Chapter 4: Managing the Healthcare Organization

Teaching Goals

Every student should finish this chapter with a clear picture of what modern managers do to build effective relationships among stakeholders. The content expands on the concepts introduced in Chapter 2, providing a foundation for all the subsequent chapters. In a single sentence, the chapter is about building a rewards-oriented, evidence-based learning organization using an iterative heuristic approach to continuously improve performance. We use the term “transformational management” to summarize this concept.

The goal is to make transformational management real and habitual for the student. Doing this requires dealing with contrary historical understandings of work and industrial organizations that are imbedded in the American culture and in many students’ world views.

We begin deliberately with “service excellence,” because this model implies primacy for the “customer” and simultaneously recognizes rewards as the driving psychological engine. The terms “service” and “customer” allow us to point out that customers drive free markets, and all of us spend about half our public lives as customers and the other half as servers. Service excellence also introduces a well-founded organizational truth: managers of excellent organizations must answer associates’ questions. “Accountability” becomes a two-way street.

Figure 4.1 (p. 110 in the book) is designed to show the organization as the support structure for the clinical team. The team’s performance is largely dependent on the support, and the justification for the healthcare organization (HCO) is that it is the most effective way to support modern clinical teams.

Clinical teams are organized by function, creating clinical service lines. The service line concept allows accountability (even for nonemployed attending physicians), performance measurement, continuous improvement, and rewards. Support services are also organized by function, creating an accountability hierarchy. The chapter suggests, but does not pursue, the possibility of contractual rather than employment relationships in the hierarchy.

Excellence is built by continuous improvement. Leading HCOs have developed the performance improvement team (PIT) concept, identifying opportunities for improvement (OFI), encouraging unsupervised PITs for OFIs of limited scope, and using a performance improvement council to coordinate larger PITs. This approach assumes that the PDCA (plan-do-check-act) cycle will be carried out before the goal is implemented in the annual budget or goal setting.

PITs and OFIs are evidence-oriented, and the evidence is usually quantitative. The strategic balanced scorecard (Figure 3.4, p. 75) is translated to an operational balanced scorecard (Figure 4.8, p. 129), with six dimensions. The operational scorecard can be used for any clinical or support unit in Figure 4.1 (p. 110). Specific examples of the operational scorecard are supplied in chapters 5 through 15. Management’s role in
maintaining the “source of truth,” ensuring that the measures reported are accurate, is introduced in this chapter and followed up later in the book.

The role of management is to make all these things happen, which requires strategic coordination and consistent effort. The coordination is supplied by structure and calendar, but keeping the components appropriately sized to one another is also critical. Management does this using the epidemiologic planning model. The model, which is actually implemented in sophisticated software by commercial vendors (see Medstat’s “Market Expert” and Solucient’s “Market Planner”) sizes activities by forecasting patient demand. The model is applied in every subsequent chapters from 6 through 15.

Transformational management requires a consistent effort, and that comes from training and practice for all managers.

**In a Few Words**

This chapter shows how managers of the 21st century HCO use a set of five specific concepts to translate stakeholder agreement into effective action. Service excellence expands the concept of empowerment to one of associate responsibility to the customer and management responsibility to meet every associate’s needs. Accountability establishes a contract for a specific contribution between each associate team and the organization. Continuous improvement makes measured performance, benchmarking, process analysis, goal-setting and rewards “the way we do things here.” Epidemiologic planning and a source of truth establish evidence as the rule for deciding complex and controversial questions. Transformational management builds and reinforces these elements of the culture, making the organization a “great place to work” and a “great place to get care.”

**Chapter Outline**

*What management contributes to the organization*

- Using service excellence works to create a culture of service and respect
- Using measures, benchmarks, annual goals, and rewards to support continuous improvement
- Designing the organization’s communication and accountability network
- Meeting strategic needs with the epidemiologic planning model and multiple organizational relationships
- Listening and negotiating with patients and other stakeholders

*How the performance improvement council coordinates large-scale improvements*

*How operational measures carry the balanced scorecard concept down to individual work teams*

*How managers deal with recurring problems with training, criteria for dispute resolution, and protection of the measurement system*
**Powerpoint Slides**
See Learning Tools.

**Questions to Debate**
Slides of the individual questions are downloadable. We have prepared some summary thoughts on the content of class discussion. Obtain this information by writing (conventional mail) on academic letterhead to:

John R. Griffith  
School of Public Health  
The University of Michigan  
109 Observatory St.  
Ann Arbor, MI 48109-2029

(Please include an academic (dot edu) e-mail address.)

1. Reflect on the real world of a clinical team (e.g. a doctors office, an ED, an OR, an ICU). Does Figure 4.1 (p. 110) capture all the things it needs to function? For a specific need (say patient specific information, or skilled professional nurses) what are the strategic requirements, and how would they be met?

2. Do you agree that management is responsible for answering work team questions? Many of these questions will deal with support issues about the needs shown in Figure 4.1. (“Late,” “Not enough”, “Need a new model,” “Wasn’t trained,” etc., p. 110.) How do excellent managers respond to these questions?

3. A system like Intermountain Health Care makes decisions about scope of services at each of its locations. At one extreme, all Utah could get care at the “new flagship” Intermountain Medical Center (see www.ihc.com/xp/ihc/facilities/) in Salt Lake City. At the other, all 20 hospitals, 26 clinics, and 17 “Instacare” facilities could offer the advanced specialty services proposed for IMC. What are the factors IHC considered in designing the distribution of services? How do they know if the design needs changing?

4. To what extent are the following statements true?
   - Managers don’t give orders.
   - Managers don’t make decisions.
   - Managers spend a lot of time listening.
   - “The governing board’s calendar ultimately forces a decision.”
   - Imagination is an important managerial skill.

© 2006 John R. Griffith and Kenneth R. White
5. Figure 4.8 (p. 129) shows six dimensions to be measured in all accountability centers. What is the danger of leaving one out? Are there any that should be added? Are the following statements from the chapter really true?

- “Global patient care outcomes are only meaningful at the level providing comprehensive care, usually the service line.”
- “Capital management is only appropriate for corporations carrying their own debt or equity.”
- “Many support services have no identifiable revenue, making the calculation of profit impossible.”

Additional Discussion Questions

The following questions may also be used to stimulate debate:

1. Executive functions. In *The Prince*, Machiavelli says the functions of the executive are to command and control (see Chapter 21, “How a Prince Must Act in Order to Gain Reputation”). The verbs “command,” “give orders” or “order” do not appear in Chapter 4. The only references to control are about components of the organization, not people (i.e., cost and quality, operations in general, and the governing board agenda). How could *The Prince* possibly be right, or are the nation’s best hospitals just a well-intentioned group that Machiavelli anticipates ruling?

2. Organization control. If the executive does not control, who or what does? Obviously, an organization without control will fall apart and the members will go their own ways. This clearly is not happening at well-managed HCOs, but why not?

3. Self-appraisal. Think of yourself as an executive. Are you comfortable with your functions (see Figure 4.2, p.112) and the idea of working to achieve strategic balanced scorecard goals (see Figure 3.4, p. 75)?

4. Conflict and breakdown. What kinds of problems arise in running an HCO? What do people need and not get? What causes conflict within teams or between teams? Where does performance tend to fail? Could the accountability hierarchy be redesigned to eliminate these problems, or would another design just yield a different set of problems?


6. Service excellence. Using Figure 4.3 (p. 113), identify the kinds of OFI that are likely to arise and the sorts of PITs you need to address them to implement service excellence. That is, if you started out to build a service excellence culture, what issues would you face, and how would you deal with them?

* A downloadable copy, translated to English by W. K. Marriott, can be obtained free of charge at the Gutenberg website: [http://www.gutenberg.org/etext/1232](http://www.gutenberg.org/etext/1232). What do you suppose Machiavelli would have thought of that?
Questions for Examination

These questions are less ambiguous than the discussion questions. Obtain these questions and the authors’ answers by writing (conventional mail) on academic letterhead to:

John R. Griffith
School of Public Health
The University of Michigan
109 Observatory St.
(Please include an academic (dot edu) e-mail address.)