



# Management Matters in Healthcare

McKinsey & Company



CENTRE *for* ECONOMIC  
PERFORMANCE

# 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

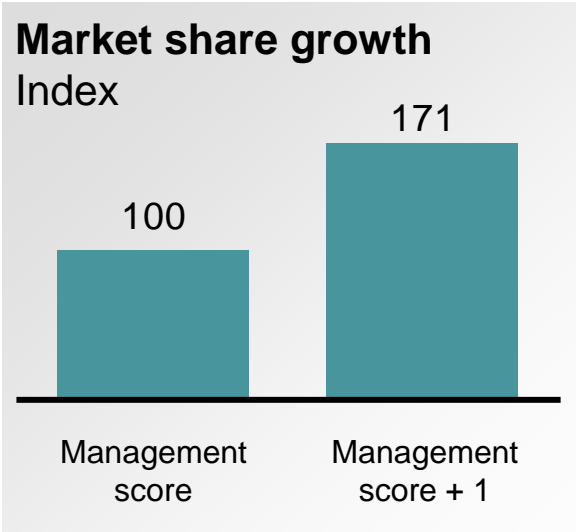
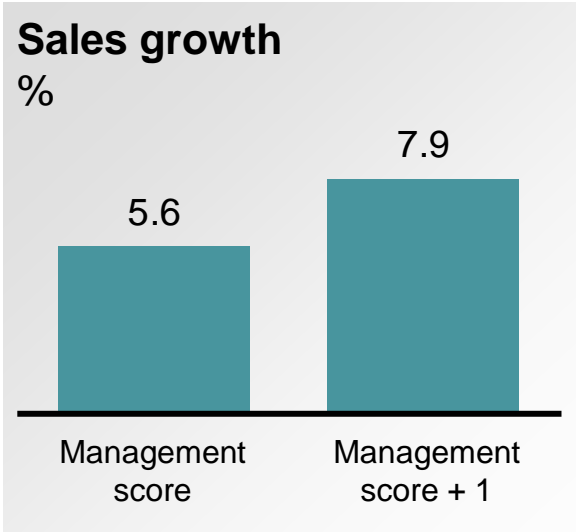
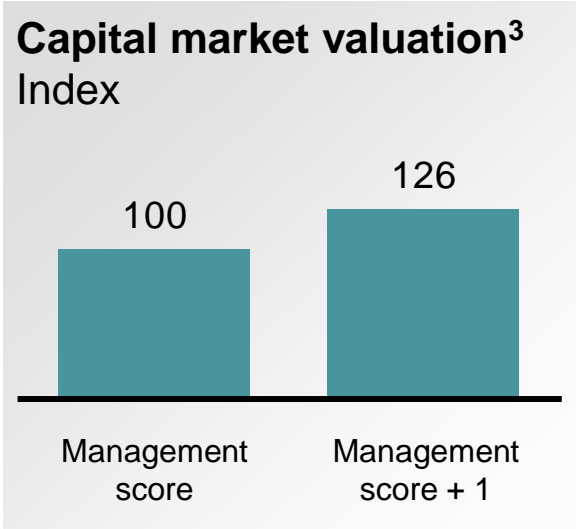
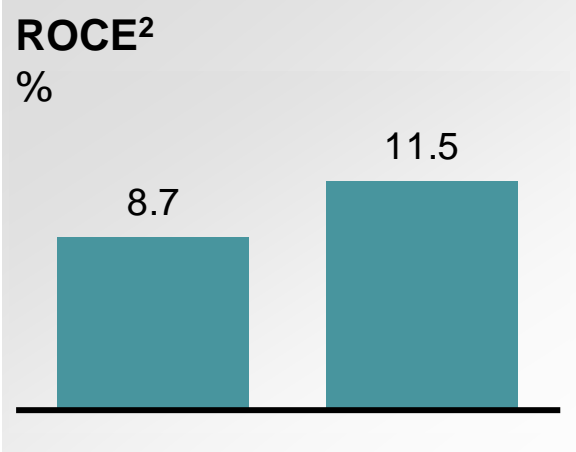
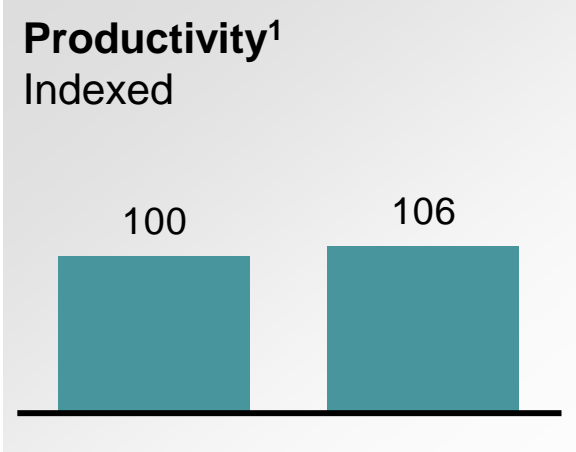


*Advanced Institute of Management Research*



**Knowledge Transfer:**  
Higher Education  
Innovation Fund

# Management and performance are tightly linked in our research on over 6,000 industrial firms globally



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

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# Our hypothesis was that management practices were key drivers of hospital 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**

- Team of:
  - 24 MBA and post-graduate management students
  - Dedicated, highly skilled and trained interviewers

**Select and target hospitals**

**Assess quality of management practices**

**Correlate management and performance**



# Our hypothesis was that management practices were key drivers of hospital performance



- Randomly selected public and private hospitals across 7 countries
- Focused on assessments at the specialty level

# Our hypothesis was that management practices were key drivers of hospital 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



- 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*

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

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- 3. Performance is continuously tracked and communicated, formally and informally, to all staff using a range of visual management tools*

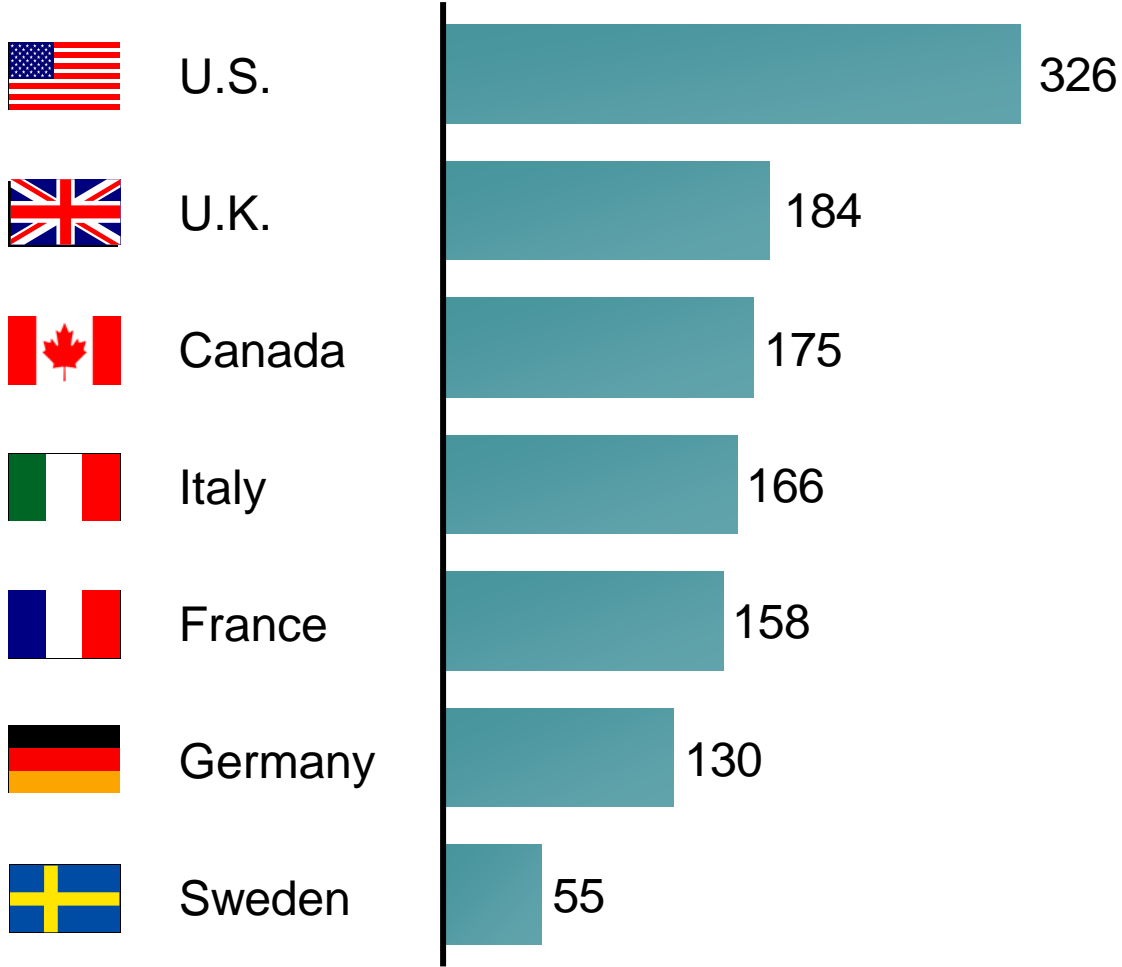
# The overall hospital management practice score is the average of assessments across 20 dimensions

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

**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

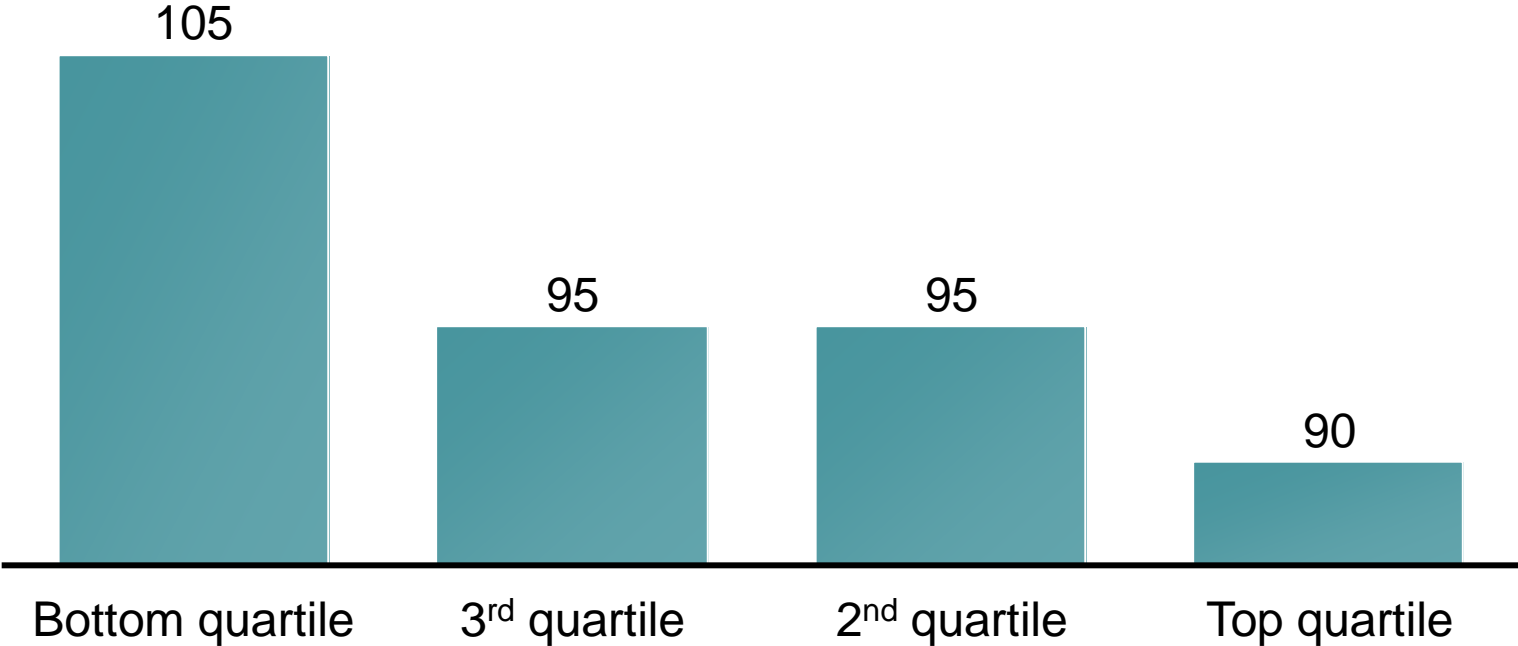


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# There is a strong relationship between management practice and health outcomes

UK heart attack mortality rates



**Management practice score**



# 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

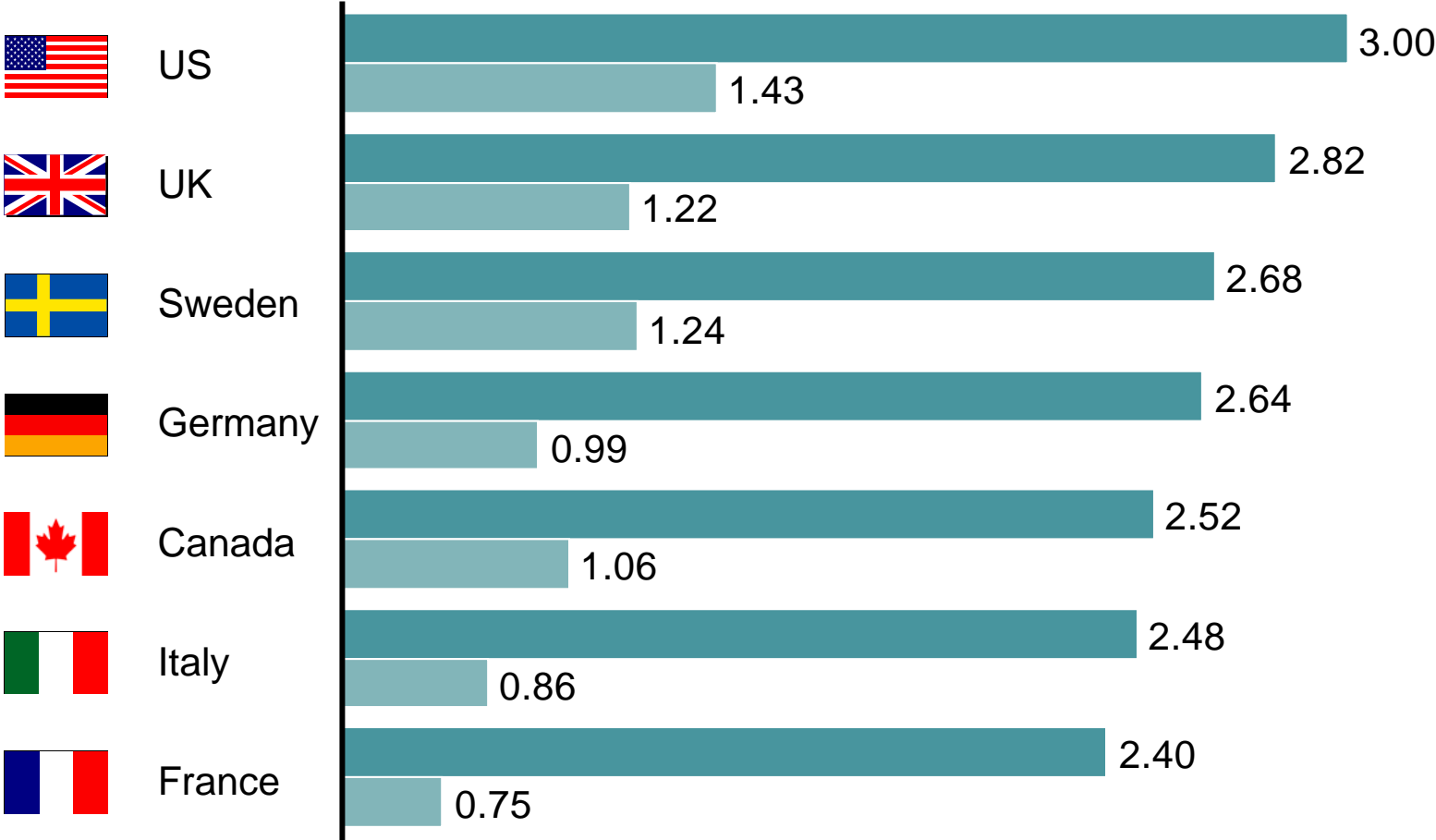
## **US Hospitals**

- 7% reduction in risk adjusted 30 days AMI mortality rates<sup>1</sup>
- 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

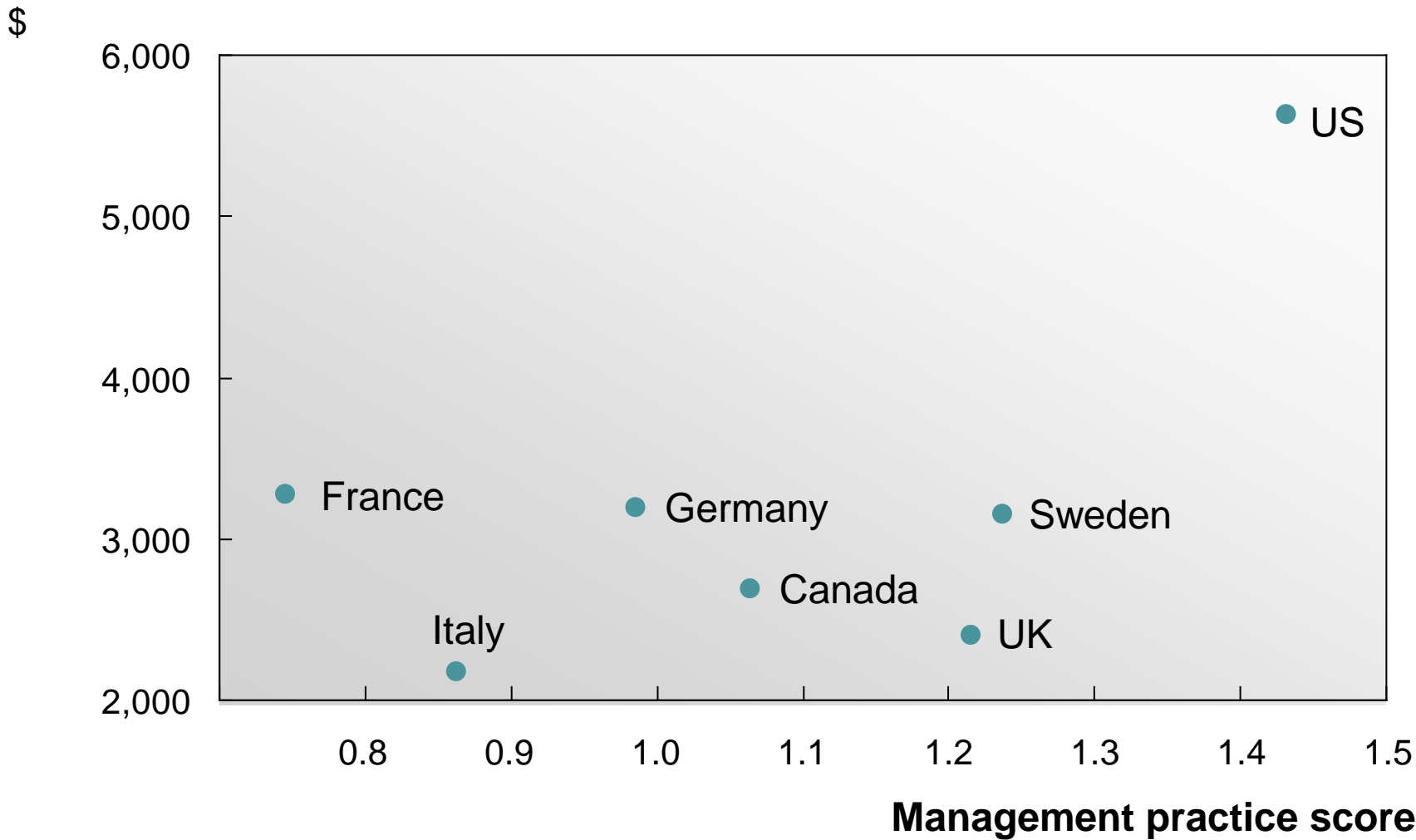
Management practice score – by country

Average  
Average with controls

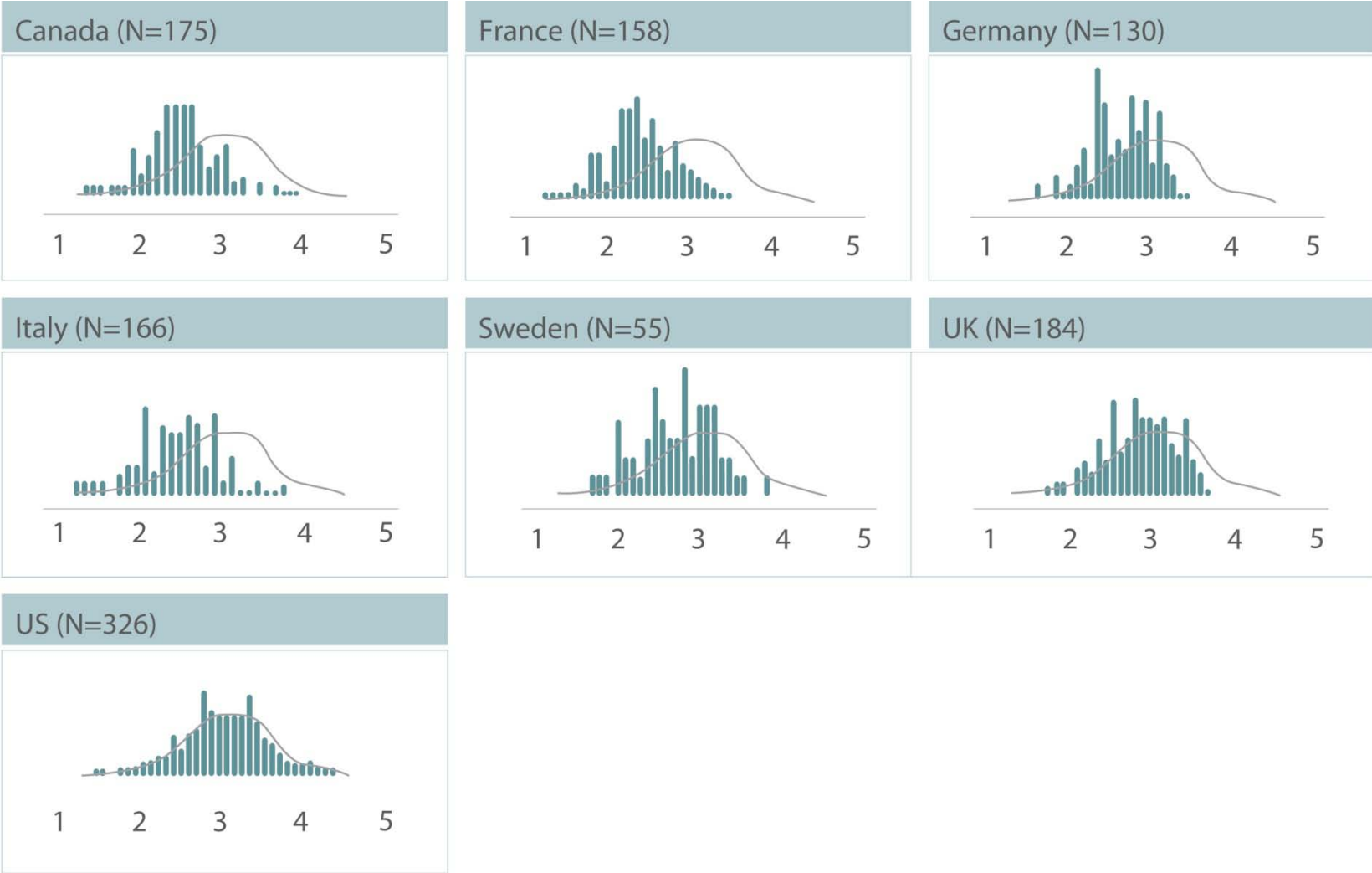


# The UK achieves high management practice scores relative to direct health expenditure

Government health expenditure per capita, 2006



# There is an even bigger variation of management practice scores within countries

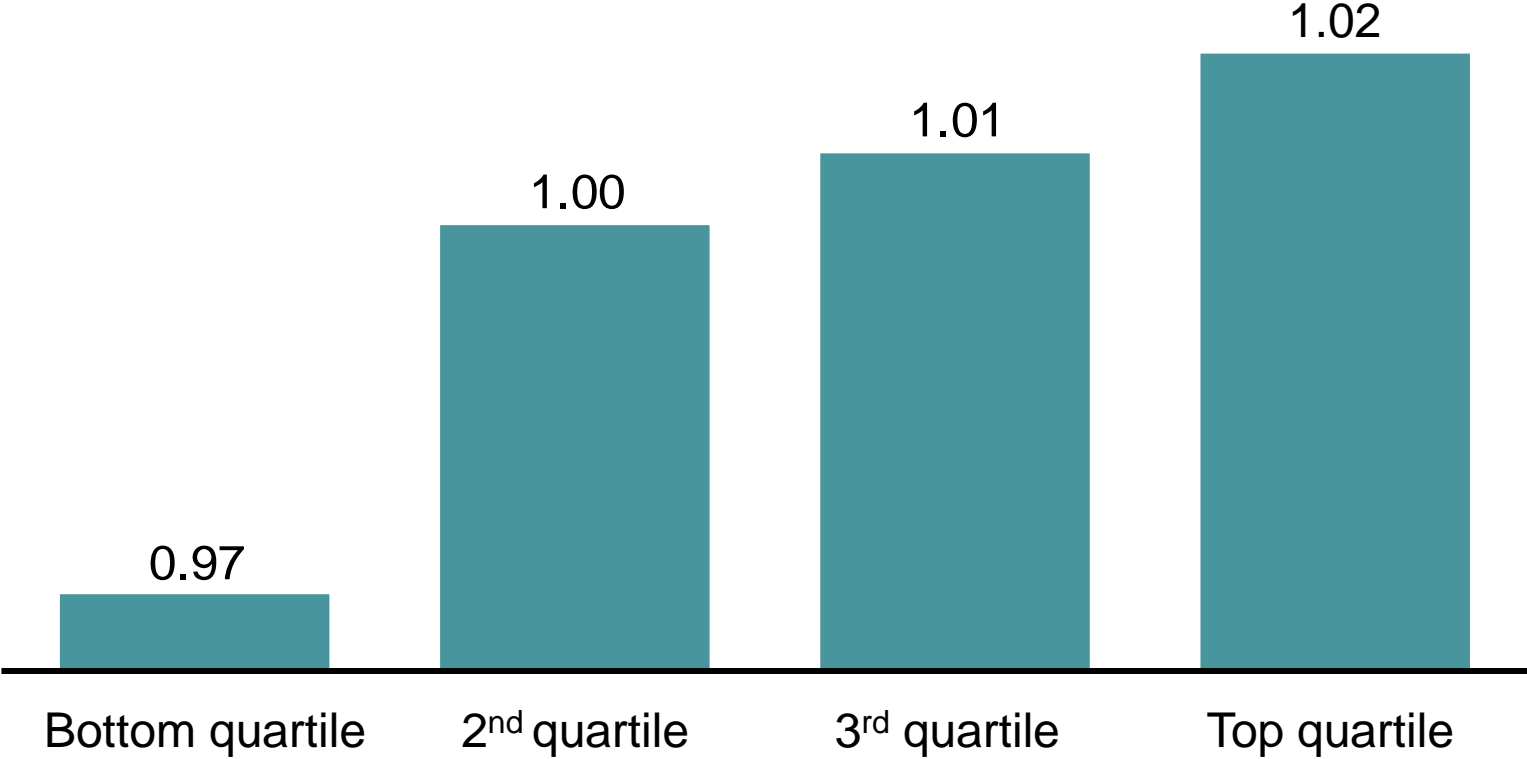


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# Hospitals with more clinicians as managers have better management

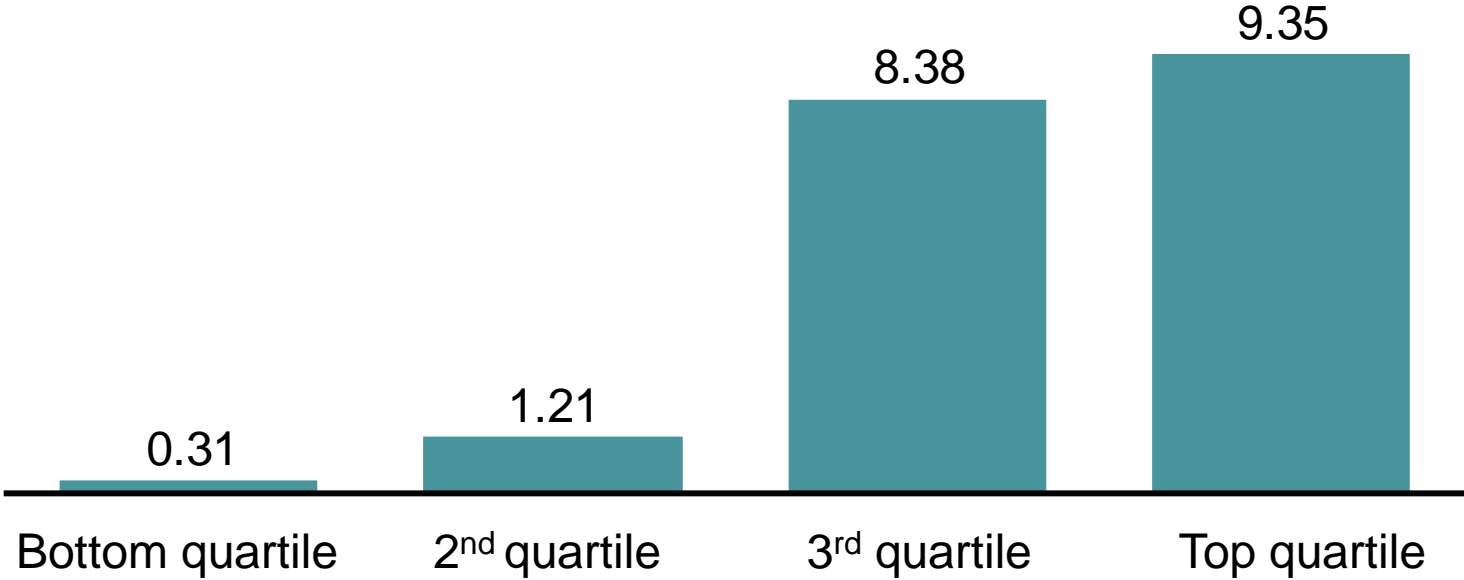
Management score relative to national mean



**Proportion of managers with a clinical degree**

# Increases in clinically trained managers is correlated with improved management practices

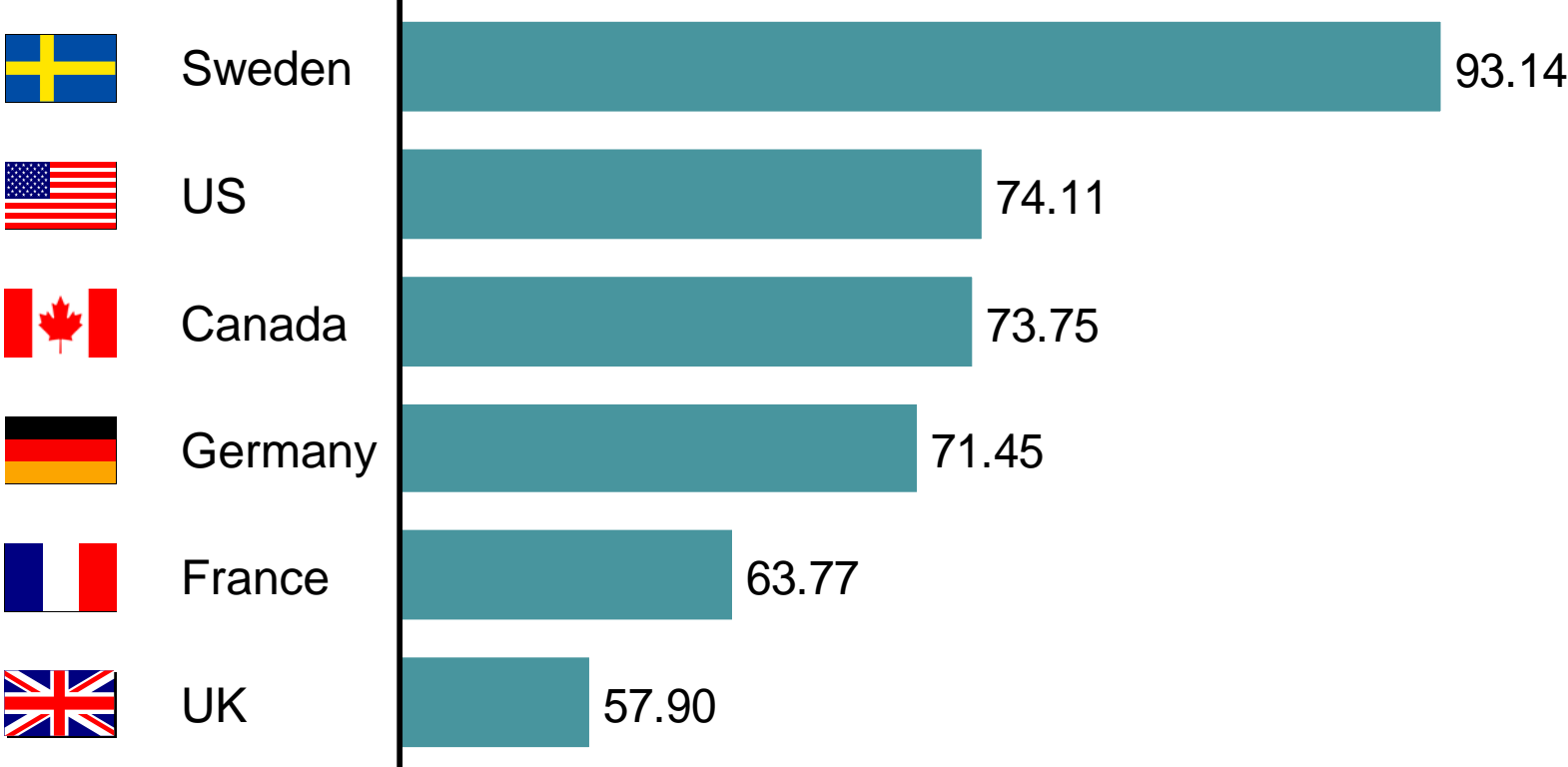
Change in management practice score<sup>1</sup>



**Change in the proportion of managers with a clinical degree<sup>1</sup>**

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

Percentage of managers with a clinical degree<sup>1</sup>

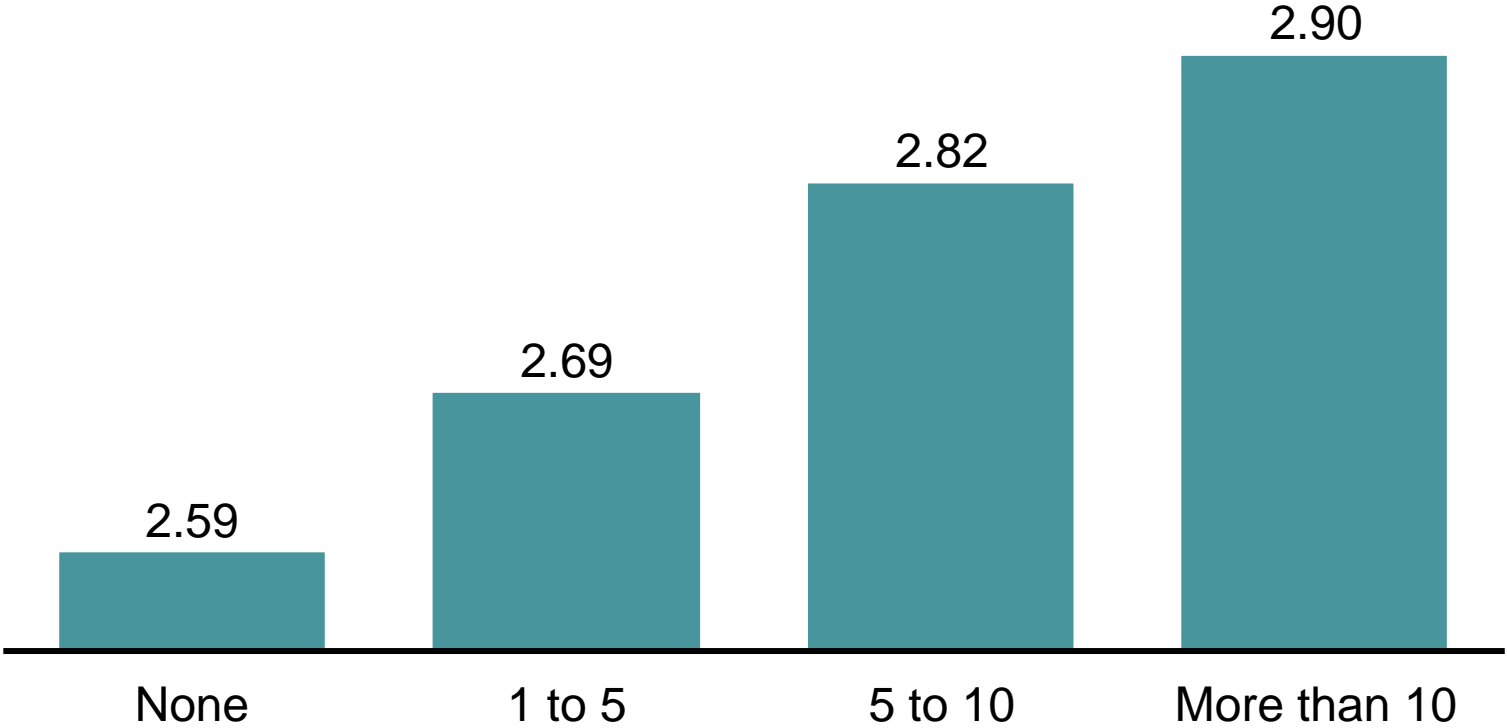


<sup>1</sup> Italy excluded as it is a legal requirement that all general managers have clinical degrees



# Tougher competition appears to be good for management

Management practice score

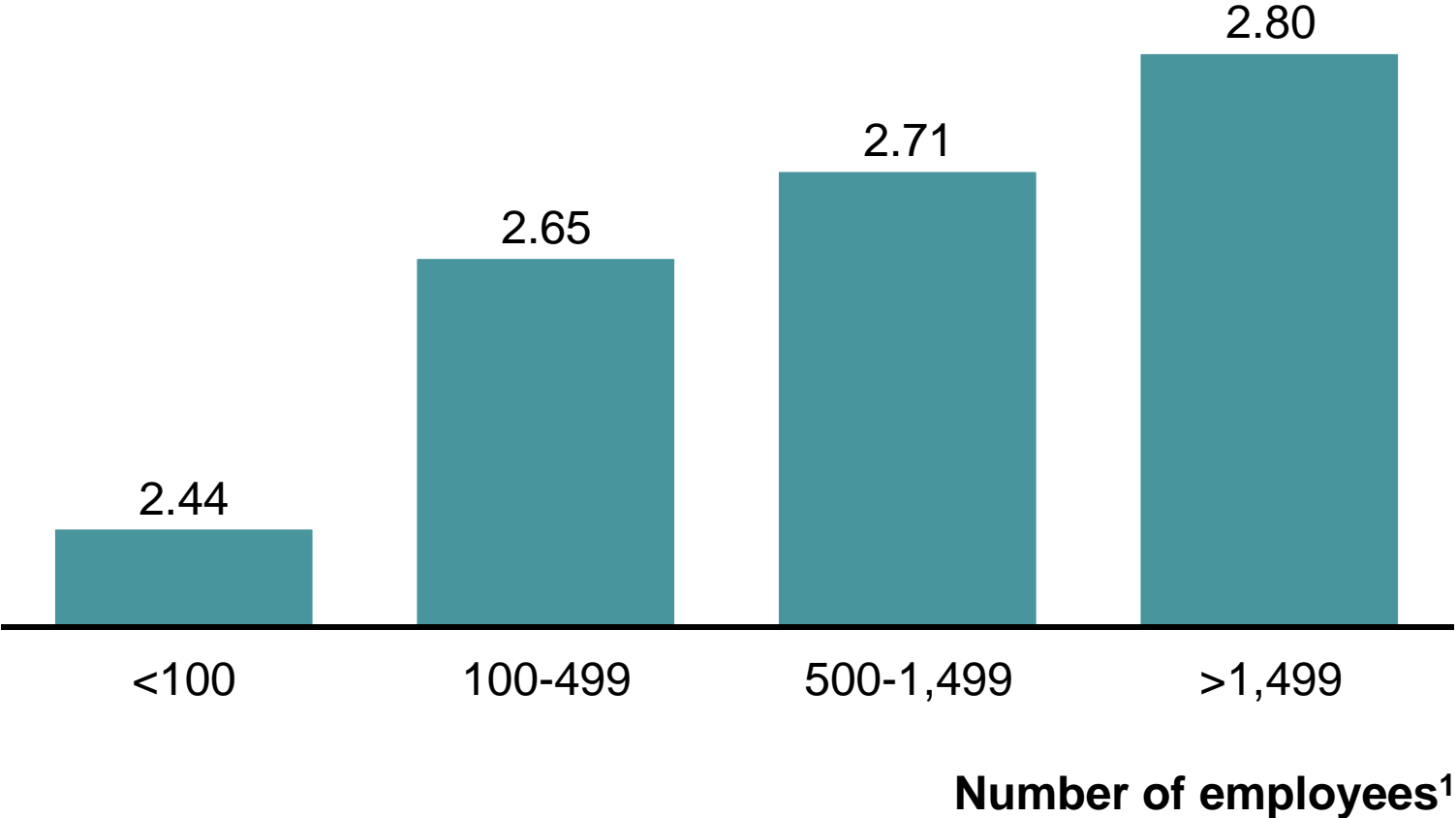


**Number of competitors<sup>1</sup>**

<sup>1</sup> As perceived by the manager.

# There is a strong relationship between hospital size and management practice

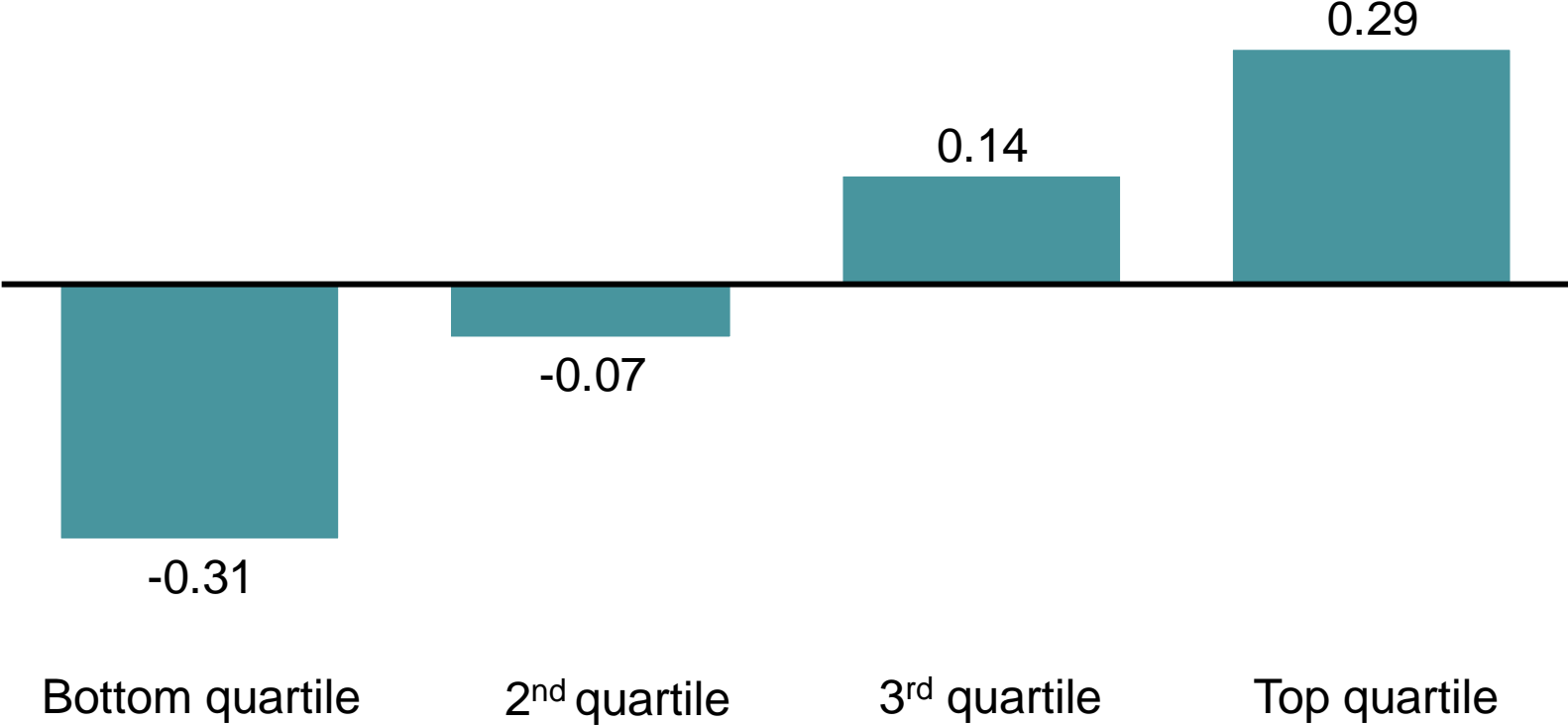
Management practice score



<sup>1</sup> Directly employed by the hospital

# Managerial Autonomy is correlated with management practice

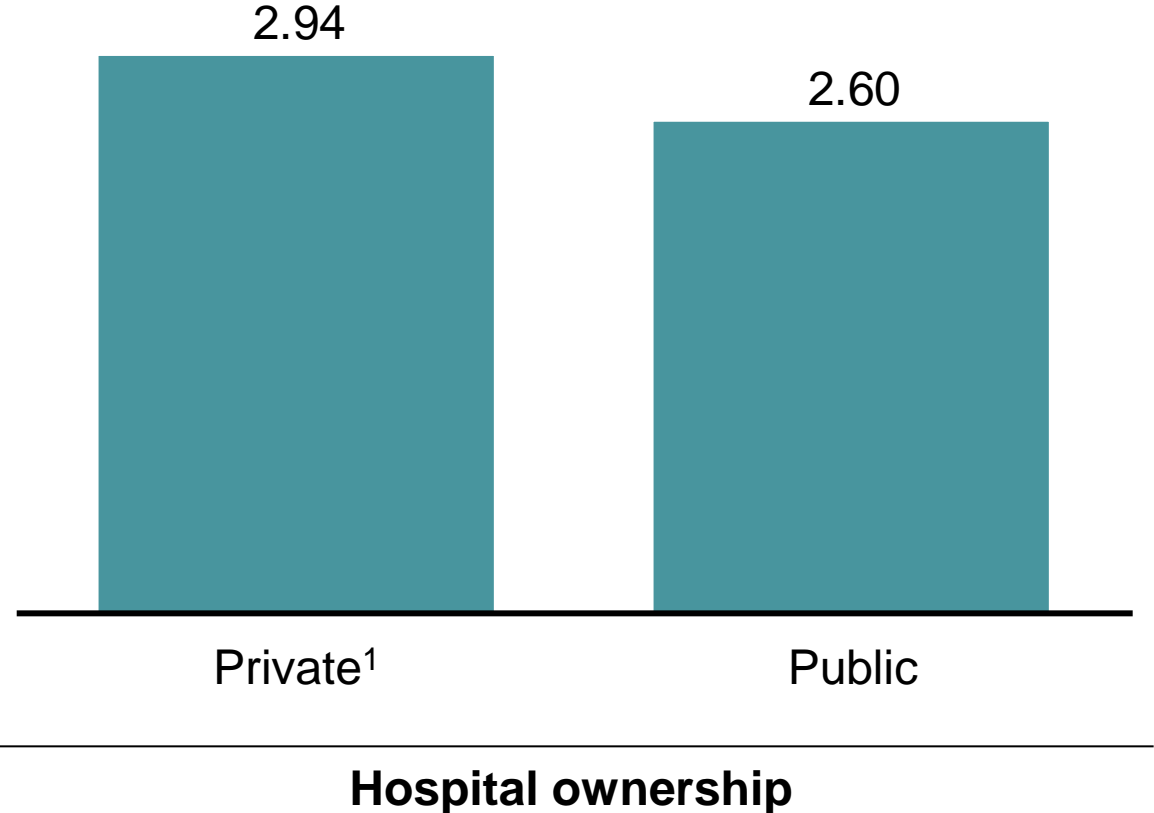
Managerial Autonomy



**Management practice score**

# Private hospitals tend to have higher management practice scores

Management practice

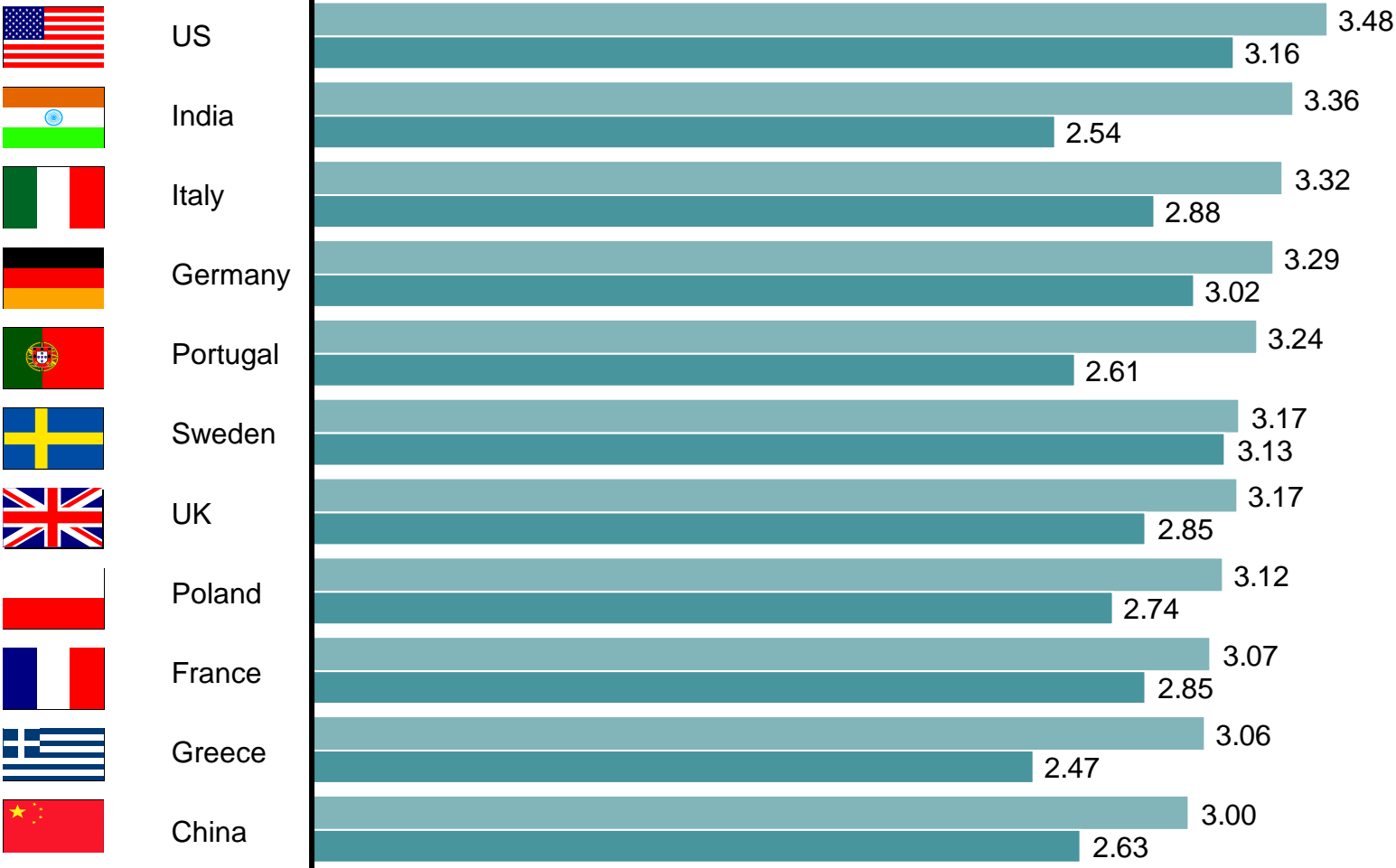


<sup>1</sup> Private includes both for profit and not for profit organization

# In manufacturing multinationals outperform domestic firms

Management practice score – by country<sup>1</sup>

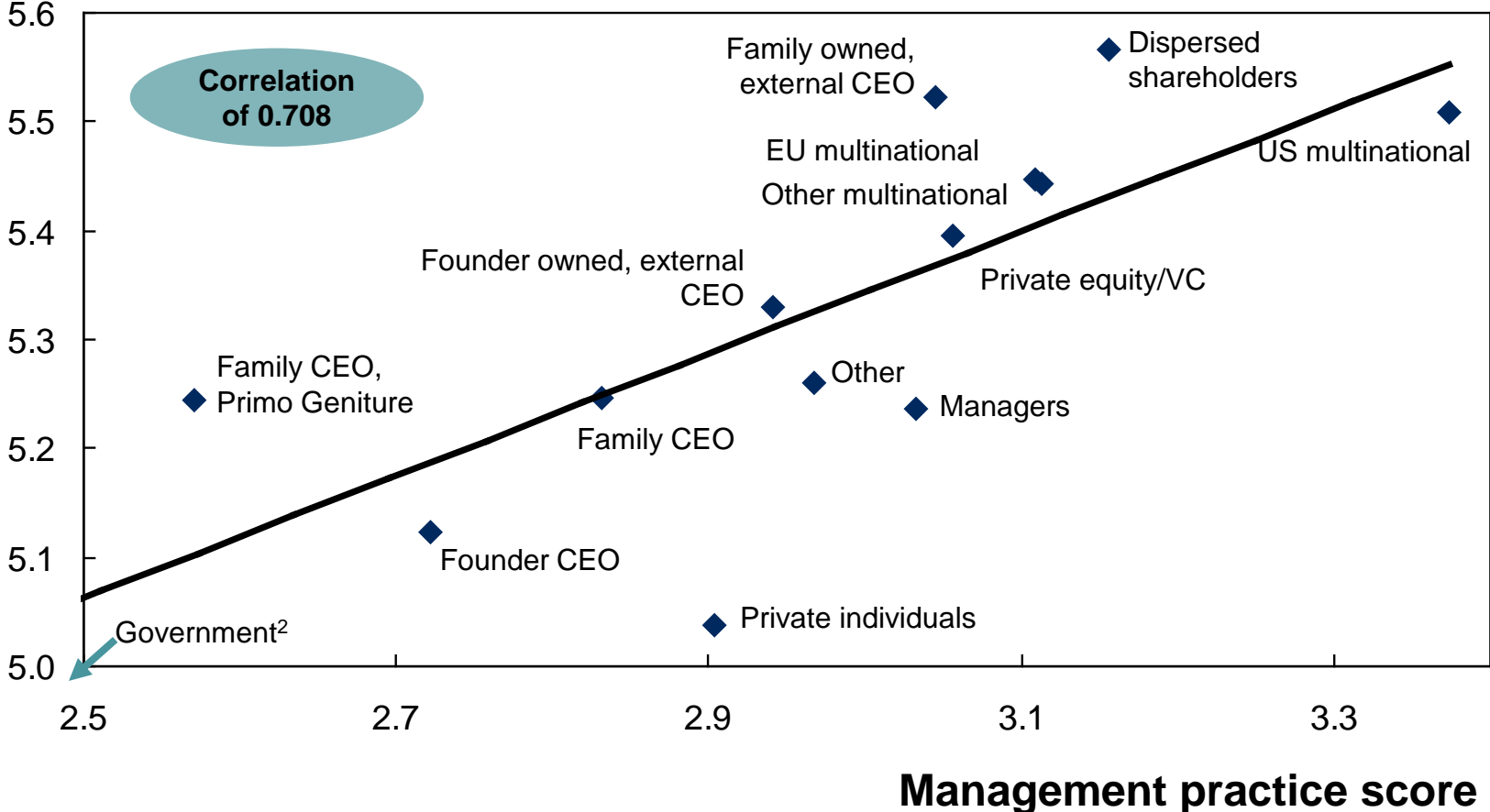
Multinationals  
Domestic firms



<sup>1</sup> Japan excluded due to low multinational sample size

# In manufacturing, ownership matters for management and productivity

## Labour productivity<sup>1</sup>



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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**Implications for policy makers and others**

# 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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