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# in·sight

## *The Strategic Imperative of Adapting the Hospital's Management Structure*

### In This Issue

- How organizational structure impacts performance of new strategies.
- Key considerations when redesigning your management structure.
- Effective service line management and leadership structures.
- How to hardwire new reporting relationships.

*In his seminal book Competitive Advantage<sup>1</sup>, Michael E. Porter opines that an organization's ability to align structures, strategies, and management practices is critical for sustaining and enhancing competitive advantage. Many hospitals are having problems executing strategic plans, and much of this is due to inefficient decision-making processes, a lack of accountability for performance of key strategies, and a failure to realize that hospitals' strategies are propelling them into new businesses. This article, one of many ECG Insights which address relevant hospital strategic issues, delves into issues surrounding organizational structure and its relationship to strategy.*

### **Organizational Structure – A Driver of Performance**

Would you build a house without laying a foundation? The result would be four walls lacking any grounding and with little stability. Similarly, it is impossible to build a high-performing organization without first constructing a strategy. Nonetheless, across all industries, less than 10 percent of strategic plans are executed and realized. How can this happen if the primary responsibility of management is to develop and execute strategies that will help the enterprise realize its vision and mission?

Hospitals that *do* successfully execute strategies share a key common element: an organizational structure that insists upon clear role focus, fosters accountability, and requires manageable spans of control. Moreover, high-performing hospitals and healthcare systems design their management structures to execute strategies. They consider organizational structure as they would any other resource (e.g., capital, workforce, physicians) and deploy it according to the strategic needs of the company. In short, hospital strategies should not just inform organizational structure, but should determine it.

One of the most performance-driven healthcare companies in America today utilizes this approach to organizational design. Several years ago, executives at this large healthcare system realized that their ambulatory strategies were not keeping pace with market demands. Accordingly, a single corporate position was created with responsibility for outpatient services at all of the system's hospitals. This new job, and the new structure, was born out of strategic need and focused accountability. The result was an enhanced focus on outpatient development, streamlined outpatient decision-making processes, and ultimately, improved hospital ambulatory services performance.

## Considerations in Restructuring Your Organization

Look at your current organizational structure. Assess your strategic initiatives and how you will execute your plans based on the current decision-making structures and accountabilities. Such an assessment will encompass an analysis of management requirements and should include a review of the following focal points:

- Strategic plan.
- Organizational control structure.
- Management responsibilities.
- Physician leadership.

An example of an organization that has employed this form-follows-function approach is St. Joseph Hospital.<sup>2</sup>

### Strategic Plan

St. Joseph's strategic plan includes three major initiatives:

- Develop cancer, cardiac services, and neurosciences as distinctive, market-leading service lines.
- Expand the outpatient strategy to include new facilities in two markets within St. Joseph's primary service area.
- Significantly upgrade quality and patient safety throughout St. Joseph's facilities.

These initiatives are fairly typical for metropolitan tertiary hospitals; what distinguishes high-performing organizations, however, is successful execution – and the structure that enables it.

### Control Structure

Control structures need to encompass patient care functions, patient care support functions, and administrative support functions. The way these functions are aligned varies dramatically between organizations and defines both culture and accountabilities within the hospital. At St. Joseph Hospital, leadership responded to a change in the hospital's strategic plans by also revising the control structure. The new, revised strategy shifted the hospital's major spheres of organizational responsibility, prompting a leadership structure that was reflective of the institution's goals:

Patients do not seek nursing services, radiology, or physical therapy, or the other traditional departments within a hospital. Instead they want care to treat their heart condition, cancer, or other illness or injury.

- An outpatient executive dedicated to the growth of outpatient centers, with line accountability for staff in the outpatient areas.
- A service line dyad for each major program that links a clinical director with a physician leader. The dyad is accountable for service line development and profitability.
- A clinical quality structure headed by the Chief Medical Officer with direct oversight and reporting from clinical quality and patient safety personnel.

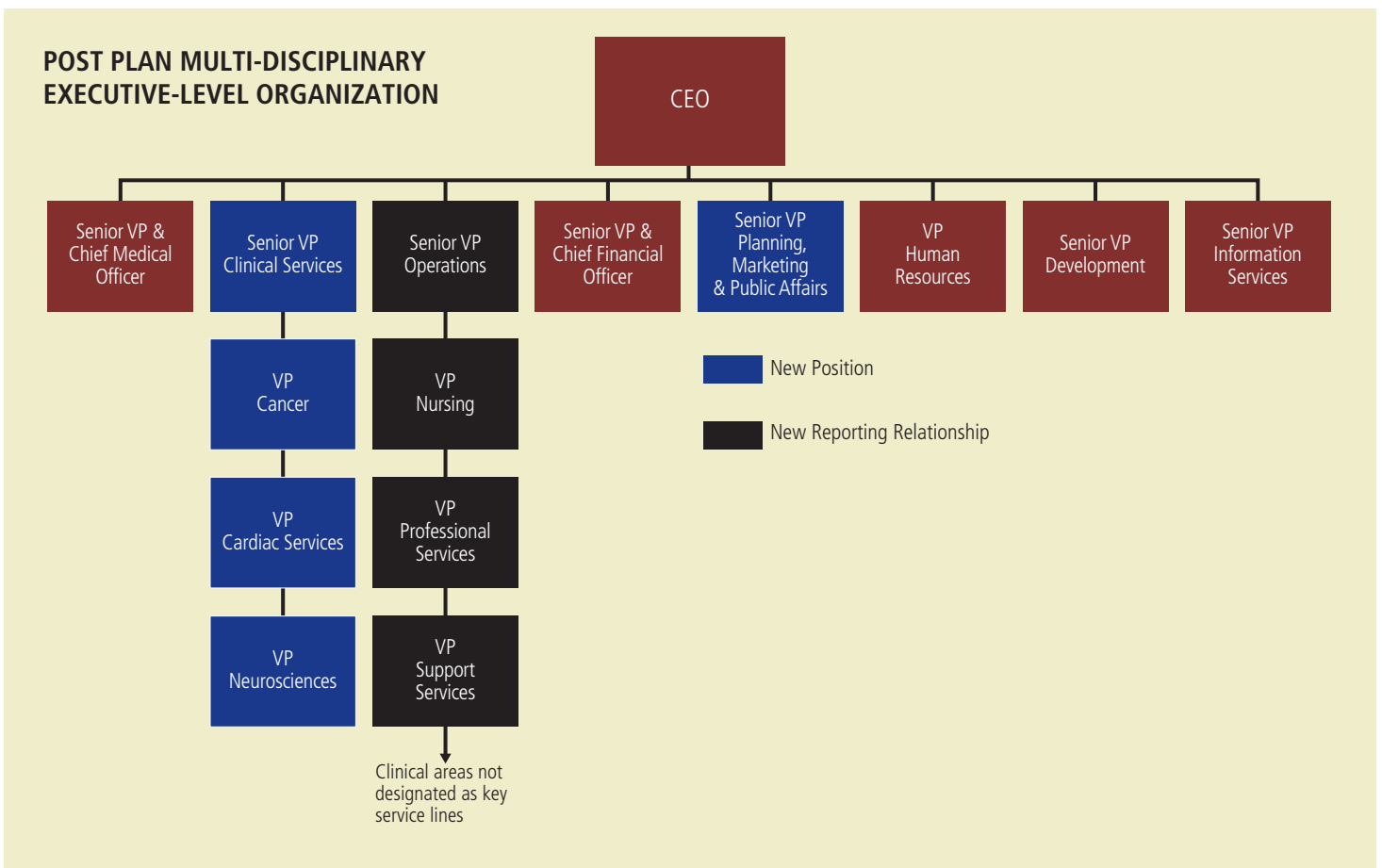
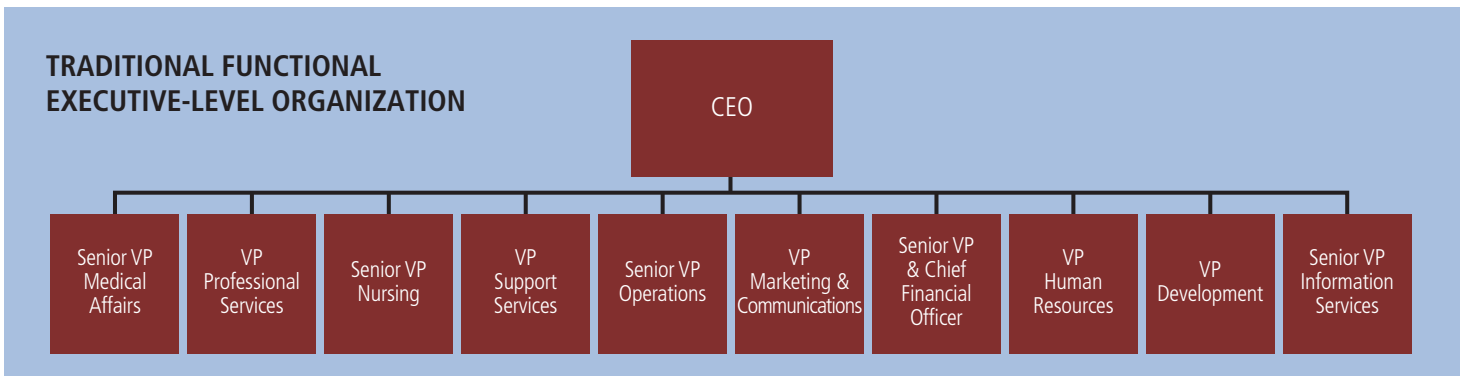
In the traditional environment, the control structure is organized in a purely functional way that does not respond to the business of healthcare: the provision of high-quality care within a service line. Patients do not seek nursing services, radiology, or physical therapy, or the other traditional departments within a hospital. Instead, they want care to treat their heart condition, cancer, or other illness or injury. In the traditional departmental control structure, it is difficult to implement service line strategies that bridge multiple departments because there is not a direct line of accountability between the service line director and the department managers. The department managers are held accountable for the performance of their department, rather than the performance and growth of the service line, leading to competing priorities.

<sup>1</sup>Free Press, 1998. <sup>2</sup>Pseudonym.

This structure creates a “silo” mentality that optimizes performance within narrowly-focused units but in which a patient and physician perspective is disconnected, inconvenient, and confusing. These service lines (e.g., cancer, heart, and so forth) should represent the new control structure of your hospital, since they ultimately drive hospital performance.

High-performing organizations look to service line or discrete clinical program areas to help define the control structure (organizational reporting and hierarchy structure) of their hospital.

In the graphic below, a traditional hospital organizational structure is compared to that same organization that adapted its structure to implement its key strategies: migration to clinical service lines.



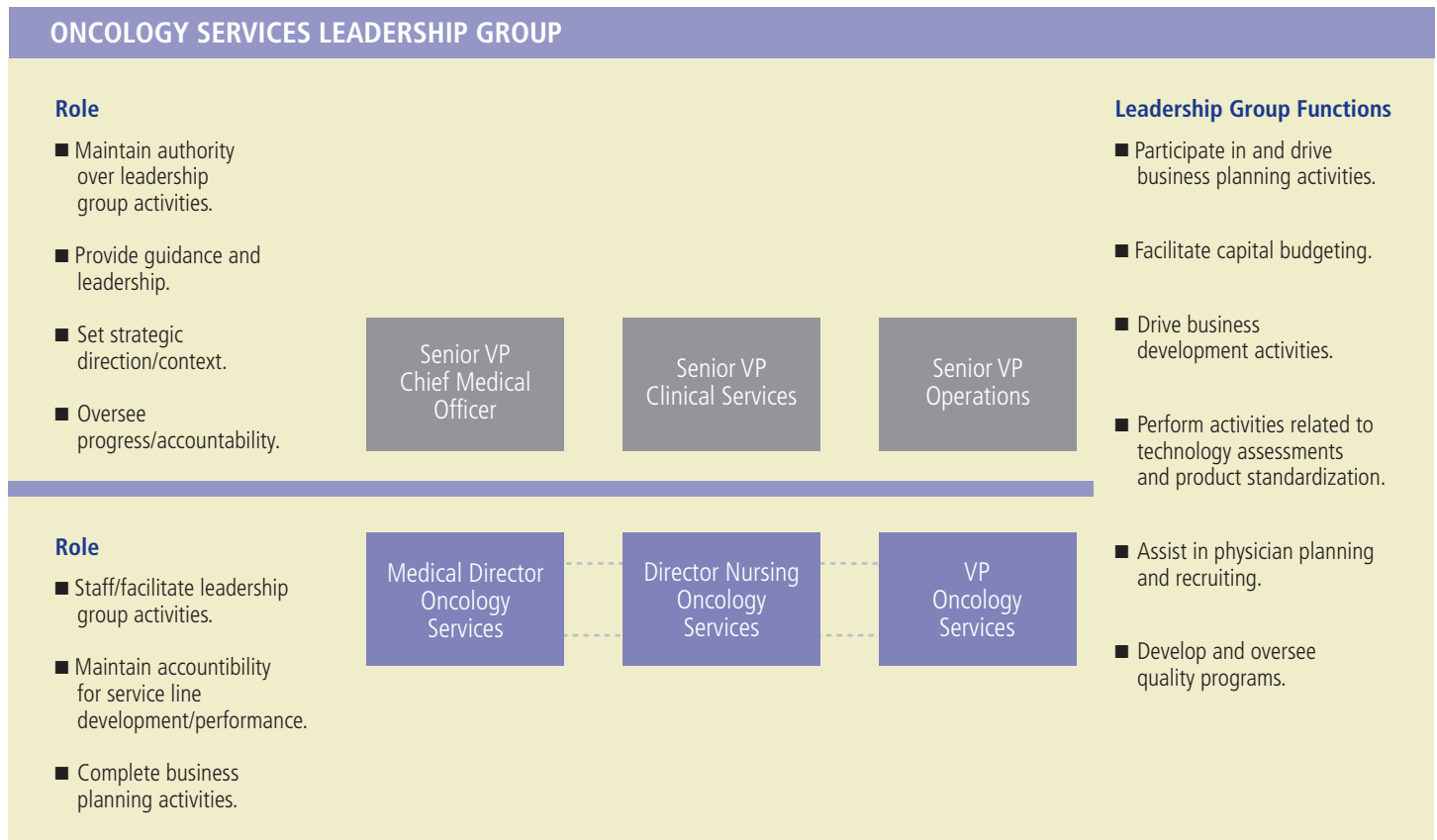
Managerial roles within hospitals rarely change following development of a new strategy such as a shift to a service line focus. This stagnancy is counterproductive: as you implement key strategies around growth, clinical services, quality, and safety, the control structure of your organization must change to reflect your strategies. One of the biggest complaints that physicians, staff, and managers make about hospital leadership is the slow pace of decision making. This is likely a symptom of larger control structure issues. If your control structure does not reflect your strategy, you are likely suffering from an inefficient decision-making process involving too many sign-offs.

A leadership structure for an oncology service line is presented below as an example of a service line leadership group. This group makes the key decisions for the service line, and their reporting relationships are depicted in the multidisciplinary executive-level organizational chart.

## Management Responsibilities

Management responsibilities include those functions that must be regularly executed; these responsibilities vary according to the control structure. There are administrative management (staff) functions required by all control centers and additional responsibilities related to the management of patient care (line management) functions. Building on our example of St. Joseph's, a management structure might include site administrators for each ambulatory site and functional managers within each service line (for example, cath lab manager reporting to the cardiac dyad, radiation therapy reporting to the cancer dyad, and so forth).

Management responsibilities should be determined based on your strategy and plan for execution through the modified control structure.



## Physician Leadership

Just as the administrative organizational structure must reflect strategic objectives, so must the physician leadership structure. In many academic organizations, there are formal physician leadership structures (e.g., department chairs, service or section chiefs) that include employed physicians rather than traditional elected members of the medical staff. If you are contemplating a service line initiative, you must adapt your physician leadership structure to accommodate different responsibilities and objectives.

Strong physician leaders from a range of clinical areas within the service line are critical to driving change and engendering support from the medical staff. If you are committed to effective, service line-based management, hiring a medical director for each major line may be a logical step to ensuring credibility with affected physicians and accelerating service line development. You should also consider a management or advisory role for nonemployed physicians, as discussed in ECG's Summer 2005 *Insight*.

## Engineering a Structure Built for Success

Good leaders do not put their employees in a position where they are destined to fail. Success requires clear lines of authority and accountability, and those in authority need the right tools to meet performance expectations. Some organizations have created a "matrix" service line management structure, appointing a vice president of a clinical service without formal line authority or control over the deployment of resources. Others have created mixed models, where the head of a service line may have direct control over functions that directly relate to the service (e.g., radiation oncology reports to cancer and the cath lab to cardiology) but indirect influence over shared services (such as radiology or inpatient care). This influence often comes in the form of operational councils or committees where multiple users of these services have an opportunity to explain their needs and priorities. While either structure can work, keep in mind that the leader is more likely to succeed if there is greater control – and thus, accountability – for the resources and the performance of those resources within that service line.

Do you design the structure and jobs around your valued people, or design the structure and positions with a focus on performance and then assign the right people to those roles? The right answer is a combination of both.

## Lessons Learned

Strategic planning does not end when the report is finalized; it must also include a revised organizational structure. If you aren't willing to take the time to reconsider and assess your management structure as you explore your strategic direction, then don't waste your resources on strategy development.

Implementation of changes in organizational structure, reporting relationships, span of control, and role focus requires a thoughtful, measured, and sensitive approach. And you must be prepared for the effect of changing individuals' jobs and responsibilities. As your organizational structure changes, some of your managers will feel disenfranchised and perhaps move on to other opportunities.

This raises a tough question. Do you design the structure and jobs around your valued people, or design the structure and positions with a focus on performance and then assign the right people to those roles? The right answer is a combination of both. Performance-driven organizations employ talented and effective managers in roles that foster accountability and decision making to achieve the organization's strategic goals. They leverage the talent they currently have, but do not design important roles around the strengths, weaknesses, and/or desires of managers. You also need to recognize instances in which your current resources lack the appropriate seasoning or skill set to fill the positions and when it is necessary to make a strategic hire.

Having the right people in the right roles is a critical step, but you must cement changes in your organizational structure by tasking your management team with developing business and operating plans under the new rubric. For example, when migrating to a service line structure, require that the service line management team develop a business plan to hardwire the new strategy and structure and provide a canvas upon which the new team can paint the future. The process of drafting and revising a business plan will help the management group not only refine its focus, but also begin working as a team.

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