A PRAGMATIC LOOK AT HOSPITAL REENGINEERING

Successful Reengineering Requires
The Right Leadership

BY RIC DRESSER

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As organizations reassess their ability to compete in the 1990s, many are turning to the management tool known as "reengineering." The concept, introduced by Michael Hammer and James Champy in their 1994 business best-seller *Re-engineering the Corporation*,[1] refers to the fundamental rethinking and redesign of organizational processes in order to achieve dramatic improvements. As Champy has put it, with reengineering "you get customer service and quality up, you get cycle time down, and you get costs out automatically."[2]

Healthcare providers have been particularly open to reengineering because of the market turbulence they have experienced in recent years. In the 1980s, for example, the U.S. healthcare industry's average profit margin was cut in half and many hospitals had difficulties meeting their debt obligations.[3] Ten percent of the nation's community hospitals either closed or were converted for other uses (e.g., long-term care, ambulatory care).[4]

A Workbook on Redesigning Care: Becoming the Values-driven, Low-Cost Provider (Catholic Health Association, St. Louis, 1995) considers many of the issues raised in this article, but it does so from an explicitly Catholic perspective. The workbook shows Catholic healthcare organizations how ministry values can help guide their efforts to redesign care and reduce costs while preserving mission.

As a result, many healthcare leaders have decided their organizations must cut costs and become more efficient in order to survive. Others see reengineering as the best way to reposition their organizations so that they can quickly respond to market shifts and government reforms. Under less pressing circumstances, healthcare leaders might have relied on a combination of quality-improvement initiatives and natural employee attrition to produce the desired efficiencies and savings. But that method is time-consuming—and healthcare organizations of the 1990s have little time to spare.

Summary The market turbulence of recent years has made healthcare leaders particularly open to the management tool called "reengineering." Unfortunately, many such efforts fail because they do not go beyond simple cost cutting to create processes that, by adding value to product, attract customers.

A healthcare organization planning reengineering should:

• Find leaders who will educate themselves in reengineering tools and techniques, talk to both proponents and opponents of reengineering, consult those staff members who are most knowledgeable about the organization's processes, and skillfully communicate the organization's vision for the future.

• Determine its customers' needs by, first, learning who its customers actually are and, second, consulting with them. Reengineered processes should have the built-in data-collecting and -reporting mechanisms that will help the organization meet customers' standards.

• Get the organization's managers on board. Since satisfying customers' needs is the reason for reengineering, the organization must not let hidden agendas torpedo the effort.

• Redesign its processes. To accomplish this, the organization must allocate sufficient resources for the redesign effort, assign talented employees to it, and overcome such organizational limitations as "innumeracy" among its work force.

Despite its attractions, reengineering carries some definite risks. Hammer and Champy have estimated that as many as 70 percent of reengineering efforts end in failure.[5] In a 1994 study conducted by the Arthur D. Little consulting firm, less than 15 percent of respondents said they were satisfied with their attempts at reengineering.[6]

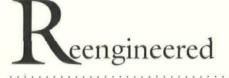One reason such efforts fail is their leaders assume that reengineering is no more than cost reduction. In fact, reengineering must go beyond simple cost reduction and create processes that, by adding value to the product, are attractive to customers. As one writer has put it, "No company ever shrank to greatness."[7]

FINDING THE RIGHT LEADERS

Many organizations are, as Don Tapscott and Art Caston put it, "over-managed and under-led."[8] But strong leadership at the top will not in itself guarantee positive changes in an organization. "Senior management leadership is a necessary prerequisite for successful reengineering, but not just any senior manager will do," write Hammer and Champy. Leaders must be persons "who understand reengineering and [are] viscerally committed to it."[9]

Leaders must thoroughly understand the prospects for successful reengineering before launching it. They should educate themselves in reengineering tools and techniques. They should talk to opponents of reengineering, as well as to proponents. They should study companies that have been successful in their reengineering efforts—but also companies that have failed. It may be more useful to learn what *not* to do.

Leaders may want to get employees' opinions through "management by walking around."[10] In fact, business process owners—the staff members actually responsible for the organization's various operational processes—should guide the reengineering effort. Because they are closer to the pro-

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cesses than anyone else in the organization, they will be the most knowledgeable about how the redesigned processes should function.

Once leaders have decided to reengineer, they must skillfully communicate both the case for it and a vision of what the organization will look like after the reengineering is complete. They should be realistic, remembering that the difference between a vision and a hallucination is that the former is achievable. Leaders who fail to communicate an achievable vision sharply reduce the reengineering effort's chances of success.

DETERMINING CUSTOMERS' NEEDS

Healthcare leaders considering embarking on the reengineering process should begin by focusing on their customers' needs. First, they should learn who their customers *are* (e.g., patients, physicians, direct pay insurers, government agencies, and HMOs). Second, they should go directly to customers and inquire about their needs. Leaders should ask, throughout the reengineering effort, "Do our processes add value to our customers?"[11]

Customers' needs have become increasingly detailed in recent years. In 1991, for example, the Joint Commission on Accreditation of Healthcare Organizations set more rigorous care standards for its members. HMOs similarly demand quantifiable outcomes across the entire care continuum. Accreditation standards and licensing requirements restrict the use of personnel—for instance, an ultrasonographer cannot ordinarily pinch-hit as a nuclear medicine technologist.

Leaders must be aware of these standards and reengineer their organization's processes to comply with them. Reengineered processes should be designed with built-in data collecting and reporting mechanisms. Such mechanisms will ensure that customers receive the added value they desire.

GETTING MANAGERS ON BOARD

Since satisfying customers' needs better is the raison d'être of a reengineering effort, leaders should not let organizational sacred cows get in the way. Sacred cows may include perquisites—lavish retreats, the executive dining room—beloved by some of the organization's managers. If such managers approached home finances the way they approach reengineering, they would cut out breakfast cereal for the kids—but keep for themselves the caffe latte and Danish pastry. A failure to cut senior management costs reflects a lack of real commitment on the part of management and speaks volumes to staff, who are being asked to do more with less.

Leaders should also be watchful for hidden agendas developed by dysfunctional or only marginally functional groups within the organization. For example, middle managers tend to be especially protective of the status quo because they have so much at stake in it. Rivalry aimed at preserving or usurping managers' turf, rather than satisfying customers' needs, can distort the reengineering effort.

"In-bred" managers are another threat to reengineeering. Hospitals—which have been central to the training of medical professionals since at least World War I—tend to recruit their managers from among their own ranks. This phenomenon has helped create a healthcare environment that shuns "outsiders" and their ideas. Leaders must not commit this error. Instead, they should search beyond their own disciplines and recruit the best persons available.

REDESIGNING THE ORGANIZATION'S PROCESSES

Of course, leaders should fully understand the organizational processes to be reengineered and set realistic expectations for their completion. In addition, they should establish subgoals, or milestones, to be achieved along the way and should celebrate each as a significant accomplishment in

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has concluded that, for example, companies' initial estimate of what they will pay for information technology is usually much lower than it should be.[12]

Reengineering requires a radical—and often expensive—redesign of organizational processes, but leaders often underestimate the cost, in both financial and human terms. Perhaps the greatest budgeting error leaders can commit is attempting to fund a reengineering effort with the savings they expect to reap from it. Leaders who have begun such an effort without first investing the necessary capital may be shocked to discover how complex, enormous, and costly the project has turned out to be. Mistakes of this kind can put the whole organization at risk.

A skillful information systems team, familiar with technology implementations, can help leaders make realistic cost projections. In general, leaders should be careful not to apply new technology in the same old ways. They must remember, too, that technology cannot solve all their organizational problems.

Assigning Personnel Leaders should remember that the redesign will very likely displace some of their organization's workers. To minimize this, the organization should do little new hiring in the period preceding the redesign.

As a rule, leaders should assign their best employees to the redesign teams. They should make a point of including "antiestablishment people," because critical thinking will be beneficial

its own right. This will help the leaders monitor progress and motivate the people involved. Because some reengineering initiatives will inevitably fail, leaders should have contingency plans.

In planning the redesign, leaders should especially consider the following factors.

Allocating Resources Organizations must allocate resources to redesign those processes which have the greatest overall impact. These allocations should be made in terms of cost, not price; one study

for the project. Unfortunately, some employees are likely to go beyond criticism and actually obstruct the redesign effort. Although leaders should always respect employees and be sensitive to their concerns, they may need to fire such workers. If so, they should do it all at once because a series of firings could traumatize the staff and damage the project.

Leaders cannot put all employees on the redesign teams, but they should involve as many as possible. Workers tend to become more productive when they are given some sense of control, understand the merits of the project, and are less fearful of the changes involved. The more wholehearted employees are in supporting the project, the more likely the project is to achieve breakthrough results.

Leaders must not make the mistake of underestimating the reengineering effort's communications requirements. They should pay particular attention to its implications for the organization's culture. Failure to involve employees in the redesign will breed mistrust. This type of "second stage" (or "consequential") effect[13] can haunt an organization for years in the form of pervasive fear, productivity losses, and soaring attrition rates.

Overcoming Organizational Limitations As noted earlier, the organization's business process owners should direct the redesign effort. But it is vital that they receive critical project management services from the organization's information technology department. Unfortunately, however, many healthcare organizations have historically neglected to invest in their information infrastructure. Unless they do, their reengineering efforts will inevitably fail.

The same is true of staff training. "Innumeracy"—ignorance of mathematics and the scientific approach—among redesign team members is a problem in some organizations. Many Americans struggle with basic math problems and cannot apply the complex analytical tools essential to testing and monitoring new process models. Leaders of redesign efforts must ensure their work force receives the necessary training and education.

As a rule, healthcare organizations invest more money in building maintenance than in increasing employees' skill level. Leaders planning a redesign should expect to retrain all their employees, beginning with a program that fosters inductive reasoning and strengthens math skills. Such a program will help members of design teams rec-ognize problems and develop solutions. It will also help prepare staff for the cross-functional work flows that will characterize their new environment.

MEASURING THE RESULTS OF REENGINEERING

Throughout history, people have tried to look into the future. The ancients consulted oracles or read tea leaves. In contemporary society, we are more likely to base predictions on the results of past efforts. Today's business managers often make cost projections by studying pro forma financial statements and project GANTT charts. Healthcare leaders increasingly base their projections on a study of outcomes.

The success of a reengineering effort can only be measured by outcomes—results based on facts, not anecdotes. Leaders should expect to encounter many problems and make many course corrections during the effort. When something goes wrong, they should learn from it. They should be rewarded for spotting problems early and developing innovative adaptations. As these habits become ingrained, the redesign effort will be transformed into continuous improvement. ☐

NOTES

1. Michael Hammer and James Champy, *Re-engineering the Corporation*, HarperBusiness, New York City, 1994.
2. Michael Barrier, "Re-engineering Your Company," *Nation's Business*, February 1994, p. 19.
3. Prospective Payment Assessment Commission, *Medicare and the American Care System: Report to Congress*, Washington, DC, 1991, p. 244.
4. American Hospital Association, *1990-1991 AHA Hospital Statistics*, Chicago, 1992, p. 26.
5. Rosemary Cafasso, "Rethinking Reengineering," *Computerworld*, March 15, 1993, pp. 102-105.
6. Steven Alter, *Information Systems: From a Management Perspective*, Benjamin/Cummings, New York City, 1996, p. 560.
7. Mario Shao, "Beyond Reengineering," *Boston Sunday Globe*, November 12, 1995, p. A127.
8. Don Tapscott and Art Caston, *Paradigm Shift*, McGraw-Hill, New York City, 1993, p. 283.
9. Hammer and Champy, p. 208.
10. As discussed in Tom Peters and Nancy Austin, *A Passion for Excellence*, Wings, New York City, 1985, pp. 583-584.
11. James Fichett, lecture at Harvard University, December 4, 1995.
12. Jim Highsmith and Lynne Nix, "Mission Possible," *Software Development*, July 1996, p. 41.
13. Lee Sproull and Sara Kiesler, *Connections*, MIT Press, Cambridge, MA, 1991, p. 6.