Management Matters in Healthcare

McKinsey & Company
Agenda

1. An overview
2. Measuring management practices in healthcare
3. Describing management across hospitals
4. “Drivers” of management practices
5. Implications for policy makers and others
We are extremely grateful for the support received from our funders
Management and performance are tightly linked in our research on over 6,000 industrial firms globally.

<table>
<thead>
<tr>
<th>Metric</th>
<th>Management score</th>
<th>Management score + 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Productivity(^1) Indexed</td>
<td>100</td>
<td>106</td>
</tr>
<tr>
<td>ROCE(^2) %</td>
<td>8.7</td>
<td>11.5</td>
</tr>
<tr>
<td>Capital market valuation(^3) Index</td>
<td>100</td>
<td>126</td>
</tr>
<tr>
<td>Sales growth %</td>
<td>5.6</td>
<td>7.9</td>
</tr>
<tr>
<td>Market share growth Index</td>
<td>100</td>
<td>171</td>
</tr>
</tbody>
</table>

1 Sales per employee  
2 Return on Capital Employed  
3 Tobin's Q assuming constant book value
Healthcare management practice findings

- Management really matters
  - Management practice is strongly related to:
    - Clinical outcomes
    - Patient satisfaction
    - Hospital financial performance

- There is large variation
  - UK healthcare management practice:
    - Good UK average score Vs others
    - Large intra-country variation creates a real opportunity for improvement

- Improvement is possible
  - 5 factors are associated with better management practice:
    - Share of clinically trained managers
    - Degree of competition
    - Hospital size
    - Managerial autonomy
    - Hospital ownership

Management really matters

Improvement is possible
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Our hypothesis was that management practices were key drivers of hospital performance

- Codify good management practices
- Select and train a team of interviewers
- Select and target hospitals
- Assess quality of management practices
- Correlate management and performance

**Based upon our *Management Matters in Industrials* work:**

- Defined 20 scoring dimensions focusing on:
  - Lean hospital operations
  - Performance management
  - Effective talent management
Our hypothesis was that management practices were key drivers of hospital performance

- Codify good management practices
- Select and train a team of interviewers
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▪ Team of:
  - 24 MBA and post-graduate management students
  - Dedicated, highly skilled and trained interviewers
Our hypothesis was that management practices were key drivers of hospital performance

- Codify good management practices
- Select and train a team of interviewers
- Select and target hospitals
  - Randomly selected public and private hospitals across 7 countries
  - Focused on assessments at the specialty level
- Assess quality of management practices
- Correlate management and performance
Our hypothesis was that management practices were key drivers of hospital performance

- Codify good management practices
- Select and train a team of interviewers
- Select and target hospitals
- Assess quality of management practices
- Correlate management and performance

- Conducted almost 1,200 interviews that:
  - Were ‘double blind’
  - Targeted unit-level managers
  - Focused upon Cardiology and Orthopaedics
Our hypothesis was that management practices were key drivers of hospital performance

- Codify good management practices
- Select and train a team of interviewers
- Select and target hospitals
- Assess quality of management practices
- Correlate management and performance

- Examined management scores with data that is:
  - Publically available
  - Obtained from independent sources
We use a hospital speciality–level assessment tool to evaluate management practices

**Management practices**

- Hospital Operations Management
- Performance and target management
- Talent and People management

**Example dimensions evaluated**

- Performance dialogue and review
- Interconnection of targets
- Performance tracking
- Target balance
- Consequence measurement

**Dimension Scoring criteria**

1. Measures tracked do not indicate directly if overall hospital objectives are being met. Tracking is ad hoc

2. Most key performance indicators are tracked formally. Tracking is overseen by senior staff

3. Performance is continuously tracked and communicated, formally and informally, to all staff using a range of visual management tools
The overall hospital management practice score is the average of assessments across 20 dimensions

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hospital operations Management</strong></td>
<td></td>
</tr>
<tr>
<td>1. Lay out of patient flow</td>
<td>2</td>
</tr>
<tr>
<td>2. Rationale for introducing standardisation and/or pathway management</td>
<td>3</td>
</tr>
<tr>
<td>3. Standardisation and protocols</td>
<td>2</td>
</tr>
<tr>
<td>4. Continuous Improvement ...</td>
<td>3</td>
</tr>
<tr>
<td>5. Good use of human resources</td>
<td>4</td>
</tr>
<tr>
<td><strong>Performance management</strong></td>
<td></td>
</tr>
<tr>
<td>7. Consequence management</td>
<td>3</td>
</tr>
<tr>
<td>8. Quality of targets</td>
<td>2</td>
</tr>
<tr>
<td>9. Target stretch</td>
<td>3</td>
</tr>
<tr>
<td>10. Clarity of goals and measurement</td>
<td>3</td>
</tr>
<tr>
<td>11. ...</td>
<td></td>
</tr>
<tr>
<td><strong>Talent management</strong></td>
<td></td>
</tr>
<tr>
<td>13. Rewarding high performers</td>
<td>3</td>
</tr>
<tr>
<td>14. Promoting high performers</td>
<td>4</td>
</tr>
<tr>
<td>15. Making room for talent</td>
<td>3</td>
</tr>
<tr>
<td>16. ...</td>
<td>4</td>
</tr>
</tbody>
</table>

Overall management practice score, on scale of 1–5, is calculated from average across all 20 dimensions.
We interviewed almost 1,200 hospitals across 7 countries

Number of interviews

- U.S.: 326
- U.K.: 184
- Canada: 175
- Italy: 166
- France: 158
- Germany: 130
- Sweden: 55
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There is a strong relationship between management practice and health outcomes

UK heart attack mortality rates
Good management is correlated with better clinical and financial performance

A one point increase in management practice is associated with:

**UK Hospitals**
- 6.5% reduction in risk adjusted 30 days AMI mortality rates
- 33% increase in income per bed
- 20% increase in the probability that the hospital is above average in terms of patients satisfaction

**US Hospitals**
- 7% reduction in risk adjusted 30 days AMI mortality rates
- 14% increase in EBITDA per bed
- 0.8 increase in the percentage of people that would recommend the hospital
There is a wide variation in average hospital management practice score by country

Management practice score – by country

<table>
<thead>
<tr>
<th>Country</th>
<th>Average</th>
<th>Average with controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>1.43</td>
<td>3.00</td>
</tr>
<tr>
<td>UK</td>
<td>1.22</td>
<td>2.82</td>
</tr>
<tr>
<td>Sweden</td>
<td>1.24</td>
<td>2.68</td>
</tr>
<tr>
<td>Germany</td>
<td>0.99</td>
<td>2.64</td>
</tr>
<tr>
<td>Canada</td>
<td>1.06</td>
<td>2.52</td>
</tr>
<tr>
<td>Italy</td>
<td>0.86</td>
<td>2.48</td>
</tr>
<tr>
<td>France</td>
<td>0.75</td>
<td>2.40</td>
</tr>
</tbody>
</table>
The UK achieves high management practice scores relative to direct health expenditure.

Government health expenditure per capita, 2006

The UK achieves high management practice scores relative to direct health expenditure.
There is an even bigger variation of management practice scores within countries.
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Hospitals with more clinicians as managers have better management

Management score relative to national mean

Proportion of managers with a clinical degree

- Bottom quartile: 0.97
- 2nd quartile: 1.00
- 3rd quartile: 1.01
- Top quartile: 1.02
Increases in clinically trained managers is correlated with improved management practices

Change in management practice score¹

<table>
<thead>
<tr>
<th>Quartile</th>
<th>Change in proportion of managers with a clinical degree¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom quartile</td>
<td>0.31</td>
</tr>
<tr>
<td>2nd quartile</td>
<td>1.21</td>
</tr>
<tr>
<td>3rd quartile</td>
<td>8.38</td>
</tr>
<tr>
<td>Top quartile</td>
<td>9.35</td>
</tr>
</tbody>
</table>

1 Percent
There is wide variation in the prevalence of clinically trained managers by country

Percentage of managers with a clinical degree\(^1\)

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>93.14</td>
</tr>
<tr>
<td>US</td>
<td>74.11</td>
</tr>
<tr>
<td>Canada</td>
<td>73.75</td>
</tr>
<tr>
<td>Germany</td>
<td>71.45</td>
</tr>
<tr>
<td>France</td>
<td>63.77</td>
</tr>
<tr>
<td>UK</td>
<td>57.90</td>
</tr>
</tbody>
</table>

\(^1\) Italy excluded as it is a legal requirement that all general managers have clinical degrees
Tougher competition appears to be good for management

Management practice score

<table>
<thead>
<tr>
<th>Number of competitors</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>2.59</td>
</tr>
<tr>
<td>1 to 5</td>
<td>2.69</td>
</tr>
<tr>
<td>5 to 10</td>
<td>2.82</td>
</tr>
<tr>
<td>More than 10</td>
<td>2.90</td>
</tr>
</tbody>
</table>

1 As perceived by the manager.
There is a strong relationship between hospital size and management practice

Management practice score

<table>
<thead>
<tr>
<th>Number of employees</th>
<th>Management practice score</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;100</td>
<td>2.44</td>
</tr>
<tr>
<td>100-499</td>
<td>2.65</td>
</tr>
<tr>
<td>500-1,499</td>
<td>2.71</td>
</tr>
<tr>
<td>&gt;1,499</td>
<td>2.80</td>
</tr>
</tbody>
</table>

1 Directly employed by the hospital
Managerial Autonomy is correlated with management practice
Private hospitals tend to have higher management practice scores

Management practice

Private\(^1\): 2.94
Public: 2.60

\(^1\) Private includes both for profit and not for profit organization
In manufacturing multinationals outperform domestic firms

Management practice score – by country

1 Japan excluded due to low multinational sample size
In manufacturing, ownership matters for management and productivity

Labour productivity\(^1\)

<table>
<thead>
<tr>
<th>Ownership Type</th>
<th>Management Score</th>
<th>Productivity Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family CEO, Primo Geniture</td>
<td>2.5</td>
<td>5.0</td>
</tr>
<tr>
<td>Founder owned, external CEO</td>
<td>2.7</td>
<td>5.2</td>
</tr>
<tr>
<td>Family owned, external CEO</td>
<td>2.9</td>
<td>5.5</td>
</tr>
<tr>
<td>EU multinational</td>
<td>3.1</td>
<td>5.6</td>
</tr>
<tr>
<td>Other multinational</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private equity/VC</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Family owned, external CEO</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Founder owned, external CEO</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private individuals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dispersed shareholders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>US multinational</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government(^2)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Correlation of 0.708

1 As measured by sales/employee
2 Government Scores: Mgmt practice 2.45, Productivity 4.3, not shown as off scale
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These findings pose some questions for UK policy makers

▪ How can the trend to more clinically qualified managers be accelerated to close the gap with other countries?

▪ How can greater competition be fostered?

▪ Which conditions need to be in place to give managers increased autonomy?

▪ What role could diversity of provision play in raising the bar?

▪ How could greater talent management flexibility be realistically introduced into the system?
There are also questions for other stakeholders

**Academic Health Science Centres**
- What role can AHSC’s play in developing more clinically trained and excellent managers?
- Are AHSC’s fully capturing the potential export opportunity?

**Commissioners**
- How do commissioners ensure access to top performing hospitals?
- What implications, if any, are there for GP Commissioners?

**Investors**
- How can viable investment opportunities be unlocked?
- What would make UK healthcare a more attractive investment?

**Patients**
- What are you going to need/demand to ensure you are best informed and able to execute choice?
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