

HEALTH CARE

FEBRUARY 2008

A **healthier** health care system for the United Kingdom

New research indicates that leadership by clinicians and talent management are the keys to making things better.

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**Article
at a
glance**

New research into the UK's hospitals has found a clear link between key management practices and a range of quality and financial-performance measures.

The study indicates that better target setting, talent management, and business leadership by doctors are correlated with lower rates of infection in hospitals and of readmission, more satisfied patients and more productive staffs, and higher financial margins.

Overall, though, the management practices of the UK's National Health Service hospitals lag well behind those of their private-sector counterparts and of UK industrial companies.

Efforts to instill better management in National Health Service (NHS) hospitals have been a prominent feature of recent public-sector reform efforts in the United Kingdom. So it's encouraging that new research conducted jointly by McKinsey and the London School of Economics and Political Science (LSE) points to a link between key management practices, on the one hand, and better health care and higher hospital productivity, on the other. The study, based on an assessment of 126 NHS and other hospitals across the United Kingdom,¹ strongly suggests that improved operational effectiveness, performance management, and talent management are associated with lower rates of infection in hospitals, lower readmission rates, more satisfied patients and more productive staffs, and better financial margins. Moreover, the study indicates that stronger leadership by doctors in the way hospitals are managed could play a particularly significant role in improving them. In the light of continued pressure on the public sector everywhere, these findings should interest policy makers and health care leaders striving to improve medical systems elsewhere in the world.

Over the last five years, joint McKinsey–LSE research has explored the drivers of productivity in industrial settings.² Our recent effort extending the inquiry into the field of health care delivery involved interviewing 170 general managers and heads of clinical departments³ about whether and how they have implemented a number of proven management practices in their hospitals. These interviews covered 27 dimensions of management practice across four categories: lean management (a hospital's operational effectiveness), performance management (the creation and use of clinical-quality and productivity targets in managing operations), talent management (the recruitment, development, rewarding, and retention of high-performing staff), and clinical leadership (the way the roles, skills, and mind-sets of hospital doctors contribute to the management of clinical services such as cardiology and orthopedics). Our earlier work established correlations between the performance of industrial companies and the first three categories. For health care, we not only examined these categories but also decided to test a hypothesis: that the direct involvement of doctors in the management of a hospital helps to improve its performance.

We defined in advance the good, average, and poor practices for each of the 27 dimensions. Hospitals that track performance particularly well, for example, continually monitor key performance measures and communicate information about them, both formally and informally; include the whole staff in these communications; and use a range of visual-management tools, such as electronic display boards, progress charts, and performance scorecards. By contrast, hospitals that track their performance poorly might monitor only a limited range of externally imposed performance metrics, measure the results sporadically, and communicate them solely to hospital executives.

Our interviews⁴ enabled us to assign an overall management score, on a scale of one (poor) to five (good), for each hospital across all four categories. The results, which show wide variation in the management practices of NHS hospitals, broadly correlate with the quality, operational-performance, and financial-performance metrics we used: which include the UK Healthcare Commission’s quality and financial ratings, readmission rates, MRSA⁵ improvement scores, lengths of stay, doctors’ productivity levels, and hospitals’ operating margins.⁶

We found a considerable gap between the average management-practice scores of the NHS hospitals and the average scores in our earlier research into UK industrial companies (Exhibit 1), though the very poorly managed hospitals at the distribution’s tail dragged down the average. There was also a large gap between the management scores of NHS hospitals and those of private hospitals.

EXHIBIT 1

Hospitals have a management problem

Average management score by sector (on a scale of 1 to 5, where 1 = poor and 5 = good)



¹Assessment measured identical management practices adapted across sectors.

²Large = 119 manufacturers with >1,100 employees; small = 576 manufacturers with <1,100 employees.

Since the gap between NHS hospitals and industrial companies was smallest in lean operations, the best-practice operational-management techniques—such as standardization, clinical-pathway management,⁷ and process optimization—that NHS hospitals have introduced in recent years may already be having a positive impact. The gap between NHS hospitals and both private-sector hospitals and industrial companies was larger in performance-management scores, primarily because NHS facilities tend to focus on a narrower set of shorter-term measures. NHS hospitals fell furthest below the standards of their private-sector counterparts and of industrial companies in managing talent.

Interestingly, we detected a clear association between the level of involvement of

doctors in running the business side of their hospitals and the first two categories of management practice: lean management and performance management (Exhibit 2). This finding suggests that clearly defined roles for doctors in the running of hospitals, as well as appropriate skills, might drive best-practice management generally. What’s more, hospitals whose general managers have a clinical background had overall management scores higher than other hospitals did (Exhibit 3). Clinical skills apparently help managers to understand hospital operations and to manage clinicians more successfully.

EXHIBIT 2

Doctors’ involvement pays off

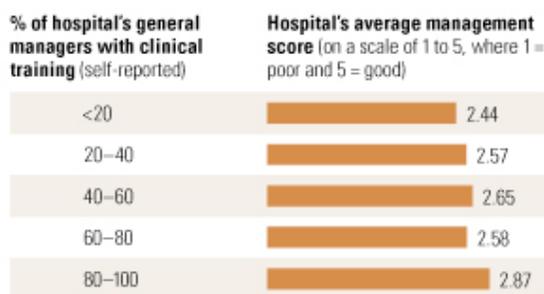
Average scores for hospitals (on a scale of 1 to 5, where 1 = poor and 5 = good)

Clinical-leadership score ¹	Lean-management score	Performance-management score
Top quartile	3.1	2.8
2nd quartile	3.0	2.6
3rd quartile	2.7	2.2
Bottom quartile	2.2	2.1

¹Reflects level of clinicians’ involvement in the business side of their hospitals.

EXHIBIT 3

Clinically qualified



As all this suggests, it is particularly important for the NHS to help clinicians become better leaders, since that should improve the overall management of NHS hospitals and, ultimately, the quality and productivity of the health care they provide. The NHS, we believe, should look to other sectors, including industry and private-sector hospitals, for examples of good practice in talent management—for instance, proactively identifying top talent, developing it, taking steps to retain high performers, and, if necessary, shedding low performers. The NHS could also benefit by hiring more systematically from the outside, especially for corporate functions, such as human resources, that don't require clinical training, as well as clinical leaders who have already acquired broad management experience elsewhere. In this way, the NHS can create the role models and build the new capabilities it needs to serve the public more effectively. ^Q

About the Authors

Pedro Castro is a consultant in McKinsey's London office, where **Stephen Dorgan** and **Ben Richardson** are principals.

Notes

- ¹ In the final set of interviews, 104 NHS hospitals (including NHS Trusts and Foundation Trusts)—60 percent of the total—and 22 private hospitals were represented.
- ² Stephen J. Dorgan, John J. Dowdy, and Thomas M. Rippin, "The link between management and productivity," *mckinseyquarterly.com*, February 2006.
- ³ We focused on general managers and lead clinicians in cardiology and orthopedic services.
- ⁴ The interviews were "double blind": neither the interviewer nor the interviewee knew what hypotheses were being tested.
- ⁵ Methicillin-resistant *Staphylococcus aureus* is a strain that has become resistant to the antibiotic methicillin.
- ⁶ Operating margins calculated as surplus divided by revenues.
- ⁷ For instance, the management of patient flows.

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