. Accordingly, where these tools are in use, lab managers need to know where their labs stand in relation to national benchmarks.”

Ainslie says that implementing a succession plan is not only essential, but it is actually rather easy. “A simple way to start is to identify those candidates who might be appropriate for leadership positions,” he recommended. “Performance appraisals for these individuals should include an evaluation of their potential for promotion. This is one way the laboratory can spot those staff members who would benefit from more development of their management skills.

“In most of the labs where I’ve worked, the staff is hungry for a succession plan,” he commented. “When I talk to the staff, I can find out right away whether the lab is loosely managed. Employees will be quick to let you know if this is the case.

### ► Career Development

“In such labs, there will be no clearly-defined path for promotions and no succession planning,” he added. “The lack of each leaves employees frustrated. This situation has a big downside for the laboratory.

“Lacking defined paths for career development and promotions, your lab’s best candidates for succession planning often decide they have no opportunity for advancement,” emphasized Ainslie. “So they go elsewhere. The result? Your lab ends up losing its most capable people and you never find out why they left.”

THE DARK REPORT observes that the lack of succession planning and well-defined career paths in many laboratories and

## Tougher Inspections Result in Deficiencies

**T**HERE IS NO MYSTERY AS TO WHY compliance and accreditation inspections of clinical laboratories are much tougher now than in past years.

“Compliance is a bigger concern today because of the widely publicized deficiencies that surfaced in 2004 at **Maryland General Hospital** in Baltimore,” explained G. Robert Ainslie, Ph.D., MBS, a semi-retired former lab CEO. “Inspections at this laboratory had failed to identify serious failures in lab test accuracy and other issues. Only after a whistleblower in the lab got the attention of the Maryland Department of Health, and the local newspaper, did correction action take place.

“Since then, regulators have intensified their oversight of labs,” he noted. “Today, regulators are less forgiving about failures to comply and are prepared to hold lab directors accountable for compliance failures.

“This increases the number of labs that are cited for deficiencies,” said Ainslie. “When a hospital finds that its lab director is lax in ensuring that the lab is compliant with all state and federal regulations, it may act quickly to remove that director.

“It doesn’t matter if the licensure or accrediting agency is CLIA, the **College of American Pathologists**, the **Joint Commission**, or the state department of health,” stated Ainslie. “When inspectors arrive in labs nowadays, they demand more accountability to the requirements. They have much less tolerance for failure, and are fully prepared to write up the deficiencies that they identify.”

pathology groups is going to be a significant factor during the next 24 months. Market forces indicate that a shortage of capable leaders will develop during that time. **TDRE** Contact G. Robert Ainslie at 423-341-6035 or [grobert.ainslie@gmail.com](mailto:grobert.ainslie@gmail.com).

—By Joe Burns

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Now!**

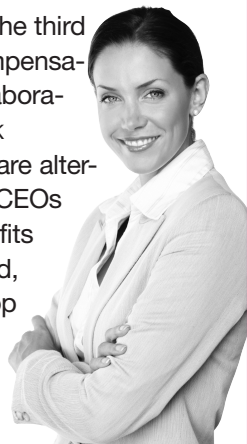
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