Leading the Health Care Revolution

A Reengineering Mandate

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99 98 97 96 5 4 3 2

Library of Congress Cataloging-in-Publication Data

Kissler, Gary D.
Leading the health care revolution : a reengineering mandate / Gary D. Kissler.
p. cm.
Includes bibliographical references and index.
ISBN 1-56793-036-0 (pbk. : alk. paper)
1. Health services administration—United States.
2. Reengineering (Management)—United States. 3. Health care reform—United States. I. Title.
RA395.A3K55 1996 362.1'068—dc20 95-36796 CIP

The paper used in this publication meets the minimum requirements of American National Standard for Information Sciences—Permanence of Paper for Printed Library Materials, ANSI Z39.48-1984. ♾™

Health Administration Press
A division of the Foundation of the
American College of Healthcare Executives
One North Franklin Street
Chicago, IL 60606
(312) 424-2800

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To my parents, who made me possible,
and to my wife, who demonstrates incredible
forbearance when I am not.

Preface

FEW INDUSTRIES have faced the kind of turmoil found in health care. Those involved often feel as though they have inadvertently stepped inside a "cosmic blender." Yet this turbulence offers a great opportunity for people with insights gained from other industries to team up with health care leaders to find creative ways to improve performance.

For several years I have been working with organizations facing the need for rapid and major change. It has been a rewarding, albeit trying, experience for all. Part of the frustration comes from not knowing what to do. Part comes from knowing what to do but not how to do it. And part comes from underestimating the level of commitment needed to do it. Such commitment takes two forms: organizational and personal.

Many organizations attempt to address the need for change without appreciating how high the "price of admission" will be. They are shocked to find how much time, effort, and resources change requires. On a more personal level, those leading the effort are often unprepared to take on their role. Either they are uncomfortable with the personal exposure, or they lack the courage to pursue change in the face of ambiguity and—of course—resistance from nearly every source imaginable.

Working in the health care industry has underscored for me the need to address these issues. Only the "awareness-impaired" could have missed the national call for a change in our health care system. Yet I continue to be amazed at how long it is taking for this call to be translated into action.

As part of an assignment in a major health care business, I helped identify, design, and develop an approach to reorganization

that would be sufficiently robust to help the organization move through the turbulence of reform. This required examining a number of management options to see which could match the needs of the organization. The only approach that seemed close was one that was being called "reengineering" in the management literature. Closely examining the reengineering literature allowed me to appreciate the strengths of the approach and the potential for adapting it to the needs of the health care industry. This book is the result of that multiyear effort, in addition to a reflection on my past experience.

THE AUDIENCE

From the start, I knew that reengineering would affect a broad base of people at several levels in health care organizations. Specifically, I needed to create a source of information that would be of use to the following:

- Board directors and senior executives
- Vice presidents, directors, and senior managers
- Hospital administrators and chiefs of operations
- Physician managers and directors of nursing
- Vice presidents and directors of product development, claims management, and provider networks
- TQM/CQI representatives and directors of quality assurance and utilization review
- Human resources and information systems professionals and management engineers
- Team members responsible for redesigning business and clinical processes.

These individuals, collectively, are the only ones capable of bringing about the changes required in the health care industry. For them, I have written this book with one purpose in mind: bringing radical change to the entire industry. By bringing health care reengineering to the attention of this group, I hope to do just that.

CHAPTER OVERVIEW

Mobilizing these groups to action is a tall order, because each of them has slightly different concerns when it comes to the redesign of health care delivery. To address this, I have chosen the following sequence for the book's chapters.

Chapter 1: Case for Action

This chapter describes the global forces affecting the "customers" of the health care industry and the specific challenges within the industry itself. It reviews issues pertaining to customers, hospitals, insurers, HMOs, pharmaceutical companies, suppliers, physicians, and nurses. The objective is to help the reader appreciate the scope of the challenge and to conclude that the magnitude of the challenge justifies health care reengineering.

Chapter 2: Reengineering Overview

To provide a base for building a health care reengineering effort, this chapter offers an introduction to key issues in reengineering. It includes definitions, principles, techniques, and models, as well as insights into what an executive team must do to set the stage for reengineering. The executive team must establish an organizational vision, develop a strategy to achieve it, and identify the key capabilities that make the organization stand out in the marketplace. Executive teams also identify and choose core processes and supporting business processes that need to be redesigned. Overall, then, the chapter helps build an understanding of what is—and is not—part of a reengineering effort.

Chapter 3: A Matter of Choice

The health care industry, like many others, has pursued various approaches to gaining improvements in performance. This chapter compares and contrasts reengineering with five alternatives: quality programs (TQM/CQI), sociotechnical systems, employee involvement, downsizing, and automation. The discussion illustrates that reengineering is preferable to other approaches because of its focus on business processes, its insistence on "creatively destroying" current processes, and its ambitious performance target of 100 percent improvement or better. The chapter helps explain the synergy between reengineering and quality programs, why *both* types of programs are essential, and how one connects to the other. It includes examples of achievements in the areas of cost, quality, and access by several health care organizations that have pursued reengineering efforts.

Chapter 4: Reengineering the Business through Process Redesign

There are two major parts of health care reengineering. First, one must learn how to "wrap" an organization around the effort—to

direct and sustain it, as well as implement its outcomes. This effort is referred to as *business reengineering*, and this chapter defines it, explains its objectives, and provides a model to guide the work required to achieve it.

The second part is the work done by teams of people who are asked to redesign the core processes within a health care organization. This chapter describes the work as *process reengineering* and offers a five-step model for guiding the team's work. It includes information on how the teams are formed and trained.

Chapter 5: In Search of Processes

A major stumbling block within reengineering is having to identify core processes and supporting business processes. Although the reengineering literature has shed some light on the issue in other industries, it has largely ignored health care. This chapter examines key capabilities, core processes, and business processes, with specific emphasis on those pertaining to health care organizations.

Redesign teams are expected to come up with creative options to meet the performance targets set by senior executives. This can be a very difficult task. To make it somewhat easier, this chapter offers a number of general redesign options that teams outside health care have used, and shows health care examples that fit within each of these options.

Chapter 6: Price of Admission

Far too many reengineering efforts have failed. The numbers in the management literature range from 25 to 70 percent. The reason for these debacles is not a mystery. This chapter offers examples of the commitment required from an organization that wants to pursue reengineering. It also presents examples of organizations that have failed, and explains why. Suggestions about how to avoid the potential pitfalls of reengineering are offered, along with a checklist to help organizations assess their "reengineering readiness." This chapter offers a candid view of the political commitment required to succeed at health care reengineering.

Chapter 7: Change Management

There have been some significant misinterpretations of reengineering, including the notion that it focuses on process redesign, and that nothing else is of much consequence. In fact, reengineering is a form of large-scale organization change. A health care organization

pursuing reengineering needs to embed change management principles within its effort. This chapter describes how this is done and offers specific examples of change management principles, showing where they fit within the business reengineering model. Insights are offered to help understand those who lead the effort, those who resist it, and others caught in the middle.

Chapter 8: Case Studies in Health Care Reengineering

To help convey a "real life" interpretation of health care reengineering, three case studies are included in this chapter. In each one a description of the organization and its "case for action" is provided to help explain why reengineering was chosen. Further description of the way these organizations set the stage for and applied this approach is offered. Some "lessons learned" are offered, and the kinds of performance gains that are being realized or anticipated in each case are described.

OTHER MATTERS

In my previous book, *The Change Riders*, I tried to provide guidance to managers caught up in the turbulence of change. Since then I have come to have an even greater appreciation of just how difficult this job is in the health care industry. Few other industries have found themselves in a more paradoxical situation. Health care has been buffered from calls for change for so long that its managers often lack the experience needed to manage the magnitude of change they face. They were on my mind as I wrote this book.

Confessions of a Mutant Cog

One of the more unpleasant revelations many of us discover is that we work inside machine bureaucracies that insist on being served before their customers. Those who have the temerity to point this out find themselves regarded as "mutant cogs" in what others consider as a well-tuned machine. When good people are pitted against a bad process, the process wins. I speak from considerable personal experience.

Reengineering offers significant promise, however, for those who have felt condemned to spend their lives staring at the underside of mediocrity. There has never been a more powerful approach to come along. I am hopeful that kindred "cogs" will join me in using it to create a better "fit" for ourselves by refocusing our organizations on market needs as opposed to internal ones.

Anyone who has tried to write about this kind of subject will tell you it is a daunting task. First, reengineering is a fairly abstract subject and therefore requires examples to help bring it to life. Second, one risks creating a "windy" and jargon-laden monologue that creates far too much distance between the author and the reader. I have carried forward the tradition started in my previous book—that is, I have chosen a conversational style because it is a conversation we should be having. So, be prepared for some personal commentary that will stray from the more typical role of "information conduit."

Acknowledgments

OVER THE past few years I have had the privilege of working with people who were committed to bringing reengineering to the health care industry. They come from different types of health care businesses and assume different levels of responsibility. Yet they share one common view: health care needs to undergo dramatic change.

Adapting the general concept of reengineering to the specific needs of an organization is a demanding challenge. A group I worked with was willing to engage in strong (and frequently contentious) debate, guided by deep, personal, intellectual investment and their own work experiences. Michael Broome, Midge Colombo, Carl Corsuti, Susan Devane, Joe Grantham, and John Nunn were the "heart" of a business transformation effort that set the stage for reengineering at Blue Cross Blue Shield of Florida. Others who helped shape the direction of the work and provided me with periodic "reality checks" were Helen Applegate, Vicki Bankhead, and Linda Dedmon.

At a recent meeting of health care consultants, someone offered the view that most hospitals don't feel the need for something as demanding as reengineering. If so, those who step forward to pursue reengineering deserve even more credit than I can offer here.

David Hitt, CEO of Methodist Medical Center, and Michael O'Keefe, CEO, and Jeff Macfarland, COO, of Irving Healthcare System exemplify the kind of leadership required to introduce and support a reengineering effort. Their organizations are also fortunate to have people who fill reengineering roles from "czars" to "champions" to being the "yeast" within their overall efforts. Among them, I am deeply indebted to Mike Phelan, Marie Kellum,

Sharon Peters, Neda MacLean, and Jeff Swain, who shared their knowledge and experiences with me and helped me gain a deeper understanding of the variations in process change that they have made successful. It would be hard to overstate the dedication and talent of this group of health care professionals.

Andrea Goldberg has been extremely generous in offering me her advice and support. Her professional life has been spent in health care and she offered examples to underscore the need for—as well as the resistance to—significant change in this industry. My understanding of many of the issues within hospitals and HMOs was increased significantly because of her input.

The bibliography for this book is mute testimony to the intellectual contribution made by researchers and practitioners. It is humbling to find that no matter how hard one works to understand the health care industry, there is so much more to learn. To continue to do so, I have drawn from their work and sincerely appreciate their willingness to enhance our literature.

I continue to be supported by an array of friends who never pass up an opportunity to point out my excesses and help temper any fantasies I may entertain about being talented. Bill Flock, Warren Wilhelm, Barry Fader, Mel Okamoto, and Curtis Dreese are quite good at this, and they know it.

In my previous book, *The Change Riders*, I offered a somewhat unconventional tip of the hat to truly marginal managers who had helped provide countless examples of how not to manage. Here I would like to acknowledge the benefits gained from having been subjected to so many "dumb" business processes. I suspect there is a causal arrow between the two. In any event, such experience, coupled with knowledge of reengineering, means I will never look at business processes in the same way again.

Finally, there is Jan. After a quarter of a century of finding that I am frequently wrong and seldom in doubt, she is quite willing to engage me in debate. She knows it is like wrestling with a pig in the mud. Sooner or later you come to realize the pig enjoys it. And how!

Contents

CHAPTER 1

A Case for Action

We don't have customers, only patients.

A hospital executive

WHAT OFTEN passes for arrogance in the health care industry is really more a reflection of historical protection from change. Although it is often held up as unique, health care does have parallels in other industries, like funeral services and higher education. In these service industries, the "customer" has been regarded as relatively powerless in negotiating. Further, because the services they provide are viewed as a societal benefit, they have received greater legislative support than other industries. Wracked by allegations of fraud and coercion, the funeral industry was forced to alter its business practices. The "baby bust" has forced universities to compete for students and remove excess costs, including professors. The health care industry is next in line.

The change facing the health care industry is deceptive. The reason is that it is often broken into little "bits" (such as changing a pay system, organizational structure, or recruiting criteria)—each of which becomes a target for minimal change. The small skirmishes that are won often mask the larger issue: the interdependencies among these bits sum to an overall inefficiency of the system. We have seen many efforts made over the years to address the bits, and it is understandable that people tend to gravitate to such challenges. They are small, demand less intellectual commitment, and can be overcome with minimal resources. They do not involve major political battles, and they produce tangible (albeit meager) results to demonstrate that *something* has been done.

Again, this is not unique—other industries have taken similar approaches and achieved similar modest results. It was only when each was confronted with (and accepted the need for) a greater magnitude of change that they took more aggressive efforts. Since it is becoming clear that legislative reform will not create a similar force for change in the health care industry in the short term, what will? The following elements are likely candidates:

- Global capitation will result in over 200,000 excess specialists.
- Fifty percent of U.S. hospitals will close within five years.
- The uninsured population will increase to 45 million by the year 2000.
- Cost shifting will result in unacceptably high rates for insurance.

To achieve a dramatic change requires an approach designed specifically to do so. Health care reengineering is the approach of choice, given the circumstances facing the health care industry.

THE GLOBAL CASE

The world faces dramatic forces of change that the health care industry cannot ignore.[1] Although people argue that the health care industry is a local business and, therefore, need not be concerned with global issues, their perspective is implicitly one of "the enemy of a friend," or "a friend's enemy is mine." On the contrary, the global forces have a real impact on health care customers and their relationship to the industry.

Refocus on Process Technology

Over the years, we have seen greater emphasis on business outcomes than on their underlying processes. Until a few years ago, "process" was regarded as a typically American concern. But there is a growing worldwide awareness that the ability to modify business outcomes is severely limited unless one is capable of understanding process technology and using this knowledge to change it. The dramatic increase in global competition has escalated the need for radical improvements in business products and services. From an individual, industry, or national perspective, the challenge is to master process technology. As we will see, reengineering acknowledges this challenge and offers guidance on how to master it.