

FLATTENING THE HIERARCHY

A Hospital Streamlines Managerial Layers To Meet Market Demands

BY SR. JUDITH MARIE KEITH, RSM



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In the early 1990s, managed care began to transform western Arkansas's healthcare market. At the same time, St. Edward Mercy Medical Center in Fort Smith, AR, was continuing to expand its traditional tertiary care activities. St. Edward, a 340-bed, 1,500-employee acute care facility, launched three rural hospitals, a rural health clinic, a rural primary care network, two walk-in clinics, and a freestanding psychiatric facility.

It became increasingly apparent that the "functional" model of organization of the past was becoming "dysfunctional" in the evolving healthcare environment. In 1994 the medical system's leaders decided they must change their organization's structure to meet the new market demands.

The leaders first formed a Senior Management Core Group—made up of the medical center's president/chief executive officer (CEO), its vice president for clinical services, and its vice president for human resources—and gave it responsibility for designing a new organizational model and engineering the move toward it. The process took a full year to complete.

Summary In the early 1990s it became clear to the leaders of St. Edward Mercy Medical Center, Fort Smith, AR, that the traditional "functional" model of organization, on which their hospital was based, did not allow it to meet new market demands.

A core group of managers was formed to design a new organizational model and engineer the move toward it. Analyzing the hospital's structure, the core group found that it had too many administrative layers above too many specialized departments. In 1994 the group decided to adopt a "span-of-control" model of organization, which

ANALYZING ST. EDWARD'S DEPARTMENTS

It was clear to the core group that the functional model of organization has severe limitations. Hospitals based on it are hierarchial, with many administrative layers above many highly specialized departments. Such an arrangement hinders communication and decision making and is incompatible with a hospital's need to be responsive to consumers. The core group therefore sought a model that would de-layer the organization and break down the walls between its departments.

As a first step, the core group conducted a "span-of-control" analysis of the medical center. This revealed that St. Edward had 6 vice presidents, 23 department directors, 10 assistant directors, and 80 section managers—a total of 119 supervisory officers. In some areas, there were as many as seven administrative layers between the president/CEO and frontline healthcare workers. On average, one manager supervised (i.e., had a span of control of) only 7 employees. To increase its efficiency and cost-effectiveness, the medical center clearly needed a higher ratio of workers per manager. In short, it needed to move from a functional to a span-of-control model of organization.

would give St. Edward a higher ratio of workers per manager.

In 1995 the core group streamlined the hospital's managerial layers, deciding there would be no more than five. It reduced the number of supervisory positions by 36, including one vice president's slot. No manager was fired, though some were reassigned.

St. Edward's reorganization continues at present. The new structure, which has cut personnel costs, fosters more open communication and empowers its workers, leading them to think in terms of "us and our hospital" rather than "me and my department."

DEFINING THE TERMS

Under the functional model of organization, both departments and employees are defined by their functions: for example, "clerk, public relations department," or "maid, housekeeping department." One manager might supervise as many as 18 workers, whereas another might supervise none at all. By contrast, an organization based on the span-of-control model requires that a person supervise a minimal number of workers to qualify for a specific managerial job title.

The core group decided that the new organization would have, below the president/CEO, no more than five managerial layers—vice president, director, assistant director, section manager, and coordinator—and that managers at each layer would supervise a predetermined number of employees. Defining the criteria for the five managerial layers turned out to be the most troublesome and time-consuming task the core group faced.

Vice presidents would:

- Be limited to senior management who report directly to the CEO
- Participate in administrative call (for decision making during nonroutine business hours)
- Have a Vice Presidents' Council to foster communication and decision making at this managerial level

Directors would:

- Report directly to a vice president
- Be responsible for a department of no fewer than 25 full-time employees (FTEs)
- Be responsible for more than one department section
- Participate in administrative call
- Have a Directors' Committee to foster communication and decision making

Assistant directors would:

- Report directly to a director
- Be responsible for a department of more than 100 FTEs, or for multiple sections
- Have 24-hour, direct-line responsibility for operations

Section managers would:

- Report directly to either an assistant director, a director, or a vice president
- Be responsible for a section grouping of no

The core group organized a forum in which employees could discuss the changes.

fewer than 10 FTEs

- Have 24-hour responsibility

Coordinators would:

- Report directly to a director or vice president

- Be responsible for fewer than 10 FTEs

- Function primarily as staff officers rather than as managers with direct-line responsibility

The coordinators were a new layer of leadership for the medical center (see Table, p. 62).

Even with these additions, however, defining managerial staff according to the span-of-control model rather than the functional model allowed St. Edward's core group to reduce managerial positions by 36, including a vice president's slot.

Under the new model, the number of supervisory positions would fall from 119 to 83.

MAKING THE CHANGES

Realizing that the elimination of 36 managerial jobs could cause unrest in the medical center, the core group hired a team of consultants to help guide the transition. The consultants, who included an organizational behaviorist, revised job descriptions and compensation guidelines. Most important, they not only helped communicate the need for change to employees, they did so in a manner that was consistent with St. Edward's values and that respected employees' dignity.

Continued on page 62

MOVING TO THE NEW MODEL

The restructuring of St. Edward has significantly changed the way things are done at the hospital:

- The hospital has empowered its middle managers through the new Directors' Committee. The committee has in turn created five multidisciplinary teams that help it discuss and make decisions about institutional priorities and problems.

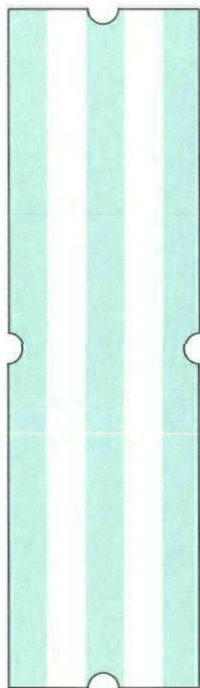
- Empowered employees have made further refinements to streamline operations. For example, the old admissions desk has been eliminated, as were the three full-time positions formerly needed to staff it. All patients are now admitted through the emergency and outpatient departments.

- All of the hospital's employees have received education about managed care and the necessity, under it, of increasing their sensitivity to customers' needs.

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FLATTENING

Continued from page 61

The core group next convinced the medical center's senior managers that it was necessary to adopt a new organizational model. First, the president/CEO explained the plan in private meetings with each of the vice presidents, and then the vice presidents helped explain it to the department directors. No manager was fired, although some were reassigned to other positions. All accepted the restructuring, though a few were unhappy about what they saw as demotions.

The core group was keenly aware that how change was brought about would determine whether the restructuring was a success or a failure. They therefore organized a forum in which employees were encouraged to discuss the changes and express whatever grief and anger they may have felt.

ADVANTAGES OF THE NEW MODEL

Restructuring St. Edward on the span-of-control model, which was initiated in mid-1995 and continues at present, has brought the following organizational improvements:

- The new structure fosters more open communication and more effective education. It also allows the medical center to bring together similar activities. St. Edward's plant department, for example, now includes the formerly separate yards, security, and environmental services departments.

- Thirty-six positions have been eliminated, thus cutting annual personnel costs by more than \$600,000.

- Now that the medical center has

fewer department managers, multidisciplinary teams are evolving from organizational empowerment, leading employees to think in terms of "us and our hospital" instead of "me and my department."

The improvements brought about by structural change can be seen most clearly in the department of nursing. When it was based on the functional model, the department had a nurse manager in charge of each 22-bed nursing unit. As a result of the consolidation and clustering of nursing units, 20 management positions have been eliminated. The persons who held those positions have either taken new jobs at St. Edward or have chosen to leave the hospital.

Nurse managers are now responsible for two or three units, thereby doubling or tripling their spans of control. As a result, the old barriers to staff sharing and cooperation disappeared almost overnight. Nurses have begun to identify with work teams rather than units. This reorganization has facilitated better communication and increased quality and effectiveness.

In today's healthcare environment, the vertical organization is a dinosaur—still breathing, but too slow in its responses. A genuine shift to the horizontal model offers the organization an opportunity to more effectively respond to the growing convergence of cost, competition, capitation, and coalition as they affect the healthcare system. □

 For more information, contact Sr. Judith Marie Keith, RSM, at 501-484-6100.

IMPACT ANALYSIS OF ORGANIZATIONAL RESTRUCTURING

	Before	After	Variance
Vice presidents	6	5	-1
Department directors	23	15	-8
Assistant directors	10	4	-6
Section managers	80	52	-28
Coordinators	0	7	+7
TOTALS	119	84	-36