Transforming the Way Hospitals Are Managed:

Bringing Best-in-Class Management Practices To Health Care

Introduction

The health care industry is in a dynamic state of change. Health care organizations are under extreme pressure to improve current performance while moving progressively forward in a new age of medicine. No other service industry faces greater pressures in regulation, safety, and technology—all while battling deteriorating margins in the delivery of arguably the most personal of human events—the process of healing. To survive and thrive despite this convergence of challenges that some have dubbed a "perfect storm," healthcare leaders are realizing they need to adopt new management models and develop strong organizational competencies. This search for excellence is leading many to look beyond healthcare for guidance and best practices from other industries.

In overcoming similar challenges and delivering solid performance across multiple industries, General Electric has developed its own unique set of winning strategies for success. GE's leaders realized that well-run organizations consistently achieve results by virtue of discipline, rigor, and strong management systems. And the results speak for themselves—GE was recently named the 2005 Fortune's "Most Admired Company" for the seventh year in a row.

In working with over 2500 providers worldwide, GE's Performance Solutions team has helped providers adapt its proven management and leadership practices to the healthcare environment. For most, the solution is not an easy one—it involves widespread cultural change, leadership buy-in, and willingness to consider a different model. But for health care leaders ready to act on the challenge, GE's Management and Leadership System is a useful framework upon which to build.

A Century Moment in Health Care

The secret is out—health care is at a vital turning point. The dynamics are pervasive, starting with the U.S. demographic shift. In this decade, the net population growth for those over the age of 55 will create an enormous bubble. The following charts illustrate this dramatic change in population from 1950 to projections for the year 2010.
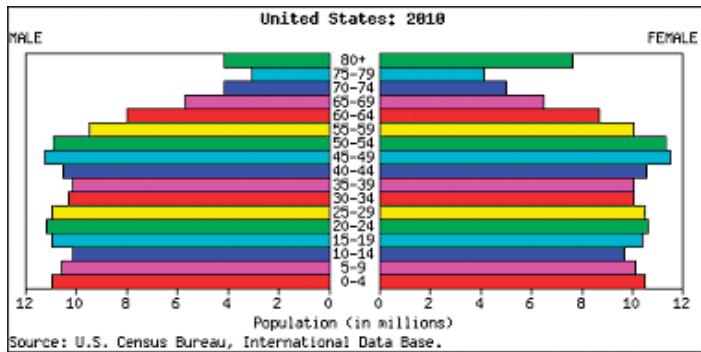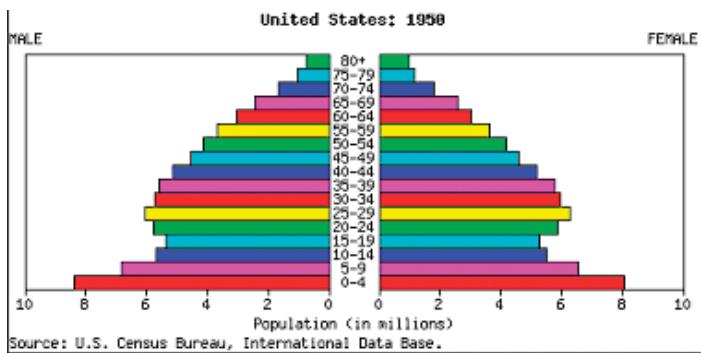
And since the average income will not grow as quickly as the average increase in premiums, researchers expect the uninsured population to grow as well, and by 2013 as many as 55 million people will be uninsured (ACHE-News, May 17 2005). According to the U.S. Census, those over the age of 50 currently control 41% of all discretionary income. The increased buying power and higher expectations of the baby boomer generation will combine to drive the direction of patient care and other service industries. Health

care organizations, bracing for the unmet needs in capacity and staffing, are struggling to meet the increased demand by investing in new facilities at an unprecedented rate.

To meet the growing needs of this generation, health care construction is booming. In a 2004 Healthcare Financial Management Association study, 23% of CFOs surveyed planned new hospitals in the next five years, but were struggling to keep up with basic capital needs. And in an effort to improve efficiencies and quality, the industry is increasingly moving toward digitization with 61% of the CFOs responding that their organization faces major IT or information systems investment in coming years. The pace of technology innovation is at an all time high, enabling earlier diagnosis, fewer invasive interventions, and more personalized health care—but at a cost.

On one hand, this is a very exciting time—health care is embarking on a whole new generation of medicine. On the other hand, this new generation struggles while the storm worsens. Reimbursement pressures continue to intensify as yesterday's payment system becomes less equipped to insure tomorrow's healthcare. Payer pressures are forcing leaders to turn their organization's focus inward, measuring quality of care and patient safety initiatives, bringing a new transparency to previously close-held metrics. And, in an effort to improve, stabilize or rescue their finances, providers are taking more actions to reduce costs and streamline operations—sometimes even resulting in personnel cuts at a time when the best employees are at a high premium.

This new age demands that leaders embrace new thinking and new models; particularly in the way we lead and manage hospitals. At the very least, leaders must consider successful benchmarks for quality, service, efficiency, and management. But in the midst of the perfect storm, who has time to build a new ship? Leaders are busy balancing mission and margin, capitalizing on seminal opportunities for development and growth, and keeping the ship afloat. Indeed, the new generation of health care leaders will either design and deliver a truly revolutionary "architecture of care"—or be left behind by those who will.

These changes will require bold actions. As in other industries, taking bold actions requires strong, innovative, leaders "with a paradoxical blend of personal humility and professional will"—leaders who want to move from "good-to-great" (Collins, 13). These leaders choose to take on the tough issues and opportunities in a highly disciplined, systematic, inspiring way. The innovative heath care leader will seek to mold the "DNA" of his or her organization into that of a performance culture, demonstrating greater discipline, nimbleness and accountability on the road to achieving the organization's success. In turn, the new leader will "raise the bar" on performance, especially amongst future generations of management.

A Practical Approach to Building a Performance Culture in Health Care

For most health care systems, the way forward is daunting—but manageable. It starts with developing rigorous Management and Leadership Systems. At the risk of using terribly over-used terms with a naive understanding, let's define the scope of the two for the purpose of this paper, as pictured in *figure 1*.

Management Systems, within the walls of GE, refers to the structure and process in which the business operates. This encompasses all the activities that set, drive, and monitor the strategic focus of the business. Based on a very clear set of
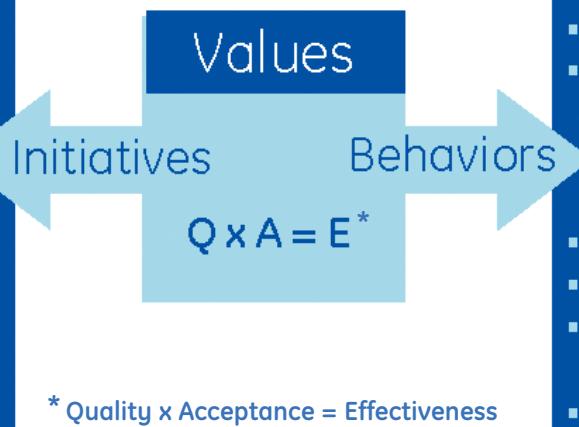
Figure 1.

values shared by the organization, leaders at GE help drive short term (one year) and longer-term (three to five years) strategy through a variety of tools within the Operating Calendar. These activities are no secret—Jeff Immelt, Jack Welch, and a host of other GE leaders talk about them freely to investors on a regular basis: e.g., the annual kickoff meeting in Boca Raton, Florida each January, the quarterly Corporate Executive Council at GE's leadership laboratory, Crotonville, and World Wide Product Planning sessions held in each business unit annually. All these activities are critical—but also completely ineffective without the Leadership System activities to support them.

The *GE Leadership System* describes the activities and processes GE leaders use to inspire, energize and lead our people in alignment with organizational initiatives integral to the company's strategy. These initiatives then flow down into the individual's goals and objectives. During the succession planning and

performance management processes, GE's meritocracy is reinforced. Past year successes are highlighted and presented in a leadership review session, transparently outlining what it takes to be rated as "top talent." By connecting the goals and objectives of the individual employee to the overall business initiatives, the GE Leadership System enables organizational success.

> *"At GE leaders are focused on doing two things: developing other leaders, and driving change."*
>
> **Jeff Immelt**
> **September, 2001**

The GE Leadership System thrives on change. But as in any organization, with change comes the inevitable—resistance to change. To overcome this inevitable barrier, GE uses the phrase "Q x A = E" which describes the change management portion of GE's toolkit. Without it, the GE Leadership and

Management Systems are linked only tangentially. Successful leaders at GE are skilled change agents, equipped with a toolkit of longstanding GE practices, ingrained in the GE culture. In an interview shortly after taking the position as Chairman and CEO of GE, Jeff Immelt once said "At GE leaders are focused on doing two things: developing other leaders, and driving change." Equipped with the GE change management toolkit, Change Acceleration Process (CAP), leaders can focus on steering the ship, instead of paddling.

Leadership and Management Systems Strategies for Change: A Practical Approach
So how do leaders create an environment that delivers sustainable results? Since not everyone wants or needs to be GE—they need a practical approach to achieve excellence—however they define it. Many define "excellence" as simply meeting their margin to deliver their mission—but semantics aside, no matter the definition; the challenge is in the approach. After much work, some health systems find applying piecemeal band-aid solutions aimed at process improvement and cost management not enough. After all,

issues run deep and wide, involving people and behaviors long ingrained in the organizational culture. Industry leaders in healthcare are instead looking for a holistic approach, addressing management and leadership systems to create an environment of excellence and sustain long-term results. These sustainable results are the product of a performance culture, characterized by managers who intensely focus on executing the organization's strategic objectives with rigor.

As in any business, organizational design varies greatly depending upon the unique circumstances of the business unit. But one thing remains consistent across GE business units: people and the initiatives they support are aligned, and managers, who are held to the same standards, hold their employees directly accountable for achieving results. We call this a *performance culture*.

Performance cultures are not built overnight— especially in the health care environment. Balancing the seemingly competing goals of mission and margin can be perilous, if not simply frustrating. The GE three-pronged strategy (*figure 2*)
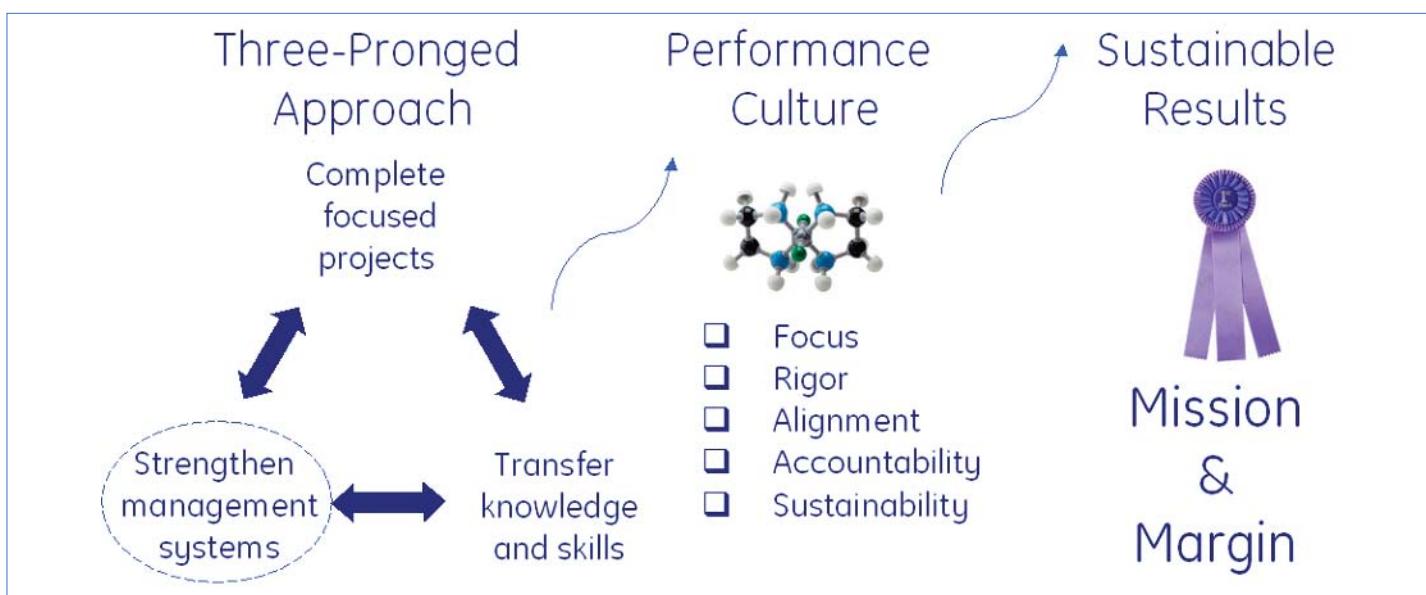

Figure 2. The GE three-pronged strategy

seeks early success through projects that immediately impact performance, putting the health system in a position to subsequently build internal capability to deliver benefits on an ongoing basis. Leaders institutionalize and sustain the momentum by strengthening the health system's management and leadership systems.

Delivering immediate results. Innovative thinking and strong vision for change describe traits of the best healthcare leaders today. Many are responding to the storm of change with broad initiatives to drive their vision. Ask those who've failed: What's the fastest way of letting this positive momentum die on the mountain of good intentions? Answer: Don't deliver measurable benefits early in the project. Often, these are financial benefits. But, they may also take the form of improvements in quality, safety, patient, physician and/or employee satisfaction.

> *Ask those who've failed: What's the fastest way to let positive momentum die on the mountain of good intentions?*
>
> *Answer: Don't deliver measurable benefits early in the project.*

Reality rules. Due in part to health care's financial woes, most Boards of Directors and CFOs have little patience for long-term solutions. The health and vitality of any major initiative depends on its ability to deliver positive results in a short period of time. Leaders who deliver immediate results build credibility, allowing themselves new "degrees of freedom" required to invest time and resources into building the performance culture.

From GE Healthcare's experience with their clients, the emergency department, surgery, cardiovascular, radiology, revenue cycle, and

> **Leaders who get immediate results do so by taking four important steps:**
> - *Choose a common performance improvement and change management methodology,* enabling the team to pursue complex projects and make lasting change.
> - *Identify, quantify and prioritize opportunities for tangible financial return* – cost reduction, clinical improvement or growth.
> - *Implement targeted performance improvement programs,* with specific financial goals.
> - *Manage change, risk and expediency* to get a positive ROI by enlisting qualified experts and consultants where required.

lab often provide fertile ground for clinical and operational improvement, sometimes improving operating margin by as much as 5 to 10 points. By closely examining process variation and focusing on eliminating non-value-added rework, organizations that realize even a fraction of these benefits can free up new resources to invest in their management and leadership systems.

Build internal capability to solve problems and drive change. With targeted performance improvement programs delivering real financial benefits, the health care system is in a solid position to build for the longer term by cultivating internal talent and capabilities to deliver expanded benefits on an ongoing basis.

Leaders who build winning teams do so by surrounding themselves with a staff of other leaders who energize others with their ability to solve problems and drive clinical and operational improvements. Equipped with tools like Lean, Six Sigma, and Change Acceleration Process (CAP)

illustrated in *figure 3* and Work-Out™, leading performance improvement becomes infectious.

Building a staff's problem-solving capabilities, changing the organizational culture, all while expediently delivering results for the health system requires intense effort and deep leadership commitment. It must start at the top—with core managers becoming proficient in Six Sigma, Lean, CAP and Work-Out™, and later spreading to a broader base of employees. Anything less than full organizational engagement compromises the vision and can stall the initiative. Even the most committed health care organizations often lack the skills and resources to build these capabilities on their own. Many benefit from engaging the assistance of an outside firm to help successfully launch the program.

Redesign management and leadership systems. The role of executive leadership is to create a blueprint for the organization around strategy, budget and talent. But, notwithstanding the competence of the leader or quality of the blueprint, even the best intentions fail when the health system lacks the fundamental management and leadership systems processes to drive accountability and sustainability throughout the organization. As a result, many successful performance improvement programs do not receive the continued vitality and direction they need to thrive.

For example, many health systems write a clear mission statement, only to struggle with connecting it to sustained initiatives employees can support. Systems create lofty strategic plans, which are disconnected from budgeting and
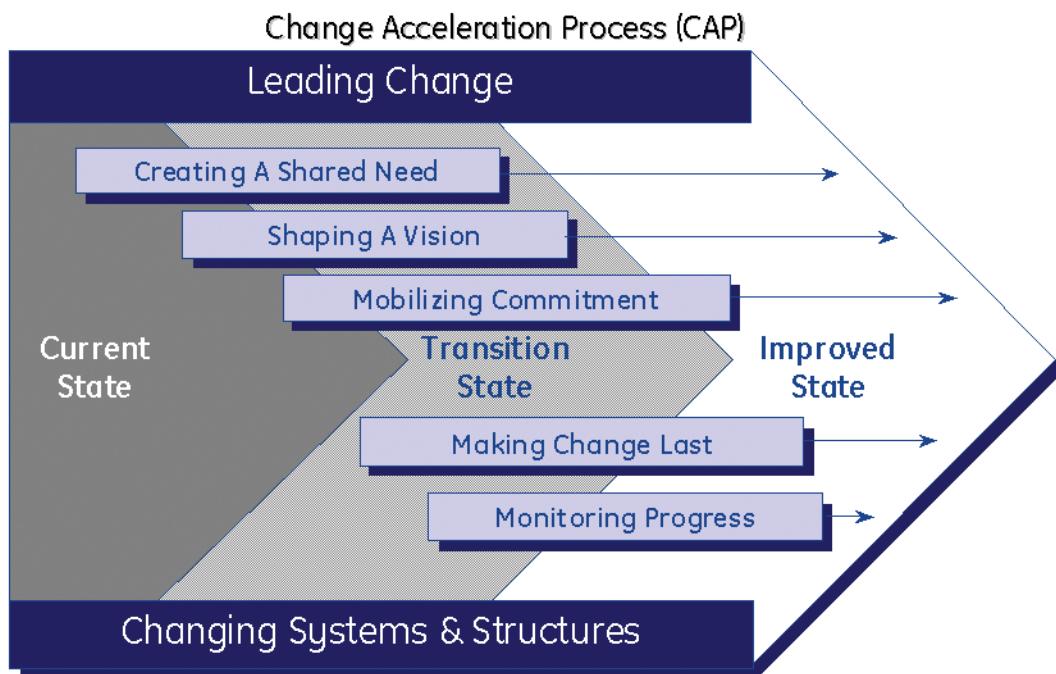

Figure 3. The GE CAP model

operating plans, making them more academic than actionable. As well, many systems are usually less than satisfied with their employee evaluation and leadership development programs. Others simply lack rigorous operating mechanisms to manage employees well and make the necessary personnel changes for the good of their business.

Redesigning management and leadership systems requires the following actions:

- Implement a consistent operating calendar that brings rhythm and rigor to the organization's annual management cycle. These operating mechanisms drive focus and alignment in the organization.

- Identify and develop top talent, and implement strategic organization and recurring succession planning.

- Do strategic planning that links "year one" directly to budgeting a fiscal year operating plan.

- Implement leadership practices that ensure managers continually challenge the "status quo" for performance expectations, create an objective performance evaluation process, align incentives, and hold people accountable.

- Implement the operating plan through funded programs that have defined ROI and clear metrics.

Fundamentally—the CEO has the responsibility to develop, implement and enhance the management and leadership systems they use to run their enterprise. Such a daunting task sometimes appears in the CEO's performance improvement initiatives—or in investment in training internal staff to tackle quality problems. These are valiant efforts and worthwhile activities. However, implicitly or explicitly, changing the management system must start with evaluating the organization: How
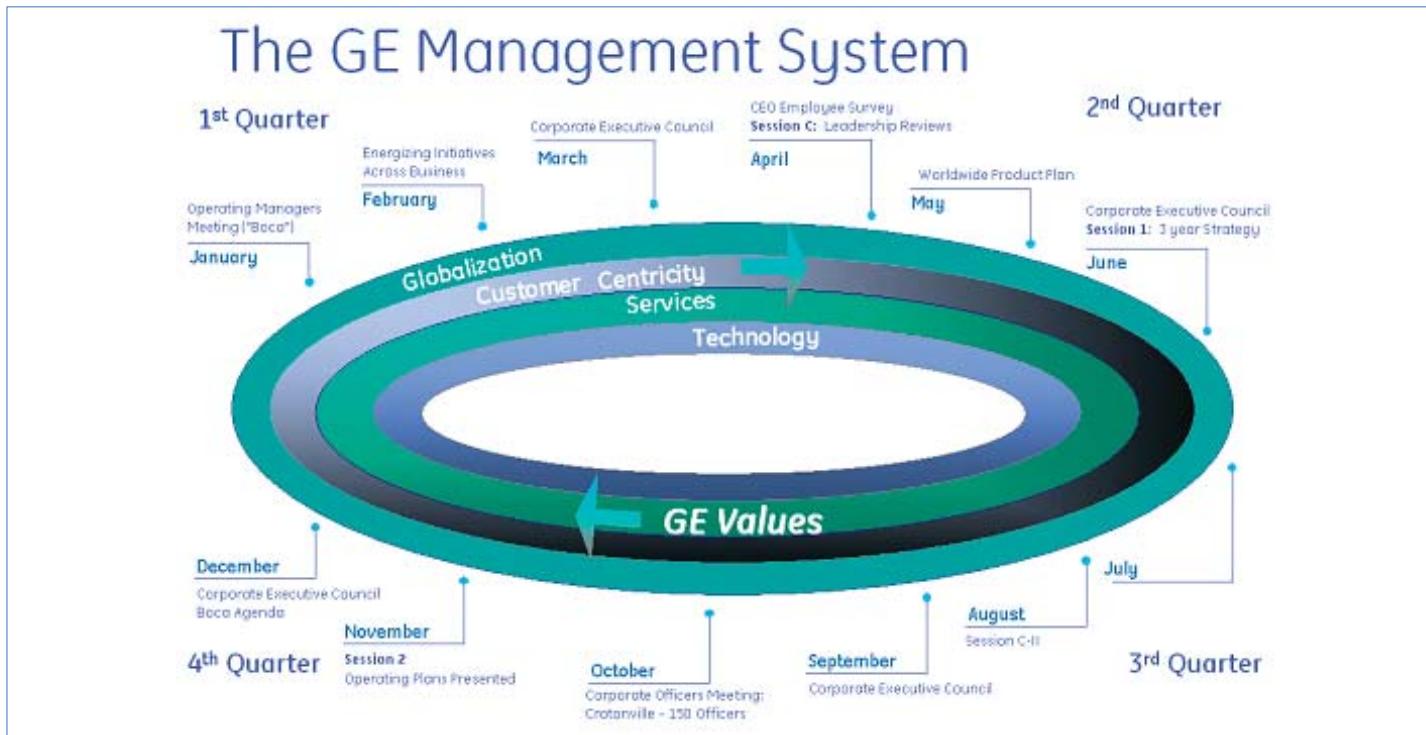

Figure 4. The GE Management System

capable are leaders to drive change and realize a new vision? Recognizing this seminal step for an organization, the wise CEO chooses the right time and context to address it, and begins by building a strong management system.

Building a Strong Management System
The Management System is foundational to operating the health care enterprise with rhythm and rigor. GE's Management System provides a proven model. As illustrated in *figure 4*, the GE Management System is made up of three primary components: Values, Initiatives, and the Operating Calendar.

A strong management system not only brings discipline and rigor to executive leadership and processes, but also serves to help new leaders more quickly and effectively transition to leadership and build business acumen. Ultimately, this helps leaders spend more time with customer and employees.

Values animate behavior. They articulate the culture and character of the organization and set a common standard for how all employees should operate as they accomplish their goals and responsibilities. Values must be defined clearly in terms that link behaviors directly to the desired results of the enterprise. Most health care organizations have stated values; many, however, are seeking to recast and refine these to align more directly with the performance goals of the organization and make them actionable.

Initiatives are what the organization must focus on to accomplish its mission or vision. The entire "weight" of the organization is focused around the initiatives. They are often "big bets" or what differentiates the organization, and embody the imperatives of the organization that would not

happen naturally or without focus. The initiatives must be strong and pervasive, and channel the full energy of the organization to meet its goals and strategy. Organizations often launch their initiatives through an annual leadership "kick off" and drive them through the organization. Good initiatives stand the test of time.

The **Operating Calendar** is a series of executive-driven sessions designed to plan and execute around key business processes, including people, strategy and operations. This cycle of key management events occurs at the same time every year and includes annual and quarterly planning and review processes that create a predictable rhythm and flow in the organization.

The CEO owns the Operating Calendar. It is rigorous and disciplined. Organizations consistently using operating calendar discipline can anticipate their key events, and execute predictably based upon the requirements of each. The Operating Calendar also provides the organization with the ability to be agile and responsive to a changing environment. A good operating calendar also strongly links the key events to one another.

The business leaders own the content for key events on the Operating Calendar, while the functions (finance, HR, strategic planning and business development) shepherd the processes. Timing, process and templates for each event on the Operating Calendar are clear and known in advance, enabling leaders to focus on bringing their operational, customer, and market expertise without having to design the process itself.

Clear metrics and operating mechanisms are also critical to building a strong management system. Appropriate metrics measure the key processes, and regular meetings, called *operating mechanisms,*

drive regular reviews in the organization to focus on achieving results on those key metrics.

In the end, the organization's management system helps raise the bar for driving performance. Since people are the performers, however, taking steps to implement disciplined management systems takes strong leadership. Creating a performance culture to raise the bar on performance, especially among management, requires highly skilled leaders. Organizations with effective management systems have key processes which identify and develop these leaders. By the industry's own admission, leadership development is not a strong competency in health care.

The Health Care Leadership Challenge
A survey by the Health Management Academy in 2001 compared healthcare leaders' opinions about leadership with those of executives in Fortune 500 companies. All agreed that having strong leaders is one of the keys to the success of their organizations. But while 73% of Fortune 500 executives were satisfied with their pool of high-potential leaders, only 41% of healthcare executives were similarly satisfied. The results were the same when executives evaluated the strength of the current leadership development programs in their organizations.

A GE survey at the Institute for Healthcare Improvement's annual forum revealed that, while 60% of healthcare executives rated "developing leaders" as extremely important, 87% admitted their own organizations were only somewhat effective or not at all effective in that effort (see *figure 5*). Three-fourths of the group said their organizations handle succession planning only somewhat well or not well at all. And, while the majority felt their organizations had a reliable

performance management system in place, only 22% said that their systems were strongly linked to organizational goals and objectives.

Not only do most health care organizations lack effective leadership development programs, many express equal concern over their performance evaluation systems. In a study conducted by the Health Care Advisory Board, 71% of health care leaders said they lack effective tools to evaluate leaders, while 84% indicated that hospitals do a fair to poor job in holding leaders accountable.

Looking forward, the outlook for recruiting and developing qualified leaders in health care is equally soft. Responding to a survey conducted in 2003 by executive firm Witt/Kieffer, over 50% of the 180 healthcare CEOs polled indicated they believe their profession actually "drives away" potential future leaders from the industry. Another Advisory Board study predicts that the future healthcare leader pool will drop 15% over the next few years.

As a result, more health care systems are elevating the importance of leadership and embarking on efforts to build strong leaders. In so doing, many are looking to industry for models of leadership effectiveness that can help them overcome these challenges and implement the required changes.

Building a Strong Leadership System
What makes a good leader, and how does an organization cultivate good leadership? Leaders are not born—they are made. Healthy organizations have an effective Leadership System for identifying, developing and rewarding leaders. The Leadership System is an important complement to the Management System.

Within your own organization, how would you rate the importance of developing leaders?
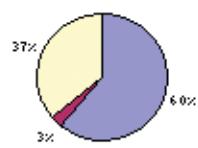
- Extremely Important
- Not at All Important
- Somewhat Important

37%, 60%, 3%

Based on the current system, how effective is your organization at identifying and developing healthcare leaders?

- Extremely Effective
- Not at All Effective
- Somewhat Effective

13%, 15%, 72%

The above illustrates an interesting dichotomy: while 60% rate developing leaders as extremely important, a full 87% admit their own organizations are either only somewhat effective or not effective at all in identifying and developing healthcare leaders.

Has your organization developed a set of short-term and long-term strategies for succession planning?
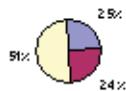
- Extremely Well
- Not at All Well
- Somewhat Well

25%, 24%, 51%

Does your organization have a reliable system in place for performance measurement?

- Not at all
- Somewhat
- To a Great Extent

6%, 47%, 47%
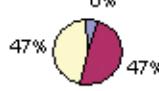
Three-fourths indicated their organizations handled succession planning only somewhat well or not well at all. On the other hand, most felt their organizations did have a reliable system for performance measurement, with only 6% indicating no system at all in place.

Has that system been clearly linked to the achievement of organizational goals and objectives?

- Not at all
- Somewhat
- To a Great Extent

22%, 29%, 49%
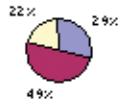
Are your leadership and management initiatives updated regularly to meet changing needs?

- Not at all
- Somewhat
- To a Great Extent

21%, 25%, 54%
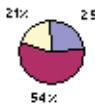
Though most have a performance measurement system, only 22% felt it was linked to a great extent with organizational goals and objectives. And only 21% indicated the highest level of confidence that their leadership and management initiatives were regularly updated..

Figure 5.

As illustrated in *figure 6*, the GE Leadership System focuses on four main activities: identifying and developing talent, ensuring talent understands expectations, and finally, driving and rewarding good performance. At the core of the system is a progressive leadership review process, Session C, which is among the most important activities at GE.

Identify talent. Success profiles, which clearly define values and leadership competencies, help create a screen for leader candidates. For example, some technical performers may not be the right fit for leadership roles. With clear screening criteria in place, leaders can be interviewed and screened regularly to "feed the pipeline."

Figure 6.

Embedding clear **expectations** allows leaders at GE to focus and prioritize activities, narrowing attention to the "vital few" and turning broad organizational goals into individual accountabilities. However, this is not a one-way street. It is a collaborative process allowing leaders to meet with their direct reports, and mutually develop goals and objectives. Collaboration

> *"The executives who ignited the transformations from good to great did not first figure out where to drive the bus and then get people to take it there. No, they first got the right people on the bus (and the wrong people off the bus) and then figured out where to drive it."*
>
> **Jim Collins,**
> *Good to Great*

facilitates ownership and accountability for the results. Leaders, in turn, enjoy clear line-of-sight to how their work fits into the bigger picture. This approach to developing and driving expectations flows down to all levels of the organization.

In order to effectively **drive performance**, leaders hold an ongoing quarterly dialogue with employees about their goals and objectives. These conversations are candid and direct. Each is asked to assess his or her own performance, while the views of manager, dotted line manager, peers, and direct reports are also considered. Leaders measure employees on whether they've achieved results, and what values they've displayed along the way. The system ensures the employee respects the importance of both results and values. Further, leaders are asked to rank their

employees to differentiate performance, a key activity used to reinforce the performance culture. This forces managers to identify, prepare and communicate specific feedback messages to employees based upon their rating. It also creates transparency around the employee's strengths and development needs,.

When it comes to **developing and rewarding** leaders, managers work closely with their employees to proactively create a career path based on the employee's individual goals. The employee is the primary driver of his or her own development, but the manager has the responsibility to provide honest and open feedback about what "gaps" in skills or behaviors the employee must develop to move to the next level. Through candid, honest communication with the manager, there are no surprises. A successful employee develops the self-awareness and willingness to invest the effort in their own growth. In the end, rewards and salary increases are tied to results, differentiating exceptional performers from highly valued contributors.

At the center of the leadership system stands the **leadership review process, or Session C.** This connects the business and people strategy. It enables the organization to define the necessary knowledge and skills, and identify what will be required to develop and/or bring this expertise into the organization. A good leadership review

> "To get candor, you reward it, praise it, and talk about it. Most of all, you yourself demonstrate it in an exuberant and even exaggerated way."
>
> **Jack Welch**
> *(excerpt from "Winning")*

process also enables the organization to assess leadership potential, and continually refine the definition of good leadership. It breaks down silos by evaluating people and talent across the organization and not simply within departments or functions. The Session C process highlights the importance of people, and is an essential companion to the operating plan.

Execution Is the Difference
The concepts presented thus far are simple and, hopefully, sensible. But GE has achieved success not from having designed the GE Management and Leadership Systems, but from having successfully implemented them—consistently and repeatedly, year over year. Suffice it to say, "it's all about execution."

Successful Execution – Lessons Learned:
- Bring sufficient discipline and rigor to each management or leadership process, and give it the level of energy and attention needed to avoid becoming the "flavor of the month".

- Have candid and meaningful dialogue within each process, event or milestone—instead of simply filling out templates and forms.

- Ensure the management and leadership practices are properly linked to each other, and that all critical efforts of the organization are appropriately channeled to encourage focus and avoid diffuse efforts.

- Make decisions in a timely and clear manner, involving the important stakeholders, yet setting clear direction "from the top" when needed.

Astute health care leaders begin by making an honest and informed assessment of their organization's ability to execute, and then

cultivating the skills and actions required to be successful. The role of the CEO is to define and drive the culture of the organization—to "steer the ship." Navigation requires insight, vision, focus, and passion—and cannot be delegated.

> *"You really want the operating plan to be owned by everybody. The more people you get involved in the plan, either through contingency plans or projects that have to be undertaken in the coming year—the more people who are aware of the expectations for them—the more you achieve."*
>
> **Larry Bossidy**
> *(excerpt from "Execution")*

Summary

Within the health care environment, mission (delivery of care) and margin (financial results) are largely accomplished through people—physicians, nurses and staff. Leaders provide direction, resources and support. Creating a performance culture that drives both mission and margin requires a long-term, strategic commitment. Tangible progress can be achieved through a three-pronged approach:

- First things first—deliver immediate results
- Build internal capability to solve problems and drive change
- Redesign management and leadership systems to ensure sustainability and accountability

Borrowing best practices from both within and beyond the realm of health care is key to making progress. GE's proven management tools and competencies provide a useful and adaptable model for the progressive health care organization seeking to bring best-in-class management principles to healthcare.

References and Suggested Reading

1. Bossidy, L., & Charan, R. (2002). Execution: the discipline of getting things done. Crown Business.

2. Calhoun, J. (2004). Competency identification and modeling in healthcare leadership. The Journal of Health Administration Education

3. Collins, J. (2001). Good to great. Harper Collins.

4. GE Healthcare. (2003) Leadership in Healthcare

5. Kotter, J. P. (1995). Leading change: why transformation efforts fail. Harvard Business Review

6. Welch, J., & Welch, S. (2005). Winning. Harper Collins.

7. Witt/Kieffer (2002). Preparing future leaders in health care—a confidential witt/kieffer survey.

For more than 100 years, scientists and industry
leaders have relied on General Electric for
technology, services and productivity solutions.
So no matter what challenges your healthcare
system faces—you can always count on GE to help
deliver the highest quality services and support.
For details, please contact your GE Healthcare
representative today.

GE Healthcare
3000 N. Grandview Blvd.
Waukesha, WI 53188-1696
USA

www.gehealthcare.com

imagination at work