

Business and Management Strategies in Healthcare • part 2

# Management strategies in healthcare

## LEARNING OBJECTIVES

- **Describe** the management concepts of re-engineering and consolidation.
- **Explain** how integrated delivery systems, alliances and outsourcing integrate and streamline business structures.
- **Define** total quality management and explain its basic principles.
- **Describe** how benchmarking and customer relationship management build quality in an organization.
- **Identify** management models that help broaden an organization.

*This second article in a three-part series discusses management strategies currently being used in the healthcare industry. Major topics include optimizing the organization, integrating and streamlining strategies, creating a quality-focused culture, tools for building quality, and types of management models.*

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Nearly 25 years after the healthcare community began using a business approach to organize delivery of care, some strategies are being revised and adapted to work in this unique environment. These strategies include:

- Management approaches, such as re-engineering and consolidation, that focus on eliminating waste and using resources more efficiently.
- Integrating and streamlining business structures through integrated delivery systems (IDSs), alliances and outsourcing.
- Developing a culture of quality through total quality management (TQM).
- Enhancing quality by using tools such as benchmarking and customer relationship management (CRM).
- Moving away from a “top down” business model to a broader, flatter organization.

### Re-engineering and consolidation

Re-engineering can be defined as the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in cost, quality, service and speed. In healthcare, re-engineering practices have been employed to manage resources to result in better clinical outcomes and reduced costs.

Because this is a sweeping process that affects all levels of an organization, it is essential to have the participation of multidisciplinary teams representing all levels. The teams examine the overall process of healthcare delivery, looking for ways to provide needed services in the most efficient way.

Re-engineering consists of four key processes:

- Simplifying and redesigning how people work.
- Improving the job skills of employees.
- Motivating employees to perform better.

- Providing the necessary equipment, technology and facility support to accomplish the above objectives.

Consolidations, whether through mergers or acquisitions, can produce cost savings as organizations combine forces to reduce their individual expenditures and make the best use of their resources.

A merger is the result of two organizations combining and emerging as partners in a joint venture or as equals under a common parent organization. An acquisition occurs when one organization acquires another.

Consolidations have had a significant impact on major segments of the healthcare industry in the following ways:

- **Managed care:** Consolidation was so common through the late 1980s and 1990s that by 2000, over 85% of all HMO members in the United States belonged to one of just 37 corporate managed care chains.
- **Hospitals:** The 1990s saw an enormous increase in hospital consolidation, with multihospital chains of two or more institutions.
- **Pharmaceutical companies:** A large number of consolidations in the 1990s resulted in fewer companies operating in the United States.

One somewhat surprising trend in healthcare in the past five years is a movement toward dissolving mergers. Many hospitals, for example, find that separating from a larger system allows them to focus on core competencies, develop better relationships with physicians and employees, and make decisions faster.

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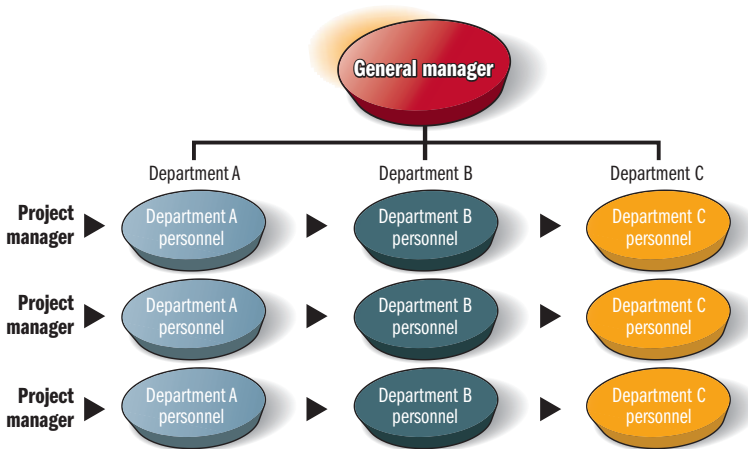
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## Matrix organizational structure



### IDSs, alliances and outsourcing

Integrated delivery systems are formed when healthcare providers band together to coordinate patient care, strengthen or broaden the range of services, and expand the geographic coverage area. The ultimate goals of this type of integration are to improve the coordination of care, enhance patient management, streamline operations and save money through greater efficiency.

A recent trend, however, shows some IDSs divesting themselves of unprofitable components, particularly physician practices, nursing homes and HMOs, to focus on hospital-based care. Another trend observed in some areas is that of specialists cutting ties with hospitals in order to devote more time to ambulatory surgery centers or specialty hospitals in which they have equity interest.

Unlike IDSs, alliances are informal business relationships between two organizations. These arrangements integrate the partners' operations through tight operating linkages, mutual interest in one another's future and a long-term strategic orientation. These organizations share information and resources, and collaborate to achieve common goals.

Several types of alliances include:

- Hospital-physician alliances: where specialized physicians form joint ventures with hospitals, sharing both development costs and profits, to offer services such as cardiac catheterization, imaging procedures and ambulatory surgery.

- Healthcare-pharmaceutical alliances: where a pharmaceutical company provides a healthcare organization with customized products and services, such as:

- Management of high-cost areas.
- Improvement of medication compliance.
- Management of patient access to healthcare information services.

- Pharmaceutical company alliances, such as:

- Mutually beneficial partnerships (for example, one company supplies products, while another makes use of an underutilized sales force).
- Agreements to co-market or co-promote products.
- Establishment of joint ventures to develop disease management services for managed care customers.

Outsourcing occurs when a healthcare organization or provider contracts with a company to perform a specific service. This streamlining strategy is sometimes referred to as a "carve-out." Examples of outsourced services include food services, emergency care, equipment maintenance and information systems. A survey of hospital executives found that using contracted services allowed hospitals to better focus on serving patients and delivering a higher-quality experience.

### Total quality management

Total quality management is a business strategy that aims to improve product and serv-

ice quality by restructuring traditional management practices. Furthermore, TQM means that an organization's culture is defined by and supports the constant attainment of customer satisfaction (in the case of healthcare systems, patient and physician satisfaction) through an integrated system of techniques, tools and training.

The benefits of TQM techniques include:

- Helping people collect and analyze data in order to solve quality problems and make continuous improvements.
- Enabling people to develop a sense of control over their own work and output.
- Facilitating team operation and cooperation between units.

The drawbacks of TQM stem from the investment required in terms of staff participation, time and financial resources. It often takes a year or more to create TQM teams, develop goals, initiate improvements, monitor results and refine the process.

Some of the basic principles behind a TQM program include:

- Customer satisfaction: An organization must know who its customers are, what they expect and how well these expectations are being met – this is the most important measure of quality.
- Quality first: Quality always comes before costs, budgets and schedules.
- Process management: The quality of a product or service is directly dependent on the quality of the process that produces it.
- Cross-functional management: The process of manufacturing a product or delivering a service cuts across functional groups in the organization.
- Continuous improvement: All processes can always be improved, especially through small, incremental improvements rather than dramatic ones.

Some managers were frustrated with the slow pace of the TQM process; as a result, the concept of rapid cycle improvement emerged. This is a modification of TQM that seeks to produce small cycles of change that can be implemented quickly, rather than large changes implemented after a long study period. The pace is key, with each cycle of change providing information and a basis for further improvement.

## Benchmarking and CRM

*Benchmarking* means comparing key systems or components against others and using this knowledge to identify, understand, measure and implement improvements within the organization. It is a practical, action-oriented tool used to identify ideas for improving processes and is frequently incorporated as part of a larger TQM program.

Types of benchmarking include:

- **Competitive** – comparing an organization with another within the industry that markets the same products or services.
- **World-class** – comparing an organization with another outside the industry, usually looking at generic procedures, such as billing or collection.
- **Collaborative** – arranging a limited exchange of data, primarily statistics, within a group of organizations.

Customer relationship management is the use of technology to improve an organization's ability to respond to customers and solve their problems. All industries, including healthcare, are finding customers are better informed, more discriminating, more powerful and more likely to react negatively to questionable service.

Customer relationship management is based on the premise that companies need to respond to increased customer power by discerning individual customer preferences and catering to them. For example, CRM programs give the customer service representatives of healthcare plans instant access to member data to enable them to speed response times and shorten the length of calls.

## Management models

Strategies that broaden the organization are those that move it away from a hierarchical, "top down" (or vertical) management style. These strategies encourage all workers to take responsibility for providing high-quality services and products, to be proactive in addressing issues before they become problems, and to continually look to improve the workplace. New management methods in this vein include horizontal management models, matrix management, learning organizations and complex adaptive systems.

## Horizontal management models.

Horizontal management models are those in which employees are organized in teams around entire processes, rather than according to departments. Teams are a basic building block of the horizontal model, involving groups of people from different functional areas working toward a common goal. Most teams can be described as either problem-solving teams – groups that have a specific mission – or work teams – groups that perform day-to-day work and generally have the authority to make decisions about how work gets done. Disease management is an area of healthcare that often employs a team management approach, utilizing a team of a diverse professionals who focus on the course of the disease and interact with patients over the continuum of their illness.

**Matrix management.** Matrix management is a strategy whereby project managers coordinate and oversee their respective projects, and draw the support they need from relevant departments within the organization. This arrangement preserves traditional functional reporting structures, while allowing for horizontal interaction among functional groups. The resulting reporting structure resembles a matrix, as seen in the illustration on page 35.

Detractors of matrix management claim that tasks and responsibilities are not clear, and that individual employees are constantly required to negotiate and define their roles. One advantage of this model is that it promotes flexibility in decision making, which fosters greater responsiveness toward customers. Another advantage is that processes are carried out more consistently and accurately because project managers and teams feel a sense of ownership and responsibility.

**Learning organizations.** Learning organizations are based on the idea that work should be viewed as a series of inter-related and dynamic activities, not as separate, fragmented tasks. The assumption is that as individuals learn how to do things they were previously unable to do, they become empowered by this knowledge and the freedom to use it, so they have a greater impact on the system.

One guiding premise of the learning organization is that organizations are always

in a state of becoming better or becoming worse. The defining discipline of a learning organization is systems thinking, which requires recognition of cyclical patterns that occur again and again, so that the deeper patterns that lie behind the events become clear. One example of the implementation of systems thinking in healthcare is disease management, which seeks to manage a patient's lifestyle rather than just his or her acute problems.

**Complex adaptive systems.** A complex adaptive system (CAS) shares many traits with a learning organization and consists of a collection of individual agents who have the freedom to act in ways that are not predictable. The actions of all individuals within the CAS are interconnected, so that the actions of any one individual change the context for all others in the system. Likewise, healthcare systems consist of many parts (for example, clinics, hospitals, pharmacies and laboratories) that are all interconnected and bear a single purpose – to maintain and improve health. In healthcare, a CAS model might be used to examine how healthcare should be financed, how to best deliver care to a large population or how to target populations for managed care. PR

*The next article in the series will discuss the role of the healthcare representative in the current managed care environment.*

## ARTICLE SUMMARY

- Business strategies are being revised and adapted to work in the healthcare environment.
- Management approaches utilized in the healthcare community include re-engineering and consolidations.
- Integrated delivery systems, alliances and outsourcing are strategies that integrate and streamline business structures.
- A quality-focused culture can be developed by implementing total quality management.
- Tools for building quality include benchmarking and customer relationship management.
- Management methods that broaden the organization include horizontal management models, matrix management, learning organizations and complex adaptive systems.