

Effective Hospital Management

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Effective organizational performance in health services is not just a goal in itself, but a means to improve patient outcomes and community health. Normally one might assume that improvement of patient outcomes is left to physicians and other health professionals. Equally important, however, is management's role in such an assumption which is to get resources to these professionals effectively, to see that such resources are used efficiently, and to ensure that professionals evaluate and improve patient care.

Today, control over hospital resources and the power to allocate these have shifted to management although patient admissions, orders for care are controlled by physicians. In recognition of increased administrative dominance, most hospital management have become more sophisticated in applying modern managerial technologies, such as cost accounting, finance, management engineering, risk management, strategic planning and marketing to achieve more effective management of the complex and costly hospital organization.

The purpose of this paper is to review and describe selected specialized management techniques and methods or approaches used in managing a modern hospital in the United States. Today hospitals have become more complex and the planning and coordination responsibilities of management have grown in importance. This paper is not advocating the American hospital management model rather it is to serve as a springboard for discussions and comparisons for the hospital management of today, as we explore for the most effective way of managing hospitals and plan for tomorrow.

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HOSPITAL MANAGEMENT

The administrator of a charitable hospital is the executive officer directly in charge of the hospital, responsible only to the governing board. He is the general supervisor of all the operations of the hospital. The governing board delegates powers to the administrator whereby he is able to fulfill this responsibility. Although he may in turn delegate specific areas of responsibility to various subordinate supervisors, the administrator is primarily responsible for the efficient and orderly management of the hospital.

The administrator has only those duties delegated to him by the hospital governing board. Legal responsibility for the conduct of the hospital is vested in the governing board. The delegation of authority to the administrator may be broad or narrow, depending upon the policy of the board. He must carry out the policies of the board by implementing these policies in the various departments of the hospital, medical staff and other personnel.

Normally, the administrator are authorized to select or recommend selection of administrative department heads. He then delegates to department heads the authority to select their assistants, but reserve authority to coordinate the overall operations of the departments. A suggested list of duties may be possible. The administrator shall:

- 1) Maintain an organizational structure which defines and makes known the authority responsibility of various positions and their relationships and employ sufficient trained personnel to adequately man the facility.

- 2) Develop, with the assistance of hospital personnel and the Medical Staff, a program of patient care and hospital operation in line with goals of hospital and needs of patients served.
- 3) Measure the effectiveness of the hospital operation in terms of goals and the expected results of patient care.
- 4) Maintain long-range plans to provide for the continuous improvement of the hospital.
- 5) Consult with representatives of the organized Medical Staff on matters which are of concern to the Medical Staff in its hospital work.
- 6) Initiate proposal as to what the mission of the hospital should be and what the priority mix and time schedule of programs should be to achieve it.
- 7) Initiate proposal for policy changes in response to changing conditions and trends.
- 8) Plan the course of the organization so it remains financially otherwise viable while responding to public needs and expectations.

A survey of hospital CEOs in the US, may show the following topics for continuing education programs as necessary in order to be up to date with the changes affecting their duties.

1. Financial Management	14. Management Theory
2. Government Regulations	15. Managed Care
3. HR Management	16. MBO
4. Legal Affairs	17. Computer Science
5. Labor Relations	18. Construction Management
6. Budgeting	19. Org. Theory
7. CEO to MDs Relations	20. Systems Approach
8. Planning	21. Marketing
9. Practical Problems	22. Shared Services
10. Prof. Standards Review	23. Education of Board
11. Public Relations	24. Decision-making
12. Issues in Admin.	25. Public Health
13. Health Legislation	26. Occupational Safety Health Safety Act (OSHA)

PLANNING

Health care planning is generally considered to be one of the most important functions of management. The dynamics of health care, the need to improve the delivery of health services, and the increasing changes and pressures all indicate the need to develop long range planning. Planning for health care institutions has become a complex situation. Many hospitals have planning committees as part of their governing board and occasionally include operating personnel. Staff services are essential to the planning process and are usually left to the administrator or someone else who specializes in planning and forecasting techniques. Consultants frequently provide planning services on a contractual basis. Normally, it is the responsibility of the board to initiate institutional planning process, but leave the operation to the Chief Executive Officer. Some of the major issues addressed in planning are the following:

- Institutional mission, goals, objectives, and strategy for growth
- New services or programs, facility evaluation & constructions
- Capital formation, borrowing

- Corporate restructuring, joint ventures, diversification, mergers shared services, affiliation with chains system and managed care organizations

The requirement for Certificate of Need (CON), a control feature vested with the government, forces hospitals to be more proactive in planning. Any large capital expenditures beyond a given threshold for equipment purchases, construction and or expansion, are subjected to government review and approval for the purposes of restraining medical costs and preventing unnecessary duplication. The merit of this approach is still in doubt as this has created unintended monopoly and interference of the market forces which in itself is capable of regulating oversupply or duplication. Nevertheless, the CON process, revised at higher threshold, is a strong impetus for conducting institutional planning. Some hospitals have a planning department staffed by a planner reporting directly to the Chief Executive Officer. His main responsibilities are to forecast demand, project utilization, identify competition and opportunities, prepares the CON review documents, and assist in the marketing function of the hospital.

MARKETING

Marketing is one of the functions of management. It is integrated with other management subsystems of Production, Finance, and Human Resources. Marketing determines the needs of the consumer in the marketplace and lays out a plan for satisfying these needs. It is a management tool that must be blended with strategic planning and economic analysis. Some of the components of hospital marketing are as follows:

- 1) Marketing Research, Planning and Strategy Development.
- 2) Public Relations, Community Relations which describes the action for communicating with the publics that interact with the health organization.
- 3) Contracting, arranging the hospital care of company employees, school.
- 4) Fund Development, fund raising for charitable contributions.

Existing operating and planning practices will need to be modified in a changing health services environment. Specifically, this refers to the determination of when a new or expand program should be considered as part of a health provider's role or responsibility. Frequently, motivations for new services, programs, equipment or expansion of existing activities come from influential physicians, other political interests or restricted donations. Motivations for new program should be based on sound market research identifying need, potential market and financial viability, not emotional enthusiasm. The program itself may not be a moneymaker but may generate other avenues of revenue that may bring about a continued and longer term benefit to the total institution.

Hospital Marketing Activities

- Attitude survey of current or discharge patients
- Marketing research techniques to assist in feasibility studies
- Patient-oriented advertising

Direct mail promotion to physicians
 Patient demographic profile
 Defined hospital target market
 Formal marketing plan
 Study of services offered by nearby hospitals, survey

Scope of Responsibilities Between Public Relations and Marketing

Public Relations	PR Marketing (jointly)	Marketing
Internal publications	Program alteration	Market research
Media releases	Public surveys	Program pricing
Hospital tours	Patient discharges	Forecasting
Social programs	Media strategy	Portfolio management
Auxiliary board programs	Recruitment	New service development
Volunteer programs	Fund raising	Marketing strategy

INTERNAL AUDITING

The internal auditor has an important role in ensuring that top management has provided a good control system and in assuring the administration the system is working well. The benefits hospitals can expect are the same as those that large corporations already experience with internal auditors. These include:

1. Appraising the soundness, adequacy, and applications of accounting, financial, and operating internal controls, and promoting effective control at the least cost.
2. Appraising the extent to which employees comply with the established hospital policies and procedures.
3. Appraising the accountability and safety of hospital assets.
4. Appraising the reliability of management information systems.
5. Appraising personnel performance.
6. Recommending operating improvements.

Operations auditing may be applied to virtually any patient care area of the hospital. Internal auditors eventually must evaluate the entire hospital to be certain all departments and operating areas are contributing to the institution's goals. Some of the focus of internal auditing has been at abuses of privileges or authorities at the departmental level involving the use of hospital resources, its misuse, or misrepresentation. A few areas that may be worth focusing are: (1) delegated purchasing authorities and procedures with vendors, salesmen, (2) the use, distribution and storage of medications, (3) the handling of cash, receipt and payment of hospital invoices (4) the ordering of supplies, in the kitchen, laboratory, pharmacy.

There are well recognized internal auditing control measures that can be implemented to ensure these abuses and misuses are minimize or eliminated. The services of an internal auditor is usually a full time basis in a large hospital. However, a small size hospital could combine internal auditing function with that of the chief financial officer who in turn is supervised and controlled by the CEO. A consultant could be hired on a one time basis to install a control system but enforcement would have to be continuous. The push for cost containment and higher productivity have made internal auditing function an important part of management as efforts in this area minimizes expenses or misuse.

MANAGEMENT ENGINEERING

A unique aspect of management engineering is its emphasis on improvements; in contrast, administrators, physicians, and others are sometimes more concerned with maintenance. It is apparent that improvements, like maintenance require team work. Today, with more concerns for cost containment, management places more importance on systems engineering, and evidence shows demand for such managers are increasing. The following list includes several specific functions performed by management engineers in hospitals:

- Hospital-wide productivity reporting systems
- Standard setting in hospital departments
- Work simplification and systems improvement in departments
- Functional space utilization and layout
- Staff scheduling
- Capital budget decision
- Purchase vs lease decisions
- Quality definition and evaluation
- Position control system
- Information systems and computer evaluation and development
- Long-range planning
- Contract versus in-house service decisions
- Inventory control

"Reengineering" a term now becoming more popular is a new approach used in the corporate world or industrial sector but are becoming adaptable in hospital setting. The thrust of Reengineering can be illustrated by looking the operation with a new set of blue print. Instead of improving the old or current system, reengineering forces analyst to begin a new approach and a new look at the given goal and objective. Also, the concept is sensitive to external demands and preferences. It has application in hospitals especially as hospitals are forced to survive with limited resources. It forces management to look at problem anew, seeking new alternative and new approaches.

COST ACCOUNTING

Cost accounting have been practiced in US hospitals for some time now. Lately because a new payment method called Prospective Payment System, which is characterized by a fixed fee for each given diagnostic group, this field has grown in importance. The ability to understand and identify costs related to each diagnostic group is vital to maximum reimbursement under this system. The term "product line" is in style because now each product or each program become a competitive entity and are subjected to price competition. As a result of this development, the disciplines of cost accounting and medical records systems are integrated in a way that management will know precisely and quickly the diagnosis for each admission. A new position emerged, the DRG Coordinator, whose main role is to ensure that proper diagnosis are assigned to each admission, and to maximize rate of reimbursement by understanding the categories of each DRG so that diagnosis are properly classified.

The primary lesson of this practice in the United States which may have implications with any other country is the

growing acceptance of the prospective payment system with payors of health care, insurance or large employers. The outstanding feature of this of system is that it removes the incentive from providers of care to order unnecessary tests or hospital admissions. It forces the hospital and the physicians to work jointly in controlling costs of care because together both are at risks. I submit that in not too distant future, this method of payment will be adopted even here in Indonesia.

A visible consequence of the PPS approach is the increased importance given to productivity management or productivity improvement, "doing more with less" because hospitals now gain by doing less and the resulting difference between the fixed fee assigned and the actual costs incurred, are the amount kept for hospitals as profit.

FINANCIAL MANAGEMENT

Consistently in survey after survey, financial management shows up at the top as the one most important topic hospital management would like to stay or remain current. Beginning with 1966, Medicare and Medicaid legislation, financial management has been increasingly concerned with cost accounting and total financial requirements. This more comprehensive approach is a departure from the routine practice consisted of bookkeeping, financial accounting and collection. The new approach was emphasized in the American Hospital Association's statement in 1979, indicating the need for the accountability of the *total financial requirements* of health providers which covers such areas as:

- Costs of doing business, such as salaries, supplies, utilities, bad debts, and taxes.
- Costs of staying in business, such as maintenance of working capital and maintenance of assets
- Cost of changing business, to meet competitors and take advantage of new opportunities, such as additional assets and working capital
- Costs of attracting and/or holding capital, or return to capital sources, such as interest on debt, payment of debt, required returns to equity holders, and maintenance of the equity base.

To support the operation of the financial management of hospitals, staff in this department include specialists in budget, reimbursement, cash investments, cost report or accounting, cost management and productivity, equipment and inventory specialist, and strategic financial planner.

Capital Formation

To finance construction and expansion or purchases of high-priced equipment, hospitals in the United States have increasingly find it unable to rely strictly upon donations, grants or government subsidy or from its own operating gains. As a result they have turned to debt financing through such instruments as tax exempt bonds. Because it is unlikely that hospitals will be able to generate higher surpluses, the pressure to borrow increases. In the past, debt financing was not considered a viable means of obtaining the funds needed to expand the services of health care institutions because banks and lenders considered

these institutions high risk investments. The change occurred when Medicare and Medicaid, government health programs, provided hospitals with dependable source of revenue that forms a basis for loan security.

Below are commonly used financial ratios helpful in analyzing a hospital financial position:

	Desired Positions	
	Trend	Industry Average
Current	Up	Above
Acid Test	Up	Above
Collection Period	Down	Below
Average Payment	Down	Below
Long Term Debt To Fixed Assets	Down	Below
Long Term Debt To Equity	Down	Below
Times Interest Earned	Up	Above
Debt Service Coverage	Up	Above
Cash Flow To Debt	Yp	Above
Total Asset Turnover	Up	Above
Fixed Asset Turnover	Up	Above
Current Asset Turnover	Up	Above
Inventory Turnover	Up	Above
Mark-up	Up	Above
Deductible	Down	Below
Operating Margin	Up	Above
Non-operating Revenue	Up	Above
Return on Assets	Up	Above
Viability Index	Down	Below

HOSPITAL INFORMATION SYSTEM

Computers are used in hospitals at three levels: administrative data processing, clinical data processing and medical information systems.

Administrative Data Processing (Data Processing)

At the first level, the role of the computer is the same in the hospital as in any business:

Patient Billing System	Inventory
Accounts Receivable	Report data from laboratory
Accounts Payable	Report data on drugs
Payroll	Report data on equipment
Census	Menu planning
Materials Management	Admission/Discharge/Transfer
Fixed asset accounting	Order entry
Clinic scheduling	Time & attendance
Admission Records	Operating room schedule

Clinical Data Processing

At this level, complete patient medical records are maintained during a patient's hospital stay. Such system may also provide specialized services to the clinical laboratory, radiology, nursing stations, and pharmacy. Typically, such systems provide immediate inquiry response by operating in "real time" or instantly available information, and they provide "on line" medical information which can be used in decision making in administering both the individual patient's hospital stay and the overall hospital.

Medical Information

The third level, a complete medical information system, provides management information that can be used in decision

making in administering both the individual patient's hospital stay and the overall hospital. Patient management system is a fully integrated approach to maintaining patient care information and provides an opportunity for enhancing communication between members of the health care team. The foundation of this integrated system is a set of comprehensive data bases containing various medical, financial, statistical and other pertinent information. The largest of these is the patient data base, which includes all relevant information about each patient registered at the hospital.

The data base include: Patient identification, biographic and financial data, patient allergies, physicians' orders, for patient care, medication, therapeutics and diagnostic services, test results, interpretations and progress notes, drug profile and medication administration records, medical activity summaries data, and nursing care plans and associated results.

This comprehensive and integrated approach provide multiple benefits to the medical team administering care to patients:

- Reduction of clerical effort
- Accurate and timely availability of patient data
- Faster order entry
- Better control of patient accounts and records
- Improved coordination of ancillary and support services
- Easy access and inquiry into patient case-related information
- Improved control over intra-unit patient transfers

Progress in extending and improving computer applications in hospitals continue at a fast pace. Changes and innovations occur in such a short span of time that equipment or hardware purchased a year ago may have become obsolete or less desirable today. It is important for management to make an informed and knowledgeable decision when planning to install a new data processing or information system.

CONCLUSION

Much of the potential for success or failure of a hospital lies largely with the leadership level at the top whose decisions and actions has to be accurate and timely. Some of have called this strategic management. Strategic, because it means prioritizing and calculating before making . any important a move. The complexity of a modern hospital is such that top management must be guided by a clear sense of mission and goal-oriented in managing the hospital scarce or limited resources.

McKinsey Co., a well known US management consulting firm have developed a concept called the 7 S's which includes the following variables:

- Superordinate Goals
- Strategy
- Structure
- Systems
- Staff (the concern for having the right sort of people to do the work)
- Skills (training and developing people to do what is needed)
- Style (the manner in which management handles subordinates, peers, and superiors).

Within this structure there are two group. The first group are the "soft S's" and the "hard S's". It is argued that Japanese companies are effective because of their attention and dedication to the integrative forces of superordinate goals and for their concern for those variables which have to do with the human factor, the soft S's. These are the factors which American managers allegedly pay too little attention to: staff, skills, and most importantly style. The hard S's which complete the Seven S model are: strategy structure and systems.

Given the logic of the seven variables model above, the concept serve to amplify the crucial role hospital management or specifically the chief executive's power and potential in setting, arranging and manipulating all seven variables — for the purposes of accomplishing the delivery of good patient care. It is a very profound thought, as therein lies the potential for success or failure of management.

ROLE AND FUNCTIONS OF EXECUTIVE MANAGEMENT

Executive management should initiate and monitor organizational mechanisms to ensure that the hospital has effective organizational structures and processes.

Executive management should develop and recommend to the governing board an effective organizational plan that takes into consideration the interdependent leadership roles of executive management, the governing board, and the medical staff and that clearly assigns responsibilities for specific organizational programs and services to specific components and individuals. The organizational plan should clearly define relationships between the board's broad policy responsibility for the quality of care, and the executive management's responsibility for overall operations.

Executive management should assume primary responsibility for ensuring that members of the hospital organization are kept informed about public policy and environmental issues and their effects on the hospital.

Executive management is responsible for establishing mechanisms for identifying and obtaining information about public policy issues and decisions affecting the hospital and, when necessary, for developing an appropriate organizational response. Executive management should take the initiative to work with other community organizations on public policy issues and decisions affecting the health status of the community.

Executive management should take the initiative in ensuring that the hospital has a broadly based strategic planning program.

Strategic planning provides the hospital with a powerful management tool to help determine its goals and objectives in relationship to changes in the environment and the needs of its community, to establish its priorities, to choose the most appropriate organizational structure to achieve its goals and objectives, and to provide benchmarks fort evaluating the achievements of its goals and objectives.

Executive management should assume responsibility for the cost-effective management of the hospital's resources.

This responsibility requires a commitment to provide the most economical and highest quality services possible in keeping with available resources and to communicate this commitment to the entire organization and the community. This commitment implies a willingness to assume leadership, along with the governing board and the medical staff, in introducing new patient care technologies and programs that are of high quality and are medically necessary and appropriate, and as efficiently yet compassionately provided. It implies a responsibility to engage the medical staff in a cooperative effort to eliminate obsolete technologies and programs, and a willingness to introduce new management techniques and improve the utilization of human and financial resources. It also suggests a willingness to experiment with and make the community aware of alternatives to

traditional means of health care delivery and financing, such as health maintenance organizations, independent practice associations, consumer choice health plans and others. Finally, it implies the existence of an effective system for financial and management reporting that enhances the monitoring and evaluation of organization performance.

Executive management should provide a work atmosphere that recognizes the vital importance of human resources to the health care organization.

The provision of a positive work atmosphere indicates a moral and ethical commitment to the needs of people, a concern for their health and status and quality of life, and commitment to fostering respect and satisfaction for all.

(AHA Statement)

