

# The Modern Health Care and Business Environment

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## Objective

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- Why are new managerial approaches needed?

For more than twenty years, the health care systems of most western countries have been faced with the challenge of dealing with massive increases in health care costs in real terms and as a percentage of their gross national products. As a result, they have been obliged to cut expenses in other sectors to provide their people with a reasonable health care system. Classical breakdowns of health care system costs can be shown in either the supply part or the demand part.

During the past two decades, the business environment in many sectors has been characterized by rapid changes. The main revolution has been the transition from a “sellers’ market” to a “buyers’ market.” The *sellers’ market*, which was common in the past, refers to a somewhat monopolistic business environment where the supplier or service provider dictates the dimensions of a venture:

- Price: usually determined by a “cost-plus” approach where the customer is charged the full costs of the services rendered plus a “reasonable profit”

- Response time: “We are doing our best, and we are really trying”
- Quality: “We are doing the best we can under the circumstances”
- Performance: “We know better than the customers what they need. We are the professionals”

### **From a Sellers’ Market to a Buyers’ Market**

Today’s business environment is that of a buyers’ market. This trend is the result of international revolutions and macroeconomic, technological, political, and social changes. This environment is characterized by

- Globalization of the world economy
- Fierce competition among organizations within and across countries
- Global excess capacities in production, services, and in some areas of development
- Use of new managerial approaches
- Availability and accessibility of data and knowledge
- Cheap and rapid communication
- Timely availability of materials and services
- Ease of global travel and conveyance
- Adoption of advanced technologies for production and development
- Extensive use of advanced computers and information systems

- Extensive use of communications and information technology
- Shortened life cycles of products and services
- Democratization and customer empowerment

### **Globalization: The Small Global Village**

The world is gradually becoming a *world without borders*. In most world regions, particularly in the western countries, one can travel freely without the need for entry visas. Similarly, customs and tariffs on goods transferred across borders have been reduced or totally eliminated. Travel between countries is easy, fast, and cheap, whether it be people, merchandise, or materials.

In the past decade, we have witnessed a trend in the formation of *multinational firms*. Successful companies acquire partial or full ownership of firms in other countries, thus obtaining the advantage of access to additional markets and diversification of the product line of the parent company. Firms engage in international cooperation with foreign firms, resulting in mutual benefits. The world has excess capacity in production and services, and it is essential to find additional market channels and better congruence with customers of the various world markets.

*Communication has become global.* If we examine television programs, radio broadcasts, and the written media, it seems that many of the programs and their information are transportable “as is” to other parts of the world. People in remote areas watch, for better or worse, the same TV programs, laugh at the same jokes, and are exposed to messages of democracy and an open world.

The globalization trend is not coincidental. It is strongly affected by the end of global wars and the opening of borders, resulting in a shift of resources from military industries to civilian ones, including such services as health care and education, as well as privatization of economic activity. The world has opened up, and we

witness a desire for individual and social welfare, customer empowerment, and awareness of environmental quality. The enhanced openness has made technological and managerial knowledge accessible to all.

In a large public hospital, waiting times in the emergency department were excessive. Management methods were changed, resulting in a 30 percent reduction in patient waiting times; the clinical quality did not decrease (and may have actually improved), and patient satisfaction from service quality improved. All this was achieved without any investment of money, personnel, or equipment by using existing information systems and resources and simply by changing managerial approaches. This hospital is using state-of-the-art telemedicine technology with global connections for transferring imaging information, receiving second opinions, and so forth. There is also an increase in the number of out-of-country patients who are accessing this hospital, both physically and virtually through telemedicine.

In a buyers' market, the customer determines the following:

- *Price*: determined by the market. Superior quality, unusual features, or performance can usually improve the price by 10 to 15 percent. The manufacturer or service provider must adjust to market prices to survive. Customers are not interested in how much a service costs the producer or service provider. The market dictates the price, leaving the producer or provider with the cruel choice of adjusting to market prices or disappearing.
- *Response time*: determined by the response time of the best in the market. For example, in the market of film and photo developing, once the one-hour developing emerged, stores with a lead time of a full day had no chance of surviving.
- *Quality*: determined by the best quality existing in the market. For example: automobiles and electronic equipment are compared with Japanese products that provide the standard for quality.

Even lower prices cannot provide market survival for those who do not perform to standards.

- *Performance*: the customers determine their wishes and needs.

The process of globalization and the shift from a sellers' to a buyers' market also caused shareholders to put pressure on management. Executives, especially in firms with international components, must be evaluated by different criteria than in the past. They deal with shareholders who will not accept excuses, know alternative solutions to problems, and can recommend new managerial approaches and up-to-date managerial standards. Globalization and strong competition result in many firms coping with survival.

In not-for-profit organizations, including government agencies and hospitals, recent years have brought *increased demand* for services on the one hand and *budget reduction* on the other. This situation results in higher pressures on management. Using new managerial approaches and philosophies enables managers to extract from these organizations additional output without increasing resources. For example, in one major hospital, operating room output has increased by 20 percent with the same personnel and with better clinical and service quality.

A similar situation exists in the health care market, characterized by the following features:

- Customers demand more.
- Customers have more and better information.
- Technologies (equipment, medications, devices, and procedures) develop rapidly while budget growth cannot keep pace.
- People have longer life expectancies.

This situation can be nicely described by the "scissors diagram" of Figure 1.1, which shows budgets declining in time and the

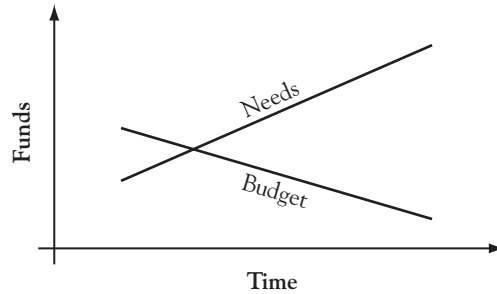


Figure 1.1. “Scissors Diagram” of Needs Versus Budget.

demand for technology, drugs, and pressure to perform increasing the demands on the system.

### **The Remedy: Adoption of New Managerial Approaches**

Advanced technology, professional personnel, and powerful information systems do not guarantee survival in a highly competitive market. They are perhaps necessary or supportive conditions but definitely not sufficient. The main determinant in the ability to survive competition is the adoption of advanced managerial approaches that are compatible with the new business environment.

In recent years, such new approaches have been developed and successfully implemented in many organizations. In many instances, managerial decision making has changed. The foundation for the development of these new approaches is the desire to be compatible with a new business reality and to engage relevant value drivers to improve and enhance the value of these organizations.

Management teams of most organizations have come to realize that to succeed in the global competitive environment, it is not enough to revert to technological innovation or to use cheaper resources and materials. It is essential to manage differently. The

new managerial approaches result in enhancing the value of the organization.

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*Value enhancement:* Increasing the value of an organization to its owners, its workers, and the community.

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The new managerial approaches have several characteristics:

- They are based on common sense.
- These approaches evolved out of practice; only later did they receive academic and scientific validation.
- They are simple and use the KISS (“keep it simple, stupid”) approach.
- They break down the myth of the input-output model.

The input-output myth (see Figure 1.2) implies: “If we want to increase system outputs, we must increase inputs.” For example, if we want to increase patient volume in a clinic by 20 percent, we may request more input in the form of personnel, space, advertising, and the like. If we want to decrease waiting time for patients, we again may request more personnel and equipment. The modern managerial approaches show that this myth can be broken. We can *increase output* without increasing input by changing the managerial approach. Evidence for better management of *existing resources* can

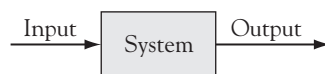


Figure 1.2. The Input-Output Model.

be found in Mabin and Balderstone (2000) and in Coman, Koller, and Ronen (1996). As will be seen in the following chapters, an additional managerial input has been added—that is, a different managerial approach.

## Chapter Summary

The world has become a small village with global competition. The market faced by organizations is not just the region or the country in which they operate but the whole world. On the one hand, this creates a threat from organizations outside the country, but on the other hand, it opens opportunities to penetrate huge outside markets. Management has become more difficult and more demanding in light of fierce competition, the increasing complexity and diversity of products and services, and the need to implement advanced technology. Past achievements are becoming obsolete as a result of competitors' improvements. An organization that does not improve will be driven out of the market. Technology, skilled personnel, and information systems are necessary but not sufficient conditions for survival. In addition, there must be the important component of managerial approaches that are congruent with the competitive environment of today.

Not-for-profit organizations, hospitals, government agencies, and others face increased demand for their service while needing to contain costs. Implementation of new managerial approaches will improve their performance.

The objectives of management are to enhance the value of the firm (in business firms) or to improve organizational performance (in task-oriented and not-for-profit organizations). Many organizations are fighting for their survival. They need to identify relevant value drivers and improve them using innovative approaches based on common sense. The bottom line of these approaches is “doing more with what you have.”