



Why hospital management matters

A survey of almost 1,200 hospitals in seven countries shows that five factors influence the strength of a hospital's management practices — and the outcomes achieved.

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Although most business leaders would agree that management practices correlate with corporate performance in private industry, the link between hospital management practices and clinical outcomes has remained a subject of debate. After all, it is individual doctors, not hospital executives, who make the key decisions about patient care. Furthermore, many people strongly believe that the funding available to hospitals is the crucial factor influencing its performance — that more money inevitably leads to better care. Thus, the added value that good management practices might provide has been unclear.

To investigate these issues, McKinsey joined forces with academics from the London School of Economics, Harvard University, and Stanford University to determine how large a role management practices play in both the quality and productivity of health care delivery in hospitals. Our initial research, begun in 2006, focused on 126 public and private hospitals in the United Kingdom. More recently, we extended our investigation to include almost 1,200 hospitals in seven countries.¹

Our results reveal that no country scored uniformly well in all the areas we surveyed, which suggests that all of them have the opportunity to improve management practices at their hospitals. That they should do so is clear from our other findings. The survey demonstrates, for example, that a hospital's management practices do correlate with the clinical outcomes it achieves, including mortality rates, as well as with patients' satisfaction with care. The results also show that management practices predict a hospital's financial performance.

Taken together, the results suggest that good management practices can help hospitals

preserve or enhance care quality, even in the face of flat budgets — an important lesson for all countries, given current economic circumstances. In our survey, we also found that five factors influence the likelihood that a hospital has good management practices: its size/scale, the extent of competition with other nearby hospitals, the number of managers with clinical training, the degree of autonomy given to managers, and the hospital's ownership structure. We believe that all countries should take these factors into consideration during any effort at health system reform.

Overall results

In general, we found that hospitals that scored well in one aspect of management practice (talent management, for example) also scored well in the other areas (operational management, performance monitoring, and target setting). Thus, we compared the hospitals' overall management scores against their clinical and financial performance to gauge what impact good management has.² (For more details about our methodology, see the sidebar on pp. 86-87.)

Our results indicate that better-managed hospitals generally have better clinical outcomes (Exhibit 1). In both UK and US hospitals, for example, each one-point increase in management scores was associated with a 6 to 7 percent decrease in 30-day mortality following myocardial infarction. In France, the hospitals with the best management scores were more likely than other facilities to have low cesarean section rates and shorter case-mix adjusted lengths of stay. Similarly, high-scoring hospitals in Germany, Sweden, and the United States were more likely to have adopted clinical best practices.

Patient satisfaction with care also tends to be higher at better-managed hospitals. In UK

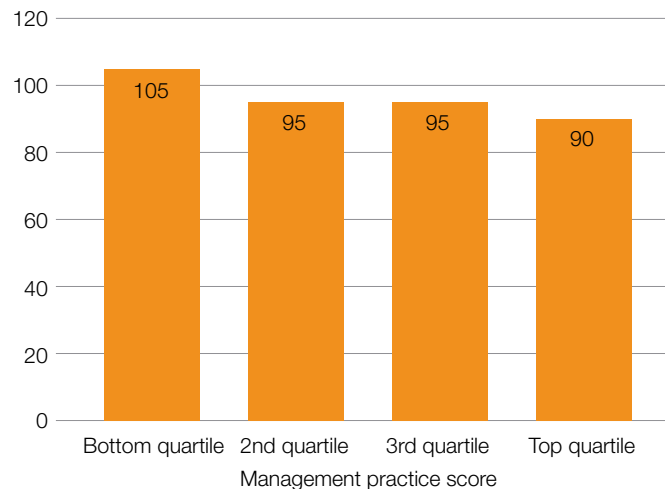
¹ Canada, France, Germany, Italy, Sweden, the United Kingdom, and the United States.

² Some of the metrics we used to assess clinical and financial performance were not available in all countries. The examples we cite in this article, therefore, reflect data availability.

Exhibit 1

Good hospital management appears to improve clinical outcomes

30-day risk-adjusted mortality rates following myocardial infarction in UK hospitals (indexed to national average)*



*Mortality data obtained from Dr Foster Intelligence.

hospitals, for example, patient satisfaction ratings correlated with management scores. In US hospitals, higher scores correlated with an increased likelihood that patients would recommend the facility to others.

In addition, better-managed hospitals had better financial performance. This finding held true regardless of whether financial performance was measured by gross margins (as in France), EBITDA³ margins (as in the United States), or income per bed (as in the United Kingdom).

Of course, these results do not prove a causal relationship between better management practices and better clinical and financial performance. However, the strength of the associations we detected makes it highly likely that management does really matter for patient well-being.

Cross-country comparisons

Average management practice scores varied among the seven countries; however, there was little correlation between those scores and per-capita government expenditures on health care. The United States ranked highest on both variables, but its score was only slightly above that of Sweden or the United Kingdom (the next two highest-ranking countries in our survey), both of which had markedly lower per-capita government expenditures on health care. Thus, high health care spending does not appear to be a prerequisite for strong hospital management.

Within each country, the scores of individual hospitals differed considerably — some scored quite well and others had poor results (Exhibit 2). Statistically, we found that more than 80 percent of the variation in our overall sample resulted from variations in hospital performance within

³EBITDA, or earnings before interest, taxes, depreciation, and amortization, is often used to indicate a company's financial performance.

countries, not from differences between the countries. This result suggests to us that management practices may play a much greater role in determining hospital performance than such factors as national culture, market conditions, and regulation. It also suggests that all countries have the opportunity to improve poorly performing hospitals.

Five factors that predict strong management

Once we dug deeper into the data, we uncovered five factors that influenced the strength of a hospital’s management practices and the outcomes it achieves. These factors are quite similar to the ones we have shown to affect corporate perfor-

mance in manufacturing companies. Because of this similarity, we believe that policymakers should take these factors into consideration when they contemplate health reforms.

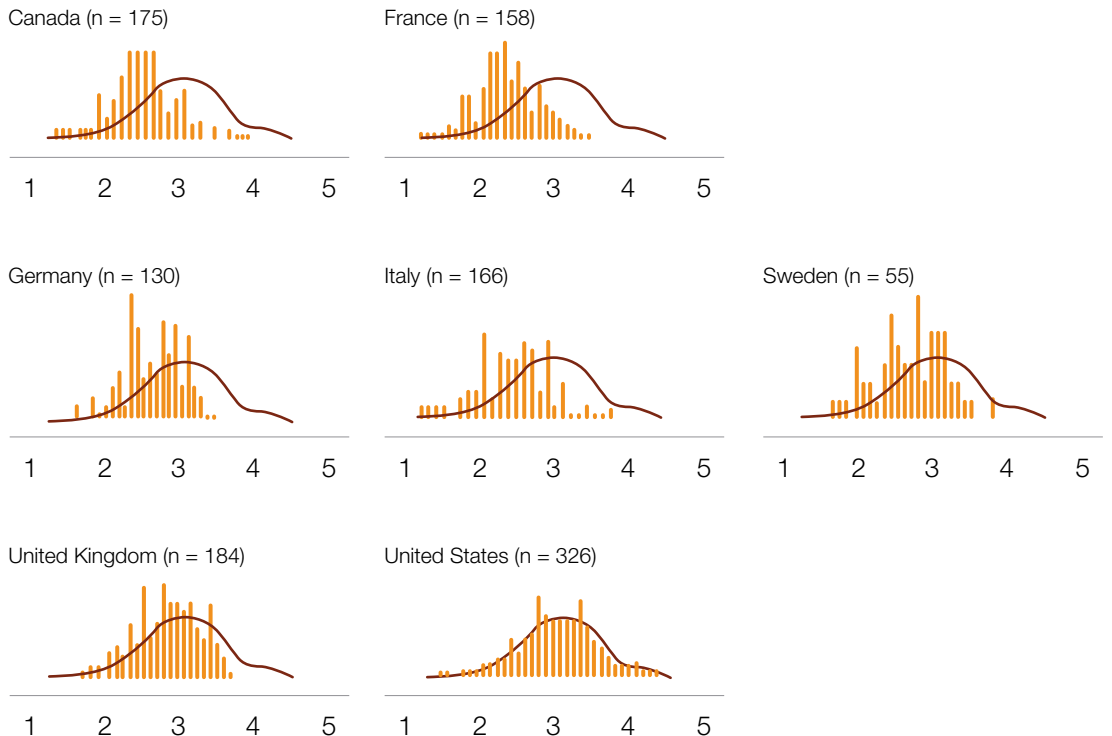
Hospital scale

In all of the countries we surveyed, the size of a hospital (as measured by its number of employees) correlated directly with the strength of its management practices — the larger the hospital, the higher its score (Exhibit 3). Hospitals with fewer than 100 employees tended to have the lowest scores.

The association between scale and score can be explained in at least two ways. First, it is possible

Exhibit 2

Hospital management scores varied widely in all countries surveyed



The curved line in each chart reflects the distribution of scores in US hospitals.

that better-run hospitals are simply better able to grow and expand. Although this explanation makes a great deal of sense in the private sector, its applicability in the public sector is less clear. We found that scale and score were closely linked even in countries, such as France and the United Kingdom, where public-sector hospitals are dominant. Thus, we believe that a second explanation is more likely: larger size permits hospitals to achieve economies of scale, which in turn enable the facilities to attract and develop top talent, adopt best practices, and ensure more rigorous discipline in performance management and other processes.

Extent of competition

Management scores also correlated with the number of nearby competitors (Exhibit 3). Hospitals facing no competition tended to have markedly poorer scores than did those with only

a small number of competitors; however, average scores rose linearly as the number of competitors increased.

Competition can improve a hospital's management practices in several ways. In all health systems, managers are likely to exert more effort when faced with effective competition — the benefits of performing better are usually greater, and the consequences of not performing as well as other local hospitals can be more severe. And in health systems that permit hospitals to close or be taken over, managers who tolerate ongoing weaknesses in performance are unlikely to remain in place for long.

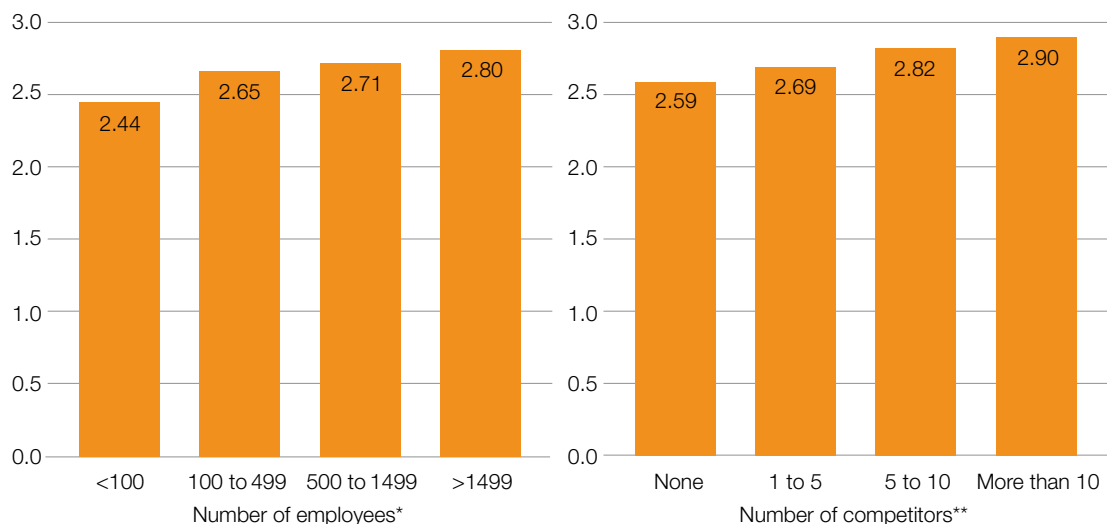
Ownership structure

In all of the countries in our survey, private hospitals tended to have higher management scores than public hospitals did. This held true

Exhibit 3

Hospital size and tougher competition appear to be good for management practices

Average management practice score

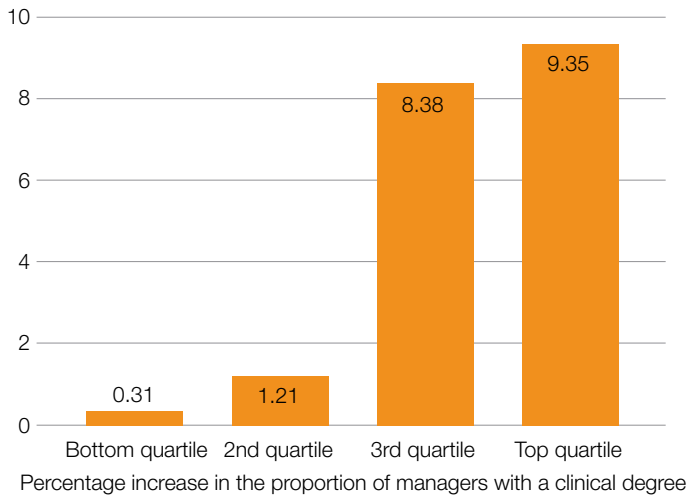


*Directly employed by the hospital. **As perceived by the manager.

Exhibit 4

Increasing the number of clinically trained managers appears to improve management practices

Change in management practice score in UK hospitals*



*Data obtained in UK hospitals only, reflecting changes between 2006 and 2009.

regardless of whether the private hospitals were for-profit or not-for-profit entities.

Closer examination of our data revealed that private hospitals had much better talent management practices, presumably because they do not face some of the staffing restrictions that public hospitals must cope with. For example, private hospitals have more freedom in recruitment and personnel management, as well as in the ways they are able to reward high performers.

[Proportion of clinically trained managers](#)

The countries we surveyed vary widely in how they view the importance of a clinical degree for hospital managers. Swedish hospitals, for example, typically ensure that their leaders are clinically trained; 93 percent of hospital managers there having clinical degrees. In contrast,

only 58 percent of hospital managers in the United Kingdom and 64 percent of those in France have such degrees.

Because the proportion of managers with clinical degrees varies so widely among countries, we took special care when assessing the impact of a clinical background on management scores. In each country, we broke the hospitals into quartiles, depending on the proportion of clinically trained managers. We then assessed the management scores of each quartile separately and compared the results across countries. We found that the hospitals with the highest proportion of clinically trained managers generally had the highest management scores.

To further investigate the importance of clinically trained managers, we re-examined the results from our original 2006 survey

How the research was conducted

The Management Matters Research Project is an ongoing joint venture between McKinsey and Company and the Centre for Economic Performance at the London School of Economics, in collaboration with academics from Harvard and Stanford Universities. Beginning in 2001, the project team has investigated the association between corporate management practices and financial performance. To date, more than 6,000 manufacturing companies in 19 countries around the world have been evaluated. Our results prove that strong management practices can increase a company's productivity, return on capital employed, and market capitalization; they also contribute to above-average growth in sales and market share.

In 2006, we extended our initial research to include 104 public hospitals and 22 private hospitals in the

United Kingdom. This effort also demonstrated a link between management practices and a hospital's productivity and financial performance. In addition, it revealed a significant association between those practices and the clinical outcomes achieved, including infection rates, re-admission rates, and patient satisfaction.¹ However, the strength of our conclusions from this investigation was limited by the fact that the work had been done within a single country and in a health system that was almost entirely government-run. Thus, it was not clear to what extent our results could be generalized. Would they apply in countries with other types of health systems, such as Germany, France, and the United States?

We addressed this concern in our next wave of research, which was begun in 2009. Using the same survey methodology we employed in 2006, teams of researchers

¹For more details about the results of our survey of UK hospitals, see "Management matters" in volume 7 of *Health International*, 2007.

²More details about the general methodology can be found in Bloom N, Reenen JV. Why do management practices differ across firms and countries? *J Econ Perspect*. 2010;24:201-224.

of UK hospitals and compared them with our more recent findings. By doing so, we were able to assess the impact that an increase in the proportion of clinically trained managers could have. We found that the quartile of hospitals that added the fewest clinically trained managers had virtually no change in their management scores. In contrast, the hospitals that added a large number of clinically trained managers saw their scores rise sharply (Exhibit 4).

The link between clinical training and management scores may simply reflect the importance of that training to the care delivered in hospitals. Having a clinical background increases a manager's ability to understand the processes required for care delivery and the associated challenges. It also makes it easier for a manager to communicate with the clinical staff and have credibility with them.

Degree of manager autonomy

Are some hospitals well-managed because they are subject to exceptionally strict oversight? Or are their managers given the freedom and flexibility to make decisions independently? To investigate this issue, we broke the hospitals into quartiles based on their management scores. We then calculated their managers' responses to four questions: Did they have the autonomy to hire a full-time nurse permanently; to add more beds to a specialty ward; to authorize large capital expenditures; and/or to set their own budget and make strategic decisions?

The results were clear: in the hospitals with the lowest management scores, managers were much less likely than average to be able to act autonomously (Exhibit 5). But in the hospitals with the highest scores, the reverse was true: managers had a significant degree of independence.

conducted interviews at 1,194 hospitals in Canada, France, Germany, Italy, Sweden, the United Kingdom, and the United States. The size of our sample and range of countries were designed to ensure that our findings were applicable almost anywhere.

Wherever possible, the teams also collected publicly reported data on the hospitals' clinical and financial performance. However, a limitation of our survey is that some types of data were available in only some countries. For example, hospital mortality data was available in the United Kingdom and United States, but not elsewhere. We could track the uptake of clinical best practices in only three countries: Germany, Sweden, and the United States.

To ensure that the hospitals surveyed were comparable, we selected only facilities with both inpatient cardiology

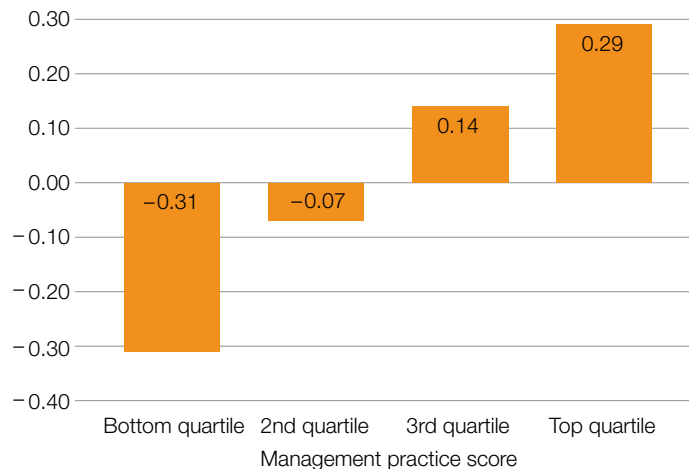
and orthopedic units. At each hospital, we interviewed department heads and/or unit managers (people senior enough to have a good perspective on how the hospital functioned overall but close enough to the frontline to understand how care was actually being delivered). Each respondent was asked questions about 20 different dimensions of management practice in four broad areas: operations management, performance monitoring, target setting, and talent management.

For each dimension, scores ranged from 1 (worst practice) to 5 (best practice). All the interviews were double-blind: the respondents were unaware of our scoring methods, and the interviewers were unaware of the hospital's performance.²

Exhibit 5

Managerial autonomy seems to correlate with management practices

Degree of managerial autonomy*



*Measured as the z-scored average of four questions (about autonomy to hire a full-time permanent nurse; add more beds to the specialty; make large capital expenditures without prior authorization from the CEO; and set own budget and make strategic investments); indexed from average numbers of percentages.

“Given that hospitals are by far the largest spend category in most health systems, any attempt to rein in health care spending must include improvements in hospital productivity.”

Previous research we conducted showed that autonomy is a powerful motivator for hospital managers. It outranked even many financial factors as a performance incentive.

Implications

Our results have important implications for hospital and health system executives who want to improve the clinical and financial performance of their facilities. Both groups should begin by taking steps to improve the management practices at their hospitals. In some cases, this effort may require investments in staff training and development, but large outlays should not be required. As we have shown, there is little correlation between hospital management practices and per-capita health care spending.

In addition, hospital and health system executives should encourage more clinicians to move into managerial positions, support the new managers by providing robust training and development, and then grant them greater autonomy. Clinical leaders who are appropriately trained and allowed to act independently can deliver high-quality, cost-effective care.

Furthermore, both groups of executives should think about whether they can use competition

more effectively. They should not permit competition to result in subscale service delivery. But fostering competition in some clinical areas could be a useful mechanism for encouraging better performance.

Finally, health system executives contemplating broader reforms should consider what steps they can take to encourage stronger hospital management practices. For example, can they make it easier to close subscale hospitals or convert those facilities to other purposes? Can they offer incentives to encourage mid-size hospitals to merge or grow and thereby achieve economies of scale? Can they increase the number of private hospitals? This last step may be a controversial move in countries that currently have few or no private providers, but competition with private providers could be an effective tool for improving performance in the system overall.



The burgeoning cost of health care remains a major challenge for all countries. Given that hospitals are by far the largest spend category in most health systems, any attempt to rein in health care spending must include improvements in hospital productivity. Good management practices can enable hospitals to increase care quality and improve their financial performance. Thus, they must be a core component of any attempt to control overall health care costs. ○

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