

Class 4: The Hospital Business Model



The purpose of hospitals has evolved over time...

- 18th-19th century: a place for indigent and those that need isolation
- Late 19th century on:
 - . Research and training facilities
 - . Clinical laboratories to solve poorly understood problems
- Continuously incorporated many sustaining innovations

Treatment needs have changed but general hospitals haven't (much)

- Continuous innovation has ~~overshot~~ the needs of patients with uncomplicated disorders
- Hospitals resist disruptive innovation:
 - . Highly regulated
 - Accrediting agencies
 - Federal/state governments
 - . Political and community ~~pride~~
 - . Reimbursement processes

Hospital business models have changed...

- Originally, strictly a Solution Shop
 - . Complex disorders requiring experts and sophisticated diagnostic equipment
 - . Treatments were %hypothesis testing+; few precise tests and treatments
- Now, general hospitals (GHs) try to do everything for everybody

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Hospital Services
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 SLP/PT/OT/Respiratory
Geriatric Services
 GEU, Geri Day Hospital,
 GAOT

V.P. Patient Care & Chief Nursing Officer
Medicine
 ICU/CCU, Inpatient Medicine,
 ALC/Palliative Care
 Social Work & Discharge
 Services
Surgery
 OR, PACU/Day Stay,
 POAC, Inpatient Surgery
Emergency Services
Childbirth Services
Ambulatory Care
Pharmacy
Mental Health Services
Spiritual Care
Infection Control
**Patient Safety / Risk Mgmt
& Quality Improvement**

V.P. Human Resources & Organizational Effectiveness
Labour & Employee Relations
 Employment Services
 Recruitment & Retention
Human Resources Operations
 Compensation
 Benefits
 Payroll Services
 HRIS
Occupational Health & Safety
Organizational Development
 Education & Development
 Library Services
WOVN Human Resources Support

Anesthesia
 Critical Care Medicine
 Diagnostic Imaging
 Emergency
 Family Medicine
 Geriatrics
 Obstetrics & GYN &
 Midwifery
 Laboratory Medicine
 Medicine
 Psychiatry
 Orthopedics
 Pediatrics
 Rehabilitation
 Surgery

Jobs-to-be-done:

- In GH\$, just two main jobs
 - . What's wrong and how to correct it? (Solution shop)
 - . Correct it affordably, effectively, conveniently (VAP)
- No history of success, in ANY business, of combining two business models like this

Why?

- Hospital solution shop:
 - . Diagnostics, laboratories, imaging, specialists
 - . To be able to Dx anything and everything, impossible to standardize process; is resource driven
 - In most, not integrated
- Hospital VAP business:
 - . Once a Dx is known, use surgeries, specialized care, to treatõ many procedures are standardized
 - . Very process driven

So what, you may ask?

- Both of these types of business models have very different overhead cost and profit structures
 - . SS $\$$: expert and resource driven, fee-for-service, no guarantee of outcome, no standardization (every patient is different)
 - . VAP $\$$: process/procedure driven, much standardization, predictable costs and outcomes
- Combination of both under one business roof creates inefficiencies that raises costs

So why don't more hospitals split these businesses?

- Many GHs evolved into this, and inertia is hard to overcome
 - VAPs businesses in hospitals are often most profitable; loathe to split these out.
 - SScs can be very profitable, but don't need all the resources that GHs have
- Powers-that-be also resist the new models

Some hospitals ARE successful being focused...

- SS ϕ :
 - . National Jewish Hospital
 - . Cleveland Clinic, Mayo Clinic
 - . Focused, integrated SS business (but also have successful VAPs)
- VAPs:
 - . Specialized surgical hospitals for hearts, spines, cancer, etc.
 - . Take the Dx of others and apply standardized, effective therapies
 - . Better outcomes, fewer complications, lower cost

What is likely to happen in the future?

- As complexity of Dx and Tx diminishes, increasing shifting of care to more efficient care centers
 - Hospitals to outpatient clinics
 - Clinics to Physician offices
 - Offices to home care
- Has been occurring over the last 40 years, pace may accelerate, much to overcome

Class exercise

- Separate into groups
- Come up with a product/service idea that might be disruptive to the general hospital model
- Brief description, what change is being exploited, and why is it disruptive?

Next Week

- Chapter 4
- Physician Offices
- Teams Setõ begin working on product/service idea