PRESS RELEASE

Management in Healthcare:
Good management really makes a difference

Better managed hospitals have significantly lower mortality rates, significantly more satisfied patients – and all at a lower cost. This is one of the principal findings of new research from McKinsey & Company and the Centre for Economic Performance (CEP) at the London School of Economics, which assesses the management practices of nearly 1,200 hospitals in seven countries: the UK, the United States, Canada, France, Germany, Italy and Sweden.

The report covers healthcare management practices across three broad areas: operational processes; performance management; and talent (people) management.

Main findings

• **Hospital-specific management practices are strongly related to a hospital’s quality of patient care and productivity outcomes.** The research shows that improved management practices in hospitals are associated with significantly lower mortality rates and better financial performance.

• **Across countries, there is a wide variation in management scores.** The UK delivers particularly strong hospital management practices relative to its health expenditure. The United States has the highest management scores, while Italy and France are towards the bottom of the league.

• **There is a greater variation in management practices within countries than between them.** This suggests a clear opportunity for improving management practices by moving the poorly performing hospitals up to the level of the best.

• **There is a consistent set of five factors that have a real impact on better management practice and outcomes.** These are:
  - **Competition** helps improve managerial standards. Hospitals that feel they face more competition are much better managed than those facing little or no competition.
  - **Skills.** Hospitals with **clinically qualified managers** are associated with much better management scores. The UK has the lowest proportion of managers with a clinical degree of the countries surveyed.
  - **Autonomy.** Higher scoring hospitals give managers **higher levels of autonomy** than lower performing hospitals. This finding is consistent with McKinsey’s own experience in hospitals and with the Service Line Management approach co-developed with Monitor, which aims to devolve decision-making and accountability to the front line.
  - **Scale.** Size matters – larger hospitals are better managed. The differences are particularly stark between hospitals with fewer than 100 direct employees, and those with more than 100.
  - **Ownership.** When it comes to ownership, private hospitals (including not-for profits) achieve higher management scores than public hospitals across all countries.

Explaining the research findings, Dr. Stephen Dorgan, Partner at McKinsey and an author of the report, says:

“We believe the results from this research provide an optimistic message: improving management practices really does make a difference.”
“Looking at the UK for example, a one point improvement in the management practice score – which is perfectly achievable – is related to a 6 per cent fall in the rate of deaths from heart attacks.”

Professor John Van Reenen, director of the Centre for Economic Performance, comments:

“An overriding message is that management quality varies greatly within countries, even within a publicly dominated healthcare sector like the NHS. Many of the same factors that matter in other sectors – such as competition and skills – also matter for healthcare.

“For the UK, having more clinically trained managers should be a priority.”

Implications of the research

The findings of this and previous research by the same team point to significant opportunities for UK policymakers, Academic Health Science Centres, commissioners, acute hospitals, investors and most importantly patients. Specifically:

- **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 the key to better performance, so boosting the proportion of UK 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 (AHSCs)**, especially those connected to leading business schools, should consider the role they could play in developing the cadre of clinically competent managers this research suggests are needed.

- **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 in attracting and retaining patients and the funding that comes with them.

- **Hospitals not affiliated with AHSCs** should consider their viability in a world of increased patient choice, and their strategy to attract and retain talent, best practice and patients.

- The need for hospitals to improve management practices could create new opportunities for suppliers and new entrants, thus creating investment opportunities.

- **Patients** should understand that some hospitals are simply better managed, provide better care and are safer than others. They should ensure they are informed about their hospital’s and doctor’s outcomes and their options for care.

ENDS

For further information

*Management in Healthcare: Why good practice really matters* by Stephen Dorgan and Dennis Layton of McKinsey & Company and Nicholas Bloom, Rebecca Homkes, Raffaella Sadun and John Van Reenen of the Centre for Economic Performance (CEP) is published on Tuesday 26 October 2010.

The Management Matters Research project is a joint venture between McKinsey & Company and CEP, in collaboration with academics based at Stanford University (Nicholas Bloom) and Harvard Business School (Raffaella Sadun).

This research project began in 2001 to examine the idea that a firm’s management practices are likely to have a strong effect on its performance. The project also investigated whether this effect might be stronger than many of the other factors that determine whether a business succeeds – such as national culture, market conditions and regulation.

To examine this hypothesis, we developed a tool to assess overall management practice and compare it with company performance. This measures management practices in three broad areas: operations management, performance management and talent management. Over the years we have conducted interviews with over 6,000 manufacturing firms across 19 countries in North and South America, Europe, Asia and Australasia.
These earlier studies showed a strong relationship between management practice and manufacturing firm outcomes.

This latest 2009 research applied the same methodology to almost 1,200 hospitals across seven countries. We approached hospitals with acute care units in orthopedics and cardiology as it made for a more comparable base of hospitals to investigate. Within the hospitals, we interviewed Department or Unit managers as these managers are senior enough to have an informed perspective on what happens in the hospital but are still closely involved/in touch with the management and operational practices in place.

To assess management practices, researchers conducted ‘double blind’ interviews with the hospital managers: the managers being interviewed were unaware of the scoring methodology and the criteria they were being scored against while the interviewers were unaware of the hospitals’ performance or other distinguishing features of the organisation where they were conducting interviews.

The evaluation tool defines and scores from 1 (“worst practice”) to 5 (“best practice”) along several basic dimensions of management practice. The combination of many of these indicators reflects “good management” as commonly understood, with our main measure of management practices being the average of these scores. This evaluation tool measures management practices in the same three broad areas of operations management, performance management and talent management.