

VISIONS OF EMPIRE

Some problems with the corporate model of hospitals

Hospital Forum (May/June 1985): 50-52.

As hospitals come under increasing marketplace pressure, their managers are donning new suits of corporate clothing. Hospital management literature is replete with examples of how closely hospital market conditions today parallel those in other business markets such as manufacturing, retailing, and financial services.

It is certainly not inappropriate for hospital boards and managements to learn what they can from business organizations. Much of this adaptation, particularly the adoption of business style cost accounting and productivity systems is both long overdue and critically needed if management is to be effective during the balance of this decade.

However, many managements have been carried away by the trappings of this new corporate world and are failing to thin through the appropriateness of many business strategies for health care management tools and planning framework cribbed from business corporations are being plunked down on hospitals without critical examination of the ways in which hospitals differ from business corporations. The uncritical acceptance of these models has led to embarrassing faux pas and diversions of management attention.

Competing claims of fiefdoms

However much the hospital marketplace environment may resemble a business environment, careful analysis reveals that hospitals are considerably more than mere businesses. Peter Drucker tells us that hospitals are the most complex form of human organization we have ever attempted to manage. And these complexities are clearly increasing. The heart of the hospital is not its business office or its computer room: it is the framework of professional practices that it encompasses. The hospital is a confluence of complex professions that must be brought together and coordinated into economically responsible activity in service of the patient. The hospital's structural, informational, and technical complexity has created dimensions of management complexity which vastly exceed that of the most complex manufacturing or retailing organization.

Compounding this complexity is the fact that most of the hospital's professionals, not merely physicians, but nurses, social workers, pharmacists, nutritionists, accountants, engineers, and therapists (with the possible exception of nurses) have not been taught how to work within a cooperative framework. Each profession tends to view itself both as unique and as having a superior claim on the institution's resources and the top manager's attention. Hospital management, already structurally complex, is further complicated by the political challenge of rationalizing all the competing claims of its constituent fiefdoms without surrendering control over the organization altogether.

The failure of corporate models adequately to encompass the complexity of the hospital setting is symbolized in the difficulty that corporate-style strategic planners have had in describing the doctor's role in the hospital.

Is the doctor a supplier to the hospital? That formulation puts the doctor outside the hospital, "supplying" it with something that it then presumably fabricates and delivers to the patient.

Is the doctor a customer of the hospital? If doctors are dissatisfied, they can take their patients elsewhere. In this narrow sense, the physician's relationship to the hospital has customer-like features. But this formulation likewise puts the physician outside the hospital, a purchaser of something the hospital has fabricated on its own.

Is the doctor a stakeholder in a large poker game? A wholesale distributor in a dealer network? Part of the hospital's feeder system? People who have to deal with physicians every day know well that none of these formulations do justice to the centrality of the physician's role in the hospital: It is the physician's decisions that commit the hospital's resources and bring the vast majority of its revenues.

Such definitions of the doctor's role have encouraged hospital managements to plan around or over their medical staffs rather than with and through them. Carried away by the loose analogy of the corporate CEO's role, those hospital managers who have resented having to share power with physicians have been encouraged dangerously, to ignore the physician's real power to help or harm their institutions. As the decade progresses, a larger and larger number of hospital management careers are being ruined by this myopic approach.

Taking on the corporate world's castoffs

Hospital managements have been encouraged to adopt analytical tools or strategies that have been discarded as useless or unproductive by the business world. It is ironic to read in business literature of the rolling back of formal strategic planning systems and the shrinking of planning staffs at the very time that hospitals are hungrily embracing the very concepts that built these staffs.

Portfolio analysis is a good example. This popular 1960s-style planning approach arrays an organization's products in a matrix of market share and market growth and encourages a pattern of investment or divestment based on the position of the organization's products in those matrices. In the Eighties, this approach is being abandoned by business because it has failed to produce effective strategic outcomes. The idea that one can effectively manage an organization as a portfolio of unrelated services has been repudiated by financial markets: The market value of stock and debt of vast corporate conglomerates is typically considerably less than the sum of their parts. At the very time that hospitals are launching into new ventures unrelated to their core business, corporations are shedding unrelated businesses and searching for common organizational and product relationships to produce both management synergy and a coherent image of the organization.

The area of shoddy transference from the corporate world that troubles this author most is that of marketing. Marketing in the business world is complex enough; it encompasses research and product development, logistics, channel management, merchandising, consumer research, and advertising. Hospital management has not yet effectively adopted this concept in all of its complexity. Health care marketing has become dominated by a retail model of the hospital's relationship to its markets: The hospital's job is to develop consumer image and brand loyalty and to seek through advertising to bypass its traditional and politically complex professional framework (including the medical staff), which has fed the hospital virtually all of its revenues.

In its most basic sense, marketing means, according to Peter Drucker, organized responsiveness by the hospital to the needs of its community. This organized responsiveness is a management

process, not a communications process. Yet hospital management has been persuaded by advertising agencies that unless it is equipped with the latest consumer survey information and spends a given percentage of its hospital budget on advertising, it is not marketing effectively. The unspoken presumption is that the hospital already offers what the consumer needs, a questionable proposition in many cases.

The evidence to support a retail model of the hospital's relationship to its community is skimpy indeed. If one systematically examines the sequence of decisions that brings the patient to the hospital, it is clear that even in the mid-Eighties the vast majority of those decisions are made by professionals and, increasingly, by insurers and corporations -- not by the individual consumer. Consumers are exercising veto power over some physician decisions, and they are increasingly willing to shop for physician and emergency services on the basis of price; they aren't checking themselves into surgi-centers to have cysts removed or stopping into the friendly neighborhood imaging center to undergo a CAT scan. Their physicians are taking them there.

Yet the ego-boosting rivalry of image promotion has encouraged hospitals to waste tens of millions of dollars on advertising that could have more profitably been spent in program development, physician practice development, or improvement of the hospital core services.

After waves of panaceas and nostrums from the business world have failed to produce results, hospital managements will hopefully come to recognize their own failure to think clearly enough about the appropriateness of prefabricated "solutions" to their problems. The organizational and technical complexity of the hospital tells us to borrow selectively and critically from business and to learn from business failures, not merely to ape their fads and styles. The most effective solutions to the hospital's strategic problems will probably be unique to this industry.