

in brief...

Hospital performance: the impact of good management

Healthcare spending in the world's richest countries continues to rise along with patients' expectations, yet the sector still lags behind in terms of raising its productivity. CEP research highlights the potential of improving management practices in hospitals as a strategy for meeting these challenges.



CEP researchers and colleagues at McKinsey & Company have developed a tool for assessing management practices in the private sector, which they are now using to look at hospitals. As the article starting on page 2 of this *CentrePiece* explains, the earlier research established a clear relationship between management and other indicators of firm performance, such as sales growth and company survival rates. The question is whether there is a similar relationship between hospital management and hospital performance.

To examine this question, the researchers have applied their tool for measuring management to almost 1,200 hospitals in seven countries: the UK, the United States, Canada, France, Germany, Italy and Sweden. The results show that high quality management is just as vital in public services and can even lead to reduced death rates in NHS hospitals.

Measuring hospital management practices was done by interviewing managers of cardiology or orthopaedics units in hospitals that provide acute short-term medical and/or surgical care. To obtain accurate and unbiased responses, analysts conducted 'double-blind' interviews: hospital managers were unaware of the criteria they were being scored against while the interviewers were unaware of the hospitals' clinical and financial performance.

The interviewers covered management practices in 20 dimensions across operations management,

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performance and target management, and people management, with each dimension scored from one ('worst practice') to five ('best practice'). The overall management score is an average across these 20 scores.

The study also linked the management survey with hospital-level outcome statistics – from public data where they are available (mostly in the UK and the United States) or through the McKinsey Hospital Institute. These revealed a strong relationship between hospital management scores – specifically operations management and implementing 'lean practices' (such as the efficiency of patient flows through hospitals), performance management and people management – and hospital outcomes.

Hospitals with higher management scores have better clinical outcomes, such as lower mortality rates from emergency heart attacks, as well as higher levels of patient satisfaction and enhanced financial performance. In the UK, a one point improvement in the management score (on the one to five scale) is associated with a 6% rate fall in deaths from heart attacks as well as a 20% increase in the probability that the hospital scores above average in terms of patient satisfaction.

Although the strong correlation between the management scores and hospital performance does not prove causality, it does suggest that management really matters for patient wellbeing.

Across countries, there is wide variation in management scores, with the United States achieving the highest scores and Italy and France the lowest. The UK delivers particularly strong hospital management practices relative to its health spending, outperforming the other countries.

The majority of differences in management quality

Fostering competition between hospitals could be a powerful mechanism for improving the quality of management



are within rather than between countries – over 80% of the management differences are across hospitals within the same country. Even in a publicly dominated healthcare sector like the NHS, there is wide variation in management scores, with the lower performing ‘tail’ of hospitals driving down the country average.

The research identifies three main ‘drivers’ that account for many of the differences in management practices: competition, scale and skills. These mirror similar results from CEP’s work on management practices in the private sector, highlighting a consistent set of factors that seem to be related to enhanced management.

■ **Competition:** there is strong evidence that hospitals where managers perceive higher levels of competition from neighbouring rival hospitals are much better managed than those that consider fewer potential alternatives for patients to choose.

■ **Scale:** larger hospitals, exhibit much better management than smaller hospitals. To some extent, this reflects economies of scale in management.

■ **Skills:** hospitals with more clinically trained managers achieve higher management scores across all countries. This is probably because such managers are able to ‘speak the same language’ as clinical staff, which not only enhances communication but also allows them to enjoy credibility and authority that is difficult for non-clinical managers to attain.

The research highlights the opportunity for improving hospital performance through better management practices. For example, policy-makers should examine the benefits of fostering competition between providers as a powerful mechanism for improvement. This can be achieved by increasing patient choice, encouraging new entrants and relaxing restrictions on hospital growth.

In terms of skills, people who combine clinical and managerial skills are clearly the key to better performance. Boosting the proportion of managers with clinical skills – via more attractive career paths for clinicians into management – could be one way of addressing the UK’s comparatively poor showing in this area. Academic Health Science Centres, especially those connected to leading business schools, could play an important role here by developing a cadre of competent clinical managers.

Meanwhile, healthcare commissioners should consider how they gain access to top performing hospitals for their patients. In an era of GP commissioning and patient choice, this may become particularly important for attracting and retaining patients and the funding that comes with them. At the same time, the need for hospitals to improve management practices could create new opportunities for suppliers and new entrants.

Finally, patients should understand that some hospitals are simply better managed, provide better care and are safer than others. They should take advantage of published information on hospitals’ performance (such as NHS Choices) and consider their options for care.

This article summarises *Management in Healthcare: Why Good Practice Really Matters* by Stephen Dorgan, Dennis Layton, Nicholas Bloom, Rebecca Homkes, Raffaella Sadun and John Van Reenen (http://cep.lse.ac.uk/textonly/_new/research/productivity/management/PDF/Management_in_Healthcare_Report.pdf).

Stephen Dorgan and **Dennis Layton** are at McKinsey & Company. **Nicholas Bloom** is at Stanford University. **Raffaella Sadun** is at Harvard Business School. **Rebecca Homkes** and **John Van Reenen** are at CEP.