

Strategic Implications of Quality Management in Health Care

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Keywords

- Optimum quality management
- Strategic quality management
- TQM
- Quality in Health

ABSTRACT:

The considerable interest in quality management has filtered through to health care organisations. It is now widely used as a basis for continuous operational and customer service improvement management. Although well accepted as an operational improvement tool, the role of quality in strategic management and marketing is less clear.

Qualitative research was undertaken within one of Australia's largest private health care providers for the purpose of exploring the role that quality management plays in its operations.

Interviews revealed that the organisations major emphasis on continuous quality management had yielded significant strategic results since its inception. These included an industry first, five-year term accreditation, high level standing with government, the medical profession and practitioners, health insurance companies and research institutions. Notwithstanding the benefits realised to date, there was a perceived need to continuously evaluate quality management against objective criteria and to better integrate the process with mainstream strategic management activities of the organisation

INTRODUCTION

Intense competition, discerning consumers and regulatory watch dogs press health service organisations towards the ongoing delivery of quality services which match customers changing needs. This may explain the considerable interest in quality management in recent times. One manifestation of this interest is the remarkable growth in the adoption of Total Quality Management (TQM). One study reported that 93% of America's largest 500 firms had adopted TQM in some form (Powell 1995).

Although quality management has become a pervasive part of business thinking, its role as a strategic resource is seen to have remained virtually unexamined in strategic management research (Powell 1995). As an integrated philosophy, TQM attempts to establish a set of practices that ensure ongoing adjustment and improvement takes place to the way the organisation operates. Activities necessary to ensure continuous improvement are seen to include the following; *meeting customer needs, reducing rework, long range thinking, increased employee involvement and teamwork, process redesign, competitive benchmarking, team-based problem solving, constant measurement of results, and building closer relationships with suppliers* (Powell 1995).

Proponents of the practice claim that the principles of TQM can be applied to any type of business or organisation and will generate improved quality of products and services, reduce costs, create more satisfied customers and employees, and improve financial performance. However, many of the criteria found suitable for managing quality in manufacturing firms was seen not to be suitable for application in health care organisations. For this reason, in 1999 health care criteria were introduced to the Malcolm Baldrige National Quality Awards. The Baldrige Award criteria are seen to reflect many aspects of quality assessment that TQM practitioners are seeking (Goldstein and Schweikhart 2002). Quality management is also well recognised as an integral part of the regulatory accreditation process in the health care industry.

The Baldrige Award criteria are based around seven criteria; 1 Leadership, 2 Strategic Planning, 3 Focus on patients/customers/markets, 4 Information and analysis, 5 Staff focus, 6 Process management, 7 Organisational performance. One recent research study of 220 USA hospitals, found that there was significant association among criteria 1 through 6 of these criteria. The study provided confirmatory evidence that the Baldrige framework of quality management is a useful self assessment tool for health care organisations striving for performance excellence (Goldstein and Schweikhart 2002).

Notwithstanding the strong recent support for quality management, questions about its long term strategic role and integration with other management functions in health care organisations need investigation, findings analysed and new theory developed. New theory would assist managers to better plan future directions in quality management, help integrate quality activities with other essential management activities, whilst trying to avoid pitfalls such as incurring the significant costs of quality processes without ensuring tangible benefits and returns.

RESEARCH PROJECT

This paper will report on a research study of the role of quality management in a hospital owned by one of Australia's largest private health care organisations. The project studies the role, purpose and functions involved in quality management and how they were integrated with other strategic and operational management dimensions of a large psychiatric hospital. The research sites involved the Northside Clinic and the corporate head office of the Ramsay Health Care Group based in Sydney. In 2001 Ramsay's operating revenue was AUD 388 million yielding a net profit of AUD16 million. By the end of the 2001 financial year, it employed 7,018 staff across 23 hospitals and clinics located throughout Australia. The rationale for the research was to investigate quality management from both a strategic and an operational perspective.

The methodology involved a case study approach based on in-depth interviews and close examination of company records. This research approach was considered to provide a fine grained approach recommended for improved understanding of nuances, detail and the forces underlying the phenomena under observation (Harrigan 1983). Focus on detail was an important attribute of this study notwithstanding possible shortcomings in not being able to externalise the research findings. Hence the project can be classified as exploratory and was intended to uncover issues of quality management which impact on the operational and strategic dimensions of the

business. The process of analysis followed advice on qualitative research methodology and covered the stages of; field notes, write up, first level and pattern coding, display, conclusion drawing and reporting (Miles and Huberman 1994).

The first phase of the research was to gain insights into organisation and quality management practices. It consisted of in-depth interviews with senior managers and an examination of all Company records that related to quality management practices followed at Northside and throughout the Ramsay Group. This provided a sound basis for the more detailed in-depth interviews that followed in the second phase.

For this paper six in-depth, second phase interviews were undertaken with a range of senior managers at the Northside clinic, regional and head offices. This was to ensure a degree of triangulation seen to be necessary in conducting this type of research (Patton 1980). This approach follows the observation that quality research in health care has focused on hospitals as distinct from health care delivered in other places which present special issues in attending to quality matters (Bender 1995). The focus of the research questions were on the strategic implications of quality management and the integration of quality management with other management activities such as marketing, strategic management and human resources. Data were generated from hour-long interviews. The interview audiotapes and notes were used to prepare the typewritten transcriptions.

The results presented will focus on the quality management approaches used, the applications of data generated in improving operational performance and the degree to which quality management influences strategic decision making.

QUALITY INTRODUCED AT NORTHSIDE CLINIC

The first formalised quality activities started at Northside in 1985 with the formation of a small committee because of the need to prepare for accreditation by the Australian Council on Healthcare Standards (ACHS). By 1990, quality was accepted as a hospital wide responsibility of management and staff. A committee of eight supervised quality activities. In 1991 it was recognised as a continuous process rather than an event only practiced at time of accreditation. The acceptance of quality as a major focus was seen to have a profound impact on the hospital's culture and future activities. Not paying attention to the impact that quality programs have upon an organisation's culture has been sited as a major cause of the high failure rates (60 % to 67%) experienced in implementing quality programs in hospitals (Huq and Martin 2001).

In 1994 a quality training consultant was brought in over an eight month period to develop the knowledge, skills and tools necessary to embed quality as a continuous process at Northside. The core of the training philosophy was three fold; *customer focus, emphasis on quality process* and a *reduction in variation of service delivery*.

The first rewards for efforts in quality management came in 1995 with the granting of a five year accreditation from the ACHS. It was the first such accreditation awarded to an Australian psychiatric hospital. This confirmed commitment to a full and continuous quality program.

A permanent Continuous Quality Improvement (CQI) management group was formed to move forward on quality issue identification, priority setting, and action planning and review processes. Reporting and review processes were formalised including monthly reports to the Board of Directors. The business plan embraces quality into the Hospital's mission statement; '*To provide a service that exceeds the needs of all our customers through continuous quality improvement*'. In this context, customers include patient clients and admitting physicians. In more recent times, quality improvement receives attention at corporate level through the Quality Improvements Committee consisting of two Board Directors and two senior corporate managers (Ramsay Annual Report, 2001).

WHAT IS QUALITY AT NORTHSIDE

Quality is seen by management in Ramsay to provide the standard that all procedures must meet in the delivery of services to its customers. Quality standards also provide the basis for audits of activities of the Clinic, a check on what is delivered. One of the most important aspects of quality management at Ramsay is to see it as a process rather than an event or tool which is used sporadically.

Some writers on quality have warned against characterising quality management as a tool. A tool can be added or taken away from work processes without fundamentally affecting the organisation's culture. Hence calling quality management a tool is inviting what has been described as management's program of the Month. "*It may hurt for a while, but eventually it passes*" (Keiser and Smith 1993). Others have recommended that tools and techniques are only of value when used in support of a quality mindset which must be expressed in an organisation's vision and mission statements (Hersey et al 1996).

Managers in Ramsay see that the main objective is to make routine, the processes of quality management so that the best and most effective psychiatric services in Australia are consistently and continuously offered. It is seen as a medium for increasing customer focus.

THE HUMAN FACTOR

All interviewees mentioned the importance of leadership and commitment in building effective quality management. In Ramsay the Chief Executive, Director of Nursing and the Continuous Quality Improvement team at Northside were considered crucial to the process. The critical importance of leadership is recognised in the Malcom Baldrige National Quality Award given for outstanding business excellence and quality achievement in the US. Here leadership has been described as the driver that sets direction, creates values, goals and systems and guides the pursuit of customer value and company performance improvement (Malcolm Baldrige National Quality Award: 1995).

However, the Chief Executive of Ramsay warns against a top-down driven approach, as it does not provide the ownership necessary to carry through an effective and continuous quality program. Providing employees with the necessary authority to delight customers is seen as one of the essential six phases of successfully installing quality to an organisation (Hersey et al 1996). Here the phases in sequence are; *start-*

up, awareness and education, selecting performance targets, reinforcing implementation, liberating employees, measuring and monitoring performance.

QUALITY OUTCOMES

Managers interviewed at Ramsay see the results of quality management occurring at a number of levels. At the operations level there are cost savings and improvements in core functions of the hospital. Measured improvements have occurred in, admission procedures, catering, supplies, patient records, stationery, patient monitoring, patient satisfaction and in patient discharge summaries to the admitting psychiatrist. At the strategic level, the advantages of quality management are recognised in Ramsay's positioning and standing with the medical profession, government departments, and the health insurance industry. One of the more tangible measures of this is in the high application rate of psychiatrist practitioners applying to join Northside Clinic as a university teaching hospital, and the request to undertake psychiatric university research at Ramsay hospitals. Government also seeks Ramsay management advice on matters relating to mental health care in the public sector prior to policy decision making.

Ramsay has also been awarded contracts to operate several public psychiatric hospitals. Two ten year contracts alone were worth \$775 million. Government contracts to administer veterans repatriation mental health care now makes up a substantial proportion of Ramsay's total revenue. In 2001, 47% of Ramsay's operating revenue came from privatised veteran' hospital operations (Ramsay Annual Report, 2001). The achievement of Northside's five-year accreditation of the ACHS is also considered of major strategic significance for Ramsay. The importance of achieving early and significant results in order to maintain a sustained effort in quality management is generally recognised (Hersey et al, 1996, p515).

WHAT IS OPTIMAL QUALITY?

One question of concern to managers is to know how much to invest in the quality endeavour; to know if there is an optimal level of service quality. Ramsay managers were divided when probed on this question. One point of view suggested that it was important to know the parameters and ceilings; to be aware of the potential returns and gains as each quality decision is made. Another point of view however, suggested that there was no ceiling or limits to quality. This suggests a leap of faith where management pursues quality improvements in the hope that they return a dividend in due course. If one adopts the concept of 'life time value' of the customer philosophy, this approach takes on a more tangible dimension (Blattberg and Deighton 1996).

Management at Ramsay are investigating how quality should be bench marked, internally across hospitals and between States, and also externally with competitors in an industry which are perceived to provide quality health services. Comparisons with non-healthcare industries will also be of interest for benchmarking purposes. For example other researchers have seen the benefits of how the methodology of a Six-Sigma quality management process at General Electric has been used successfully to implant an ongoing quality culture in a healthcare organisation (Ettinger 2001).

THE FUTURE OF QUALITY

Managers at Ramsay have been pleased with the benefits that quality management has brought to Northside Clinic and the other hospitals where quality has been introduced. Although introduced in 1985, serious focus and a holistic approach to quality did not occur until 1991. It has been frequently observed that it takes between five and seven years before quality is solidly ingrained in an organisation (Kolarik 1994).

There is a recognised need to continuously and objectively assess the progress and status of quality management in Ramsay. Management could use a quality review instrument which periodically assesses a unit's effectiveness in its endeavours. A nine dimensional instrument has been suggested by another author using a seven-point evaluation scale (Anfuso 1994). Here a business unit evaluates its quality performance at a point in time in each of the nine areas ranging from poor through to excellent.

- *Aspiring and focused*
- *Ethical and compassionate*
- *Customer focused and aligned*
- *Effective and efficient*
- *Challenging and empowering*
- *Open and innovating*
- *Objective*
- *Rewarding and developing*
- *Team oriented*

Using such an instrument, progressive aggregate scores could be used by management as the basis for decision making on the role and effectiveness of quality management in each Ramsay operating unit.

Notwithstanding the progress made to date in the quality arena, there are opportunities to explore how some of the activities and outcomes can be better integrated with the development of business and marketing strategies. It has been recommended that a business case for quality needs to be established if consistent patterns of quality are to be achieved. Drivers to this end are sighted to be; cost pressures, increased availability of data, informed consumers and private and public sector purchaser initiatives (Coye 2001).

Some Ramsay managers observe that results and recognition of Ramsay's quality image should be used proactively in specific communications and promotions to key market groups and to the various other stakeholders. Another observation is that quality management could be better integrated with the strategic management process rather than being seen as an isolated and separate function. Quality can then become part of the ongoing thinking and planning in evolving forward growth and expansion strategies. This is consistent with a resource view of an organisation's strategic approach. Here core strategic resources and core competencies are generated by the ongoing quality initiative (Tena et al 2001).

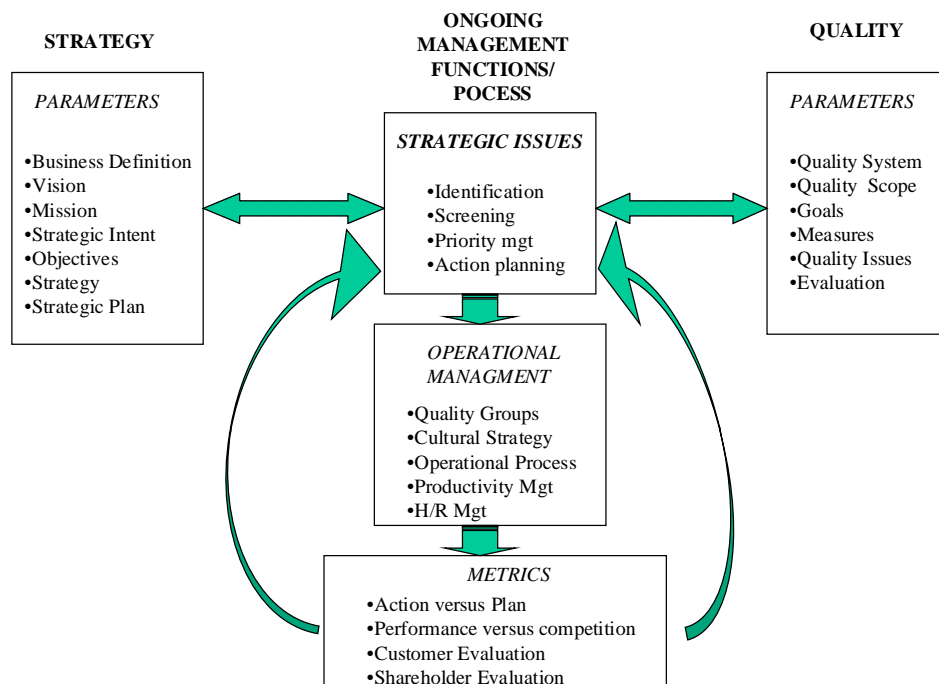
Ramsay would benefit from the adoption of a system such as the Baldrige Criteria where quality is taken holistically to include; leadership, strategic planning, customer and market focus, information analysis, human resource focus, process management, and business results (Lawson 2001). Alternatively, a system such as Six Sigma could

be used. It has been seen as a holistic approach to total quality management. Here it has the added advantage of being seen by employees as an integral part of the management process rather than a totally new concept that has to be managed on top of everything else. It has been claimed to drive out fear by making employees agents of change rather than resisters to change (Lucas 2002).

In the past, Ramsay has used quality effectively if somewhat passively, in competitively positioning itself in the market. Some authors have seen product and service quality as a standard strategy for gaining global market share (Hersey et al 1996, p504). Back in 1994 however, two other authors forecast that quality would no longer be a competitive differentiator, ‘*it will be the price of market entry*’ (Hamel and Prahalad 1994, p14). In this regard, Ramsay will need to embrace quality as part of its ongoing strategic management process to offset competitor moves in this direction.

Figure 1, ‘Strategic Management of Quality’, attempts to show how quality management could be integrated into Ramsay’s planning and decision-making process. Viewing quality from a strategic rather than an operational perspective, will help ensure that the benefits from quality improvement flow through to strategic dimensions such as moving into new markets, and not remain locked only into the role of making incremental internal operational improvements (Leonard and McAdam 2002).

FIGURE 1 **Strategic Management of Quality**



In Figure 1, quality parameters are established which guide day to day management of quality at the operational level.

During the monitoring and evaluation of metric measures, quality issues that may impact on the strategic future of the business are referred to the management group responsible for processing strategic issues. Strategic issues have been described as forthcoming developments, either inside or outside of the business, which are likely to have an important impact on its ability to achieve critical objectives (Perrott 1995). Strategic issues have also been seen as the main currency of strategic dialogue and the major impetus to strategic thinking (Day 1990).

During a strategic issue processing phase at a particular point in time, internal quality issues can be then be viewed in perspective and with due regard to relevant external issues and parameters established in the business units strategic framework. Here opportunities to leverage quality issues for strategic advantage are best seen in perspective and will form part of strategic action plans.

Figure 2, 'Where is Quality Headed?' demonstrates the relative emphasis of quality management at Ramsay, at present, and in the possible future. At present the emphasis is on improvements that yield operating efficiencies and effectiveness. In the future, both the goals and quality system processes of quality management would embrace strategic dimensions of the organisation. Key staff would be empowered to broaden their perspective of quality management and measures of quality performance would be extended to include strategic outcome metrics.

This research was exploratory. The purpose was to explore the role quality management played at the Northside Clinic. Of particular interest were the role, purpose and functions involved in quality management and how they were integrated with other strategic and operational management dimensions. Although data was collected from a number of sources at Northside and the Ramsay parent head office, the research was narrow and extremely limited in terms of the ability to externalise the research findings. Future research will explore how quality is managed in the other thirteen hospitals of the Ramsay Group in an attempt to build internal validity to this exploratory research. Similar research with other comparable health providers would begin to add an external dimension to the quality management debate.

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Figure 2 Where is Quality Headed?

