The new health care paradigm

Roles and competencies of leaders in the service line management approach

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Abstract

Purpose – The purpose of this paper is to discuss the need for the service line management approach in health care. Service line management is increasingly utilized by US health care organizations as an innovative method for providing the needed stimulus to increase viability and profitabilit for the ailing health care sector.

Design/methodology/approach – Using current literature, this study describes a paradigm shift from traditional health care management approaches to focus on the importance of a service line management approach with its specifi emphasis on competencies of leaders.

Research limitations/implications – Four essential competencies – conceptual, participation, interpersonal, and leadership – must be gained by leaders to bring about organizational growth.

Practical implications – Health care managers must understand and practice these four key competencies to become effective health care leaders.

Originality/value – This paper provides useful information on the need for the service line management approach in health care.

Keywords Health services, Leaders, Line management, United States of America

Paper type Research paper

Introduction

Over the past quarter century, the US health care system has undergone dramatic changes. Costs have escalated in an unrelenting fashion. The demand for more services and the continued expansion of medical technology has signifi antly impacted health care access for the general public. Prof ts have steadily decreased as reimbursement from all payers has been seriously eroded. In the case of large for-prof t health care systems, earnings have declined from complex, inpatient services, as more and more patient care has shifted to the outpatient sector. To complicate this situation, the strict managed care delivery sys tem with its focus on cost containment has been criticized for its inattention to consumer choice and quality. In this setting, one of the key components of the delivery system, the physician, has become increasing an independent variable, usually not under the control, direction or decision-making loop of hospital-based organizations. In an attempt to change the health care dynamic, health care systems have implemented an organizational shift designed to cluster related services under a single manager for enhanced clinical and market management. This service line management approach emphasizes that key services within the hospitals and health care systems can be viewed as mini businesses with their own

customers, markets, staff and competitors. This approach is increasingly utilized by health care organizations as an innovative method to provide the much-needed stimulus to increase the viability and profitabilit of the ailing health care sector.

This paper begins with a discussion of the background and need for the service line management approach in health care. Next, a review of the literature shows the importance of the leader's new and various roles and competencies in this service line management approach.

Background and need for service line management

Service line management originated from the manufacturing industry and was adopted by health care in 1983 with the advent of the inpatient prospective payment system (PPS) (Nevers, 2002). The intent of the PPS was to group inpatient services into diagnosis-related groups (DRGs). Since each DRG payment covers all services provided to patients during their inpatient stay, then profit and losses incurred from any case could be calculated so that grouping of the same DRGs allowed hospitals to defi e segments of services and evaluate profit and losses. The need for dividing services into service lines became apparent for the firs time as hospitals and health care organizations were able to focus better on the growth and profitabilit of specifi service areas (Nevers, 2002). The focus on service lines, rather than products, allowed health care activities to be more coordinated, and emphasized on strategic decision-making processes.

Specif cally, the service line management concept revolves around the requirement that each subunit has its own management and support function (e.g. financ , nursing, marketing, human resources and quality management). Clearly, this alignment under a single leader offers the benefi of a one-stop shop scenario for patients in need of a particular type of health care service (e.g. maternal-child care or cancer care). Superior leadership skills are essential for the successful implementation of service line management processes. The service line manager must have the ability to coordinate the activities of employees with disparate backgrounds into a team, focused on producing the highest quality of service to customers of the unit at the best price. To achieve this, the service line manager must engender the loyalty of the team and act as a mentor to the unit employees, while functioning as a collaborator with specialty physicians supporting the service, and as a valued colleague to managers of the other services within the hospital.

The service line leader becomes the essential ingredient as the hospital organization makes the transition to the service line management approach of health care delivery. This comes about with the recognition that the key component in the shift is the recognition that the customer is the driving force behind all decisions. Moreover, the service line leader, whose clear vision for determining the direction of the organization, can best develop and implement strategies to achieve that vision. His/her ability to understand and articulate basic service principles (e.g. customer service, quality and value) enables the team to maximize performance and profit bility for the unit (Torres and Guo, 2004).

Common failings in the application of the service line management approach are due to a lack of understanding of the essential aspects of the approach. First, if this approach is primarily used for the fundamental purpose of cost containment, then it will fail to develop to its full potential. The impact of this method has far-reaching

results. Service line management enables organizations to concentrate not only on cost accounting, but also allows for strategic investment in creating and monitoring the growth potential of new services and markets (Nevers, 2002). Second, as resources diminish in health care, prioritized choices must be made. Here, the focus of service line management is on identifying and applying this strategy to high volume and profitabl services, rather on all services.

According to Nevers (2002), successful service line management requires a systems perspective in which efforts permeate throughout three domains: strategic planning, strategic financia management and strategic service delivery. Strategic planning focuses on the development of service line specifi business plans for long-term viability. Strategic financia management determines where resources should be invested. Strategic service delivery ensures that the care delivery process is of the highest quality. In other words, for service line management to succeed, efforts of organizations include central coordination and focus, existence of a continuum of care, active participation of physicians and external focus of service line leaders. Centralized coordination relies solely on the service line manager who is held accountable for coordinating quality and cost effective services. Offering the continuum of care is monitored by the service line manager. Enabling physician participation is another responsibility of the service line manager. Finally, focusing on the external environment helps the service line manager to establish external linkages for managing competition, regulations, and technology (Nevers, 2002).

Paradigm shift from traditional to new health care system: the new leader
Research studies show that the service line management approach is a very versatile tool used by health care organizations in the current environment. As the traditional health care system undergoes a constant and permanent state of flux existing roles and functions are being evaluated to ensure that there is a contribution to specifi care outcomes (Cole, 2001; Duncan *et al.*, 1998; Guo, 2002). As a result of this evaluation, current roles and jobs may no longer exist in the future. The traditional transactional leader establishes a supervisor-subordinate relationship in which the needs of the followers are met if are performed to the leader's expectations (Dye, 2000). The relationship between the employee and employer could best be described as a passive one, where one leads and the other follows. For instance, the leader designs programs, teaches employees, and implements the changes. However, the employee is not actively engaged in the process, whereby decisions are generally made in a unilateral and solitary way. This model has been proven to be ineffective not only in the health care industry, but also other service industries.

A major transformation taking place in the new health care model relies on leadership begin crucial to implementing change in the service culture. Organizations will be responsible for assessing the processes and functions to determine what they do, how they do it, and who does what (Ross *et al.*, 2002; Harrell, 2003). This assessment places all processes under scrutiny and poses the possibility of change, or even elimination of current practices, including the deletion of positions, redesigning jobs, and reduction in human resources. All processes in the organizations are evaluated in terms of their contribution to outcomes.

This shift in thinking has generated new rules. Since health care is constantly evaluating and reorganizing processes, strategic planning becomes more complex, yet

it remains an integral part of the reorganization process. In order for change to take place, managers must be flui in their ability to respond. In the new paradigm, the leader is responsible for understanding the signals of upcoming change, the market forces involved in the change, working with others along the service continuum, and sharing risk rather than controlling relationships. Leaders must accept that those people who perform the actual tasks are the ones who drive the organization (Toffer, 1990). Each individual is accountable for contributing to the outcome. A shift, therefore, has occurred from the traditional hierarchical style of management (top-down) to the team-based style of management where a support system is built around the point of service or the knowledgeable worker, and technological innovations (Ross *et al.*, 2002). Here again, empowerment is the key to success. All parties must be involved in the decision-making process to ensure that the best outcomes are achieved. There is not just one person that has the solution to all of the problems. The leader's role is to empower those employees who provide the actual services and care. This will cause a change from the vertical structure of the old system to a horizontal structure that accurately defi es the role-relationships of the employees. In this way, empowerment allows workers to be more decentralized and independent and enables them to become more of a partner or stakeholder in the decision-making process.

The health care transformational process also calls for a change in the mentality of "this is just a job", to one of the employee's ownership and pride in the participation to achieving outcomes. It will no longer be acceptable for an employee just to perform one's job. An employee has to be an engaged worker committed to participate in and support the organization's mission and purpose. Here, the leader's responsibility is to facilitate the worker's commitment to the purpose of the work, support self-directed staff behavior and decision-making skills and empower the staff to participate in the ownership of their role(s).

In addition to the movement toward increased employee participation and empowerment, another change taking place is the formation of partnerships. Partnerships are important because they allow organizations to extend their relationships (through mergers, contracts, etc.) as well as to enhance their effectiveness. Horizontal structures which replace the hierarchical systems as the point of service become the central focus for work structures. Networking of partners creates a balance and change in interactions from subordinate-to-leader to peer-to-peer. Partnerships eliminate the walls of departmentalization or job functions and will instead build pathways or roles that will allow all employees to communicate and have access to information in order to achieve success in the organization's outcomes. The partnership concept becomes valuable as the shift of organizations focuses on increased accountability. Accountability focuses on outcomes. For instance, performance, quality, and consumer satisfaction data are the driving forces for success (Torres and Guo, 2004). However, today's leaders cannot possibly have expertise in all service areas of the organization. The subordinate-boss relationship is no longer sufficien for positive outcomes. Moreover, personal judgment that once controlled health care organization relationships in the traditional model cannot satisfy this concept. Part of the reason for this shift to accountability comes from the recognition of the increasing dependence on knowledgeable employees. Thus, this automatically shifts the traditional role of manager-employee to one of a teamed

approach, with leaders and employees working together to resolve issues and arrive at solutions.

Roles and competencies of the new health care leader

As these changes occur in the health care system, there is increased demand to comprehend the competencies of the new leader in the changing health care environment. A transactional leader has been replaced by one with a transformational leadership style. The transformational leader's purpose is to achieve significant changes in the status quo. Managers must be more focused on creating change rather than on exchange. More importantly, this leader with his/her vision for the organization must lead followers both inside and outside of the organization to embrace that vision.

To succeed in the new health care model, three basic shifts must occur in management practices (Porter-O'Grady and Krueger Wilson, 1995). These requirements are:

(1) a leader's continuous acknowledgement of one's own and other's inner wisdom;

(2) a leader's recognition and action on the interconnectedness of everyone to everything; and

(3) the rejection of the clockwork view of the world.

This perspective suggests that new competencies must be embraced to be successful. A leader will be responsible for assisting the worker to accept control over his/her work. The old vertical structure must be dismantled to allow flexibility, risk-taking, creativity, and fluidit to enter as replacements.

The health care leader of today can no longer rest on past successes or the traditional management style (see Figure 1). In order to be successful in today's environment, there are specifi competencies that are essential to the leader's continued success in the organization. A leader's role changes as he/she relies more on interpersonal exchanges in working with various people to assess processes, resolve conflits, and allocate resources.

Conceptual competence requires leaders to think and act on their thoughts as they lead others to act (Porter-O'Grady and Krueger Wilson, 1995). A leader is responsible
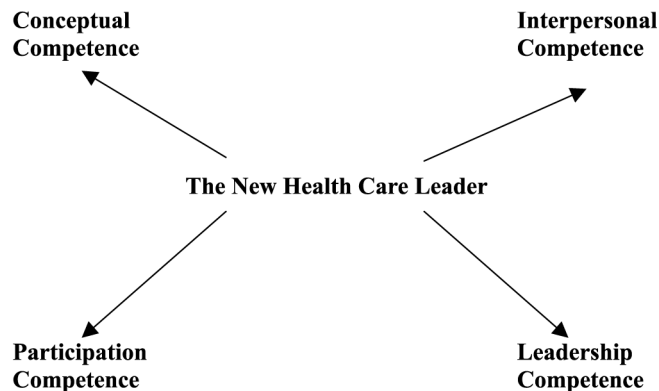

Figure 1.
The new health care leader

not only for understanding and managing one's own behaviors, but also for understanding and managing behaviors of others. Leaders must look at their previous experiences or training and relate them to the current problem, determine if these are still applicable and if not, implement new solutions to address the issue. A leader is responsible for assessing all current systems and processes and determining if they meet the vision and if not, restructure and align them to enhance organizational survival. Realignment cannot be successful without the input of employees and teamwork.

It is important to note that the transformational leader with conceptual competence looks at the organization as more than the sum of its parts. The focus is holistic by concentrating on the entire picture and not just the individual parts of the puzzle. This does not solely rely on the breakdown in a specifi area or process, rather it looks at how the breakdown has impacted the organization as a whole. For example, if there is a problem with patient scheduling, identifying the problem should not just highlight the breakdown in the scheduling process, but should also look at budgeting for that department and the centralized scheduling implications across the organization.

A conceptually competent leader understands that risk-taking is an important step in addressing uncertainty. The leader will need to view challenges as opportunities for improvement and/or new ideas. By taking advantage of pre-existing ideas and evaluating whether this information is still valid, the leader assesses the current situation and takes action based on a complete understanding of the data and then uses feedback from that action to complete the circle. Analysis and then synthesis, or putting the pieces together to form the whole puzzle, are also important parts of conceptual competence. This leader will not just focus on his/her areas of expertise or areas of personal interest, but rather focuses on networking and team building.

A second competency in which leaders must be profici nt is known as participation competence (Porter-O'Grady and Krueger Wilson, 1995). Employee involvement and empowerment make up participation competence. The leader is responsible for transforming the passive employee to an active stakeholder in the process. This means the leader is now responsible for managing the potential of his/her employees by creating an organizational culture where employees can participate in the decision-making process, by thinking creatively, discussing new ideas, and taking risks. To allow for participation, leaders must invest in organizational and employee learning. Effective communication skills and model behaviors will enable employees to fin value and meaning in their jobs (Guo and Sanchez, 2005). Leaders can facilitate involvement by keeping employees informed from the beginning of the expectations or outcomes of the department. Employees are included in discussions regarding the economic goals along with any technological advances that may affect their department. They are encouraged to continue to acquire skills that will increase their marketability as well as increase efficien y in their respective jobs. This constant inclusion of the employee will help to reinforce the involvement and value of workers. The leader is also responsible for empowering his/her employees through assigning clearly define roles, expectations, accountabilities, and shared responsibilities.

Interpersonal competence has always been an important part of effective leadership. Key to this is communication (Porter-O'Grady and Krueger Wilson, 1995). Communication enables access to information, thereby increasing employee participation. Facilitation and coaching are also important pieces of the

interpersonal competence to guide employees' performance, solve performance problems, and to accomplish organizational objectives. To gain interpersonal competence, an effective leader possesses two essential characteristics of effective interpersonal communication:

(1) getting the message across; and

(2) engaging in active listening.

In the former, an effective leader will be sensitive to feelings, thoughts and situations of others, often repeating messages when necessary, focus on addressing problems, and be precise and concise when communicating. In the latter, to be an effective leader, active listening is more than just listening, but also actively sensing the sender's signals, evaluating them, and responding appropriately.

Leadership competence states that the leader must have technical and transformational skills in order to be viewed as credible by employees (Porter-O'Grady and Krueger Wilson, 1995). A competent leader functions in a supportive role by providing information, tools, and resources for his/her employees rather than dictating the chain of events in a boss-subordinate role. Furthermore, the leader is responsible for motivating and directing those in the organization to attain higher levels of performance goals (Guo, 2003). Numerous research on leadership has delved into the dynamic processes and multiple perspectives of leadership. More recent studies examine leadership from the contingency approach by describing appropriate leader behaviors in different settings. Even popular today is the focus on the ability of leaders to transform organizations through their vision, communication and ability to build commitment. Furthermore, studies suggest that competencies, not just merely traits, distinguish effective from ineffective leaders. There are seven recognized leader competencies:

(1) *Drive* – leaders have a higher need for achievement and stronger inner motivation to pursue goals and encourage others to move forward.

(2) *Leadership motivation* – leaders have a strong need for power because they want to influenc others.

(3) *Integrity* – leaders are trustworthy and have the tendency to translate their words into action.

(4) *Self-confidence* – leaders believe in themselves and their skills to achieve objectives.

(5) *Intelligence* – leaders have above average cognitive ability to process a great deal of information.

(6) *Knowledge of the business* – in this case, leaders know the health care environment and are able to recognize opportunities and capture them to benefi their organizations.

(7) *Emotional intelligence* – effective leaders have a high level of emotional intelligence and are able to monitor their own and others. They are sensitive to situational cues and adapt their behaviors accordingly (Kirkpatrick and Locke, 1991).

Gaining the four competencies of conceptual, participation, interpersonal and leadership is an essential component to successful application of the service line management approach. As managers struggle with challenges in the new health care environment, positioning one's organization for growth can be greatly enhanced through service line management.

Practical applications and implications for health care managers

The US health care delivery system continues to evolve. It began with the traditional health care model and has transformed into an increasing need to examine new strategies for organizational survival. This major paradigm shift is necessary as health care systems vie for market share due to competition and limited capital. The use of service line management is seen as an innovative way to provide more coordinated and higher quality services. One key component of this approach is the emphasis on the essential competencies of the new leader. Conceptual competence, participation competence, interpersonal competence, and leadership competence are the four basic attributes of the leader necessary for success in the new health care delivery system.

The traditional health care model is no longer effective in today's market-based economy. Today's employees must be recognized and valued as an integral part of the organization. The traditional model of health care where the leader directs and the employee follows will not produce successful outcomes for the organization. What we have learned is that change is inevitable. The leader is responsible for living these changes and inspiring his/her employees to succeed. In the new health care paradigm, the employee and leader are partners who share in the discussions, analyses, and solutions to bring about strategic change that will result in organizational success.

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