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Managing Health Care Business Strategy

SECOND EDITION

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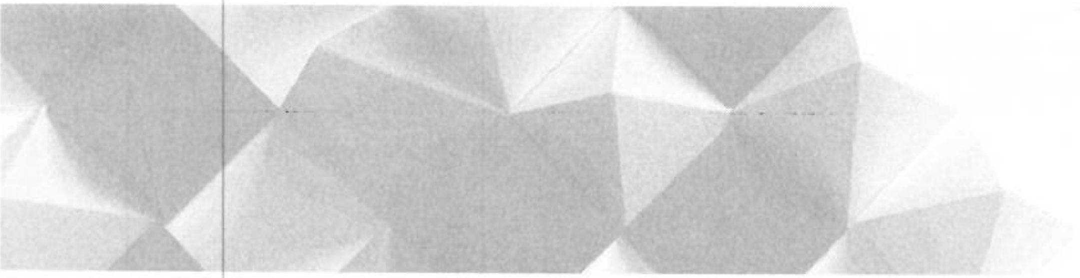

CHAPTER 19

Organization Design and Culture

"Structure follows strategy."

Alfred Chandler[1]

LEARNING OBJECTIVES

After reading and studying this chapter, you should be able to:

- Recognize the elements of organizational design.
- Define the fundamental attributes of an organization's structure.
- Appreciate the ways that structure and strategy interplay.
- Consider the opportunity to adjust an organization's structure to fit its strategy.
- Give a lucid description of the concept of "organization culture."
- Know where you can find signs of an organization's culture.
- Understand what creates and sustains culture.
- Be aware of the existence of subcultures.
- See how culture affects an organization's operations.
- Assess the fit between the existing culture and a proposed strategy and make appropriate changes if necessary.
- Choose the best culture and structure for a proposed strategy.

Introduction

One early step in the strategic planning process is the assessment of the organization's internal environment—an audit of strategic assets like money, plant and equipment, technology, and human resources. The potential contribution of human resources to strategic objectives is affected by how they are organized in their jobs, how they are rewarded for their work, and the culture that permeates the workplace. These factors are covered under the topics of Organizational Design and Organizational Culture.

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[1] Alfred Chandler, *The Visible Hand: The Managerial Revolution in American Business*, Harvard University Press, 1977.

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Organizational Design

This broad topic has potent implications. Organizational design encompasses all the ways that a business configures, directs, and motivates the resources and competencies available to it for carrying out its mission. This includes many elements like ….

- organizational units (teams, departments, functions, divisions) and how they relate to each other
- jobs within those units (descriptions, compensation)
- division of work responsibility (hierarchy, reporting relationships)
- policies and procedures prescribing how the jobs are to be performed
- people filling those jobs (qualifications)
- work flows defining the sequence by which tasks proceed from one job to another
- decision-making authority (procedures, who has the authority)
- rewarded employee behavior (salaries, wages, promotions)
- instinctive employee behavior (organization culture, personal standards)
- communication between units (official channels, informal links)
- information and knowledge flows (data pathways, learning systems, reporting requirements)
- other systems (information technology, control, finance, personnel) that tie all this together.

These elements can be combined to create any organization design that its leaders can imagine. The choice among the possible forms is important because different designs can produce very different operational and strategic outcomes.

Organizational Structure

The starting point in an organization's design is its structure, typically portrayed through an organization chart. The structure determines how work tasks are divided, grouped, and coordinated. A primary factor in the coordination is who reports to whom – that is, which employees take directions from which supervisors. There are six fundamental attributes of organizational structure.

Work specialization is the degree to which related tasks are spread among several jobs. Each employee is assigned a few tasks at which he becomes a specialist. The work of several employees flows together to perform a process.

Departmentalization is the basis on which jobs are grouped together in a "department." The primary alternatives are functional, product, geographic, process, and customer departmentalization.

The **chain of command** is the line of authority from the chief executive officer (CEO) of the organization, through several layers of management, to the frontline employees. Each person in the chain has command over the person below her and is subject to the command of the person above her. It is a rule of thumb that each employee should report to only one manager.

Span of control defines the number of subordinates over whom a manager exercises control. The wider the span of control, the fewer managers and organizational levels are needed.

Centralization refers to how high in the organization decision-making authority is concentrated. Greater centralization leaves less autonomy to employees at lower levels.

Formalization is the extent to which jobs are standardized, meaning that their performance is strictly guided by rules and procedures.

What Alfred Chandler meant when he said that "structure follows strategy" is that the strategy is defined first and the structure is configured to support that strategy. Quite often, when a business announces that it is going to "reorganize" or "restructure" it is taking into account shifts in its markets or the emergence of new technologies that require a strategic adjustment.

These attributes can be combined to define five fundamental types of organization structure.

Usually the most recognizable is the **functional** structure, which is based on traditional business functions like finance, marketing, operations, and human resources. In a hospital, patient

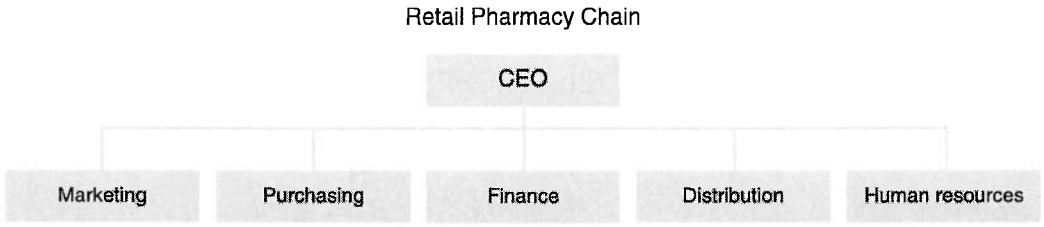
Retail Pharmacy Chain
CEO
Marketing
Purchasing
Finance
Distribution
Human resources

FIGURE 19.1 **Functional Organization Structure**

care and support services would be added to these functions. The organization chart for a typical pharmaceutical company might also include functions in research and development, compliance, patient services, clinical trials, and business development.

An advantage of the functional structure is that employees develop high competence in their individual functions. They are especially productive. On the other hand, this may make it hard for management to coordinate the activities in different functions, as is often necessary in strategic initiatives like entering a new market niche. Functional employees may also have trouble appreciating the customer's viewpoint.

A structure more common in health care is organized around **products or programs**. Typical hospital structural groupings are administrative services, informational services, therapeutic services, diagnostic services, technology services, and support services. A drug company might base its structure on products for treating different diseases (cancer, diabetes, infectious diseases).

This structural type allows employees to identify strongly with particular products and to become especially competent at creating and delivering them. They are able to respond quickly if the markets for those products shift. There is a high degree of coordination among the functions serving each product group.

Another possible basis for organizational structure is **market segments or customer groups**. For instance, a large physician group practice might divide its organization into business units serving the health care needs of women, children, adults, and the elderly. Clinicians in each unit would be most knowledgeable about their patients' unique needs. In hospitals, there is always a distinction between inpatients and outpatients.

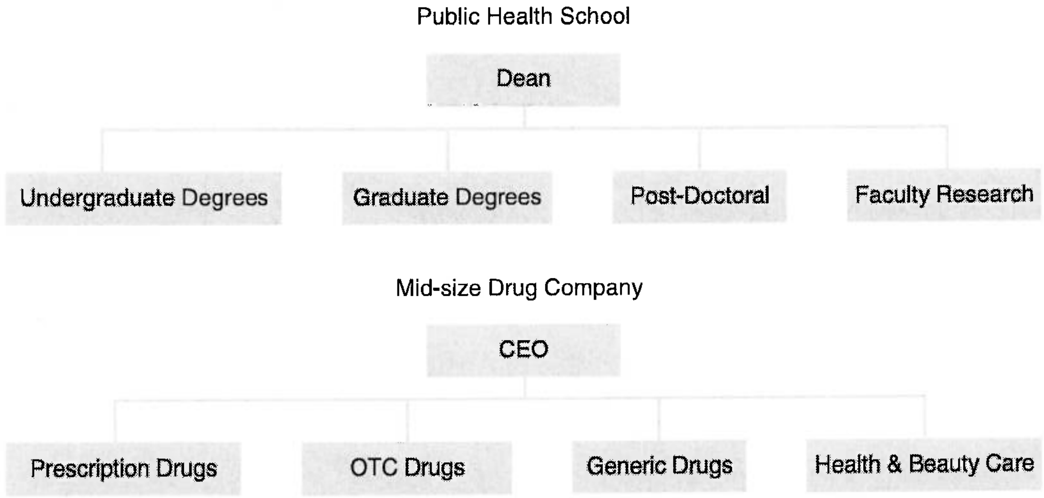
Public Health School
Dean
Undergraduate Degrees
Graduate Degrees
Post-Doctoral
Faculty Research
Mid-size Drug Company
CEO
Prescription Drugs
OTC Drugs
Generic Drugs
Health & Beauty Care

FIGURE 19.2 **Products/Programs Organization Structure**

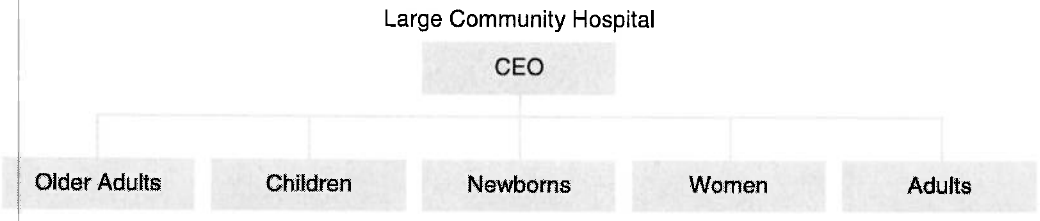

FIGURE 19.3 **Market Segments/Customer Groups Organization Structure**

This arrangement encourages greater flexibility within units so that employees can respond more quickly to those needs. Employees are more motivated by the opportunity to be customer focused (which fits very well with the trend toward more patient-centric health care). Inter-functional coordination is facilitated.

Process-based structures are based on the business processes that constitute an organization's value chain. As an example, the organization chart of a medical device manufacturer might include these units: research and development, manufacturing, customer acquisition, order fulfillment, and post-sales service.

Because employees become highly skilled at their particular processes, these structures enhance the efficiency and speed of work as it moves through the value chain. This is an advantage in a rapidly changing business climate. The disadvantage is that poor communication between processes (links in the chain) may cause dysfunctional handoffs.

Very large corporations serving markets throughout the United States and in other countries often organize themselves by geography. A multinational drug company might adopt an organizational structure that includes these units: U.S. Northeast, U.S. Southeast, U.S. North Central, U.S. Midwest, U.S. Southwest, U.S. Far West, Canada, Europe, Japan, and Emerging Markets.

This type of organization may better match customer needs that vary from one geographic region to another because it is closer to them. It also is well suited to accommodating their different logistical systems and requirements.

One of the most challenging organizational structures to establish and maintain is a matrix configuration, in which employees report both vertically and horizontally to two different managers. For instance, a company might offer three broad categories of consumer health products—over-the-counter medicines, nutrition products, and fitness equipment—that are supported by functional units like research and development, manufacturing, marketing, finance, and personnel. Imagine an organization chart with the functional units arrayed horizontally across the top and product units running vertically down the side. Employees are located at the points where lines from the functions and the products intersect.

The advantage of this structure is that functional specialists can be brought together to work on product initiatives, such as the launching of a new product. The challenge lies with the employees who must report to two bosses.

These are templates for organizational structures. Businesses are free to shape themselves in any way they wish, even combining features from different models. An interesting example is the

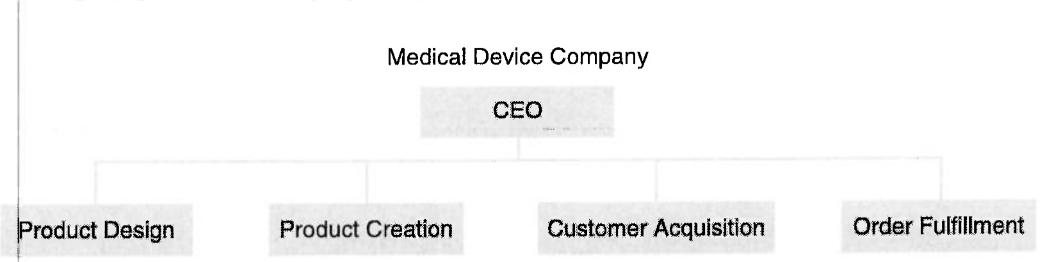

FIGURE 19.4 **Business Processes Organization Structure**

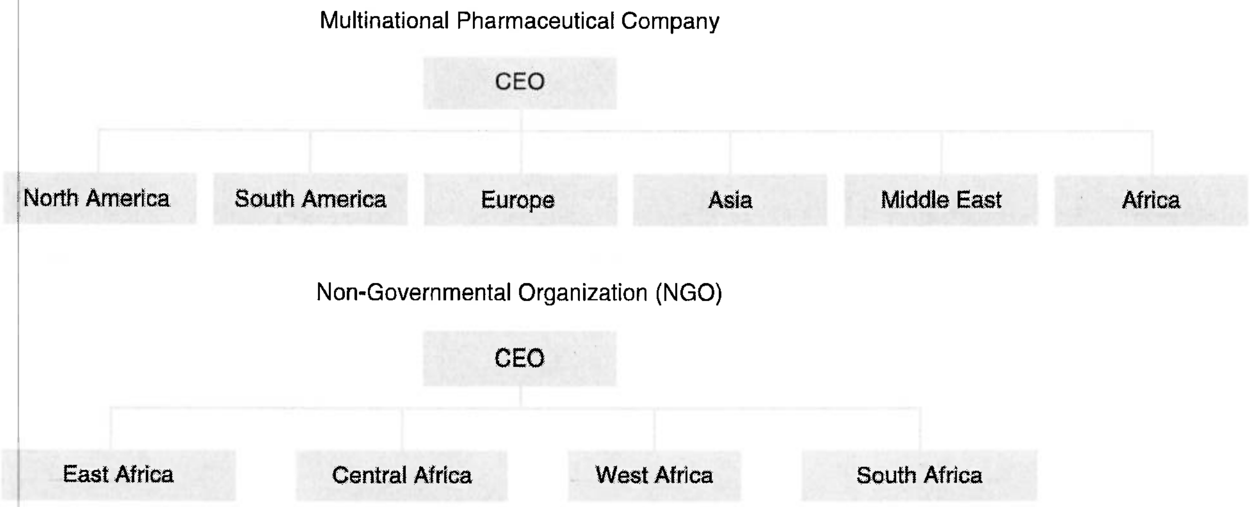
Multinational Pharmaceutical Company
CEO
North America
South America
Europe
Asia
Middle East
Africa
Non-Governmental Organization (NGO)
CEO
East Africa
Central Africa
West Africa
South Africa

FIGURE 19.5 **Geography Organization Structure**

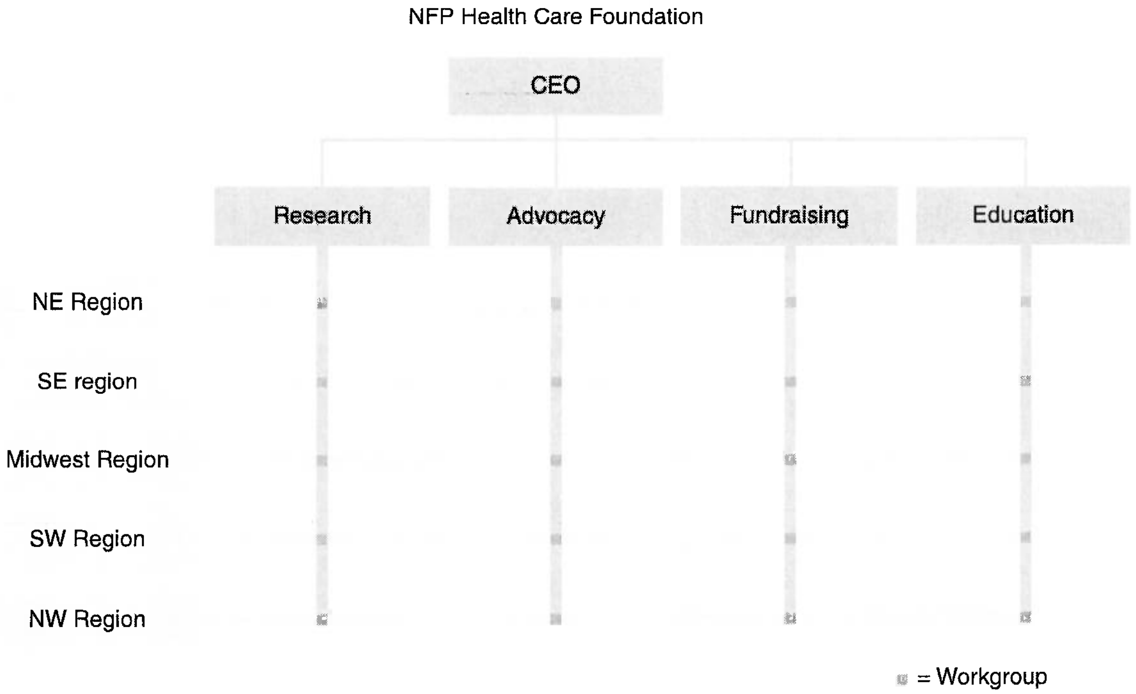
NFP Health Care Foundation
CEO
Research
Advocacy
Fundraising
Education
NE Region
SE region
Midwest Region
SW Region
NW Region
▪ = Workgroup

FIGURE 19.6 **Matrix Organization Structure**

Pfizer pharmaceutical company.[2] Its organization is composed two parts. One is a “commercial operating structure” that includes these businesses: Primary Care, Specialty Care, Oncology, Emerging Markets, Established Products, Pfizer Consumer Healthcare, Pfizer Medical, Pfizer Global Supply, and Research and Development. These units are managed in this way:

“Each of these areas is led by a Pfizer executive who is charged with leading their team through the ‘bench to bedside’ process and, ultimately, achieving real world results. Each area is provided with the resources to pursue attractive growth opportunities and to deliver benefits to all who rely on us around the world."

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[2] http://pfizercareers.com/en-in/career-types/our-businesses

The second part of the organization is the internal support structure consisting of these functional units: Finance and Business Operations, Global Procurement & Operations, Worldwide Business Development & Innovation, Legal, Compliance, Human Resources, and Policy, External Affairs & Communications.

General Electric has a similar organizational structure, with commercial units (Global Growth & Operations, Energy, Capital, Home & Business Solutions, Healthcare, Aviation, and Transportation) and support units (Commercial/Public Relations, Legal, Business Development, Global Research, Finance, and Human Resources).

Interplay Between Structure and Strategy

Organizational structure facilitates (or hinders) corporate strategy in two ways. A structure may so inhibit the alertness and imagination of managers that they do not recognize the forces that compel a change in strategy. Certain structures may not be capable of the internal adjustments necessary to implement a strategy. These are some of the ways that structure and strategy can be matched with each other:

- A functional structure encourages employees to become specialists in a particular function. This works well for an organization with a single product line. When a business expands to offer several unrelated products/services each with its own unique function requirements, a structure that focuses on one set of functions will no longer be appropriate.
- A new biotech venture starts by working on a single small molecule. If its research is successful, it is likely to move on to study other molecules. New organizational units may be created for each additional research project. If the business continues to grow by adding more projects, at some point it will become unmanageable for it to create still more autonomous new units. What will happen is that the molecule projects will be collected in groups based on the underlying science, the diseases targeted, or some other commonality.
- A differentiation strategy that relies on a high degree of innovation—to develop new products, product features, or means of distribution—demands a structure that is organic and flexible, one that delegates a lot of decision-making authority to lower ranks of the hierarchy.
- A low-cost leadership strategy is more likely to succeed in an organizational structure that is more mechanistic, has a taller hierarchy with more levels of management, and exercises tighter managerial control through greater formalization and specialization of jobs.
- "Flat" organizations, with fewer levels of management and wider spans of control, are better suited for markets and environments that are prone to frequent, sudden changes. Because their employees are subject to looser supervision, they are able to respond more quickly to the changes.
- Organizations operating in less frenetic, more stable environments can afford to deploy more hierarchical structures, narrower spans of control, more centralized decision making, and more formalized job descriptions. When job tasks are not changing often, employees can be asked to follow prescribed work rules with little deviation.

Once a business recognizes that its strategies are more likely to succeed when they are matched with a supportive organizational structure, it can begin to think about making appropriate adjustments.

Adjusting the Structure to Fit a Strategy

Aggressive businesses in competitive markets are often in the process of implementing two or three significant strategies at one time. When one strategy is completed, it may be followed by another. It is unrealistic to modify the organizational structure to accommodate each of these strategies. For one thing, each strategy may be best suited to a different type of structure—perhaps slightly different, perhaps greatly different. For another thing, the structure cannot be changed every time a new strategy comes into effect. A "reorganization" is a major undertaking for any business; it cannot be taken lightly. So, what is the organization to do?

Alfred Chandler suggested that, in real life, most businesses proceed through a five-step sequence in fitting their structures to their strategies. This is not a deliberate process; it usually happens unconsciously over a period of a few years.

1. New strategy is formulated and implemented.
2. New administrative problems emerge (unless the structure already is a good match).
3. Organizational performance declines.
4. New organizational structure is established.
5. Organizational performance improves.

This seems like a painful, dysfunctional way to discover that the existing structure is not working and take steps to modify or replace it. But the alternatives might not be much easier. How does a business determine that its structure is strategically counterproductive? How does it identify the structural elements that are not working? In exactly what ways should they be changed? How will management know that the changes have succeeded? How often should an organization be willing to modify its structure?

The process for transforming an organizational structure will always be more of an art than a science, but here are some suggestions for coming to grips with it.

The possibility of structure change should be addressed by a team of people with diverse views on the organization's structure. This is to ensure balanced judgments and decisions about this critical yet amorphous topic. The team should also include some members familiar with the strategies that the organization has planned or is considering.

The team's first assignment is to reach some consensus on the characteristics of the current structure, using, at least, the traditional measures—work specialization, departmentalization, chain of command, span of control, centralization, and formalization.

The next step is to describe the ways that the structure supports or hinders the strategies currently in effect. If this is the first time this exercise has been performed, the team may discover how dysfunctional the structure has been for some time.

Now, the new strategies must be analyzed to determine the extent to which they are dependent on the structure, specifically the ways in which they may be helped or hindered.

The most difficult part is deciding whether to make structure adjustments and, if so, which ones. One way to approach this is to define two or three scenarios (e.g., new structure configuration #1, new structure configuration #2, maintain existing structure) and explore how they would play out. This step deserves a lot of attention. A lot of effort and resources will be consumed in carrying out a major structural shift that will not be easily reversible.

Remember—one option is to leave the structure just as it is. Another is to modify or even cancel the strategy that conflicts with the structure.

If structure changes have been agreed to, a plan for their implementation must be made. It will be complex and extend over several years. It will be essential to communicate clearly to all employees the reasons for the changes, the substance of the changes, and how they will be affected by them.

The progress in implementing the change must be watched closely. If things do not proceed as planned, it may be necessary to adjust the change plan or the strategy that is relying on it.

Organizational Culture

The culture of an organization can influence its strategic success as profoundly as its organization structure. The classic example of this is when there is a merger or acquisition of two corporations with clashing cultures. Consider this scenario.

> Two hospitals have decided to merge. Each hospital either employs or contracts with physicians to provide hospital-based radiology services. The natural choice of the management of the merged entity was to ask the two groups of radiologists to become one group. However, there were cultural differences between the two groups. One group used radiologist extenders (radiologist assistants, radiology practitioner assistants) extensively and were proud to enhance their productivity in that way. The other group refused to use them at all, believing that they were treading on their professional turf. For some years, the two groups had felt themselves in competition, each believing that they performed more accurate, higher quality services. There was such bitterness between them that the merger became untenable .... not for marketing or financial reasons, but because of irreconcilable culture conflicts.

There are a number of definitions of the concept of "organizational culture." The most common are (a) "The way things are done around here;" (b) a set of persistent values, beliefs, attitudes, customs, norms, and traditions that are shared by the organization's employees and passed on to newly hired workers; (c) the organization's "personality;" and (d) a complex set of forces that shapes employees' behaviors outside the scope of formal policies and rules and sometimes in conflict with them.

The culture may be perceived in a multitude of ways: unique and sometimes idiosyncratic employee actions and behavior patterns, physical workplace features (furniture, clothes, tools, personal effects), ceremonies and rituals, personal introductions, orientation program, training courses, organizational myths, legends, heroes, and lore, distinctive language, slogans, and symbols. These are a lot of possible indications that may not be easy to interpret.

How Does Culture Get Started and What Keeps It Going?

If culture is a condition that needs to be managed in the interests of strategic success, it is a good idea to be aware of the forces that bring it into existence and sustain it. Generally, culture starts when the organization starts, when it is founded. It is the founders who are the source of that culture. They have a vision of what the organization can be and how it will achieve the vision. They adopt a variety of business practices in response to forces and challenges faced at different times by various groups throughout the organization.

Most founders do not set out consciously to create a particular organizational culture. One naturally emerges as they make their early business decisions. It is essential for organization leaders to realize that there will always be a culture, whether they try to construct one or it evolves on its own. It is usually unplanned, unconscious, unobserved, unquestioned, and inevitable.

Organizational culture also is self-sustaining. Businesses usually try to hire new employees who will "fit in" with the existing workforce temperament. Cultural values are often instilled during an orientation program. This is complemented by a socialization process that encourages employees to conform with preferred attitudes and behaviors. Desired behavior by employees is reinforced through acceptance by coworkers and managers. Actions that contradict the dominant culture are subtly punished. The behavior of managers is a powerful role model for how employees are expected to act. These are other ways that culture is shared and perpetuated.

- Oral and written communications, such as presentations and e-mail
- Organizational structure, as reflected by line and staff relationships

- The way power and status are defined, both formally and informally
- What is measured and controlled, such as time, productivity, safety, and quality
- Formal policies and procedures found in employee manuals and official communications
- How strictly rules and regulations are enforced
- Reward systems, such as compensation plans and supervisory techniques
- Stories, legends, myths, rituals, and symbols, such as company heroes, award banquets, and corporate logos
- The design and use of physical facilities, including how space is allocated and furnished

The culture that results is complex and multifaceted. Understanding it can be useful in thinking about how to "manage" it to better support strategic initiatives.

Existence of Subcultures

Many people are surprised to learn that the organization where they work has a "culture." They are even more amazed when they are told that it may contain numerous "subcultures." Whenever more than two or three people work tirelessly together for weeks or months toward a common goal, what can be described as a group culture will develop. This is true of teams, task forces, departments, functions, facilities, and business units.

One of the interesting categories of subculture in health care is based on the professions of caregivers and other specialists. These subcultures exert powerful forces that can facilitate or impede organizational strategies. There are distinctly different cultures displayed by nurses and physicians. But, an even better example is the unique cultural characteristics of various physicians specialties. Think about the values and attitudes toward practicing medicine of a primary care physician, an orthopedic surgeon, a urologist, a psychiatrist, and a diagnostic radiologist.

A multiplicity of subcultures, combined with a strong organization-wide culture, poses challenges for executives wishing to smooth the path for their strategic plans. Measures that work with one part or group of the organization may be counterproductive in another part.

CASE EXAMPLE: DIFFERING CULTURES AMONG BOSTON TEACHING HOSPITALS

The three leading teaching hospitals in Boston, Massachusetts, USA, are known informally for their distinctive general cultural characters. Under a former CEO, Beth Israel Deaconess Medical Center developed a reputation for treating both its employees and patients in an especially humane, caring manner. Almost next door, the Brigham and Women's Hospital is seen to be run in an efficient, business-like fashion. In downtown Boston, Massachusetts General Hospital is considered to be a "doctors' hospital."

How Culture Affects Organizational Operations

If an organization is going to try to manage its culture in support of strategic plans, it is worth thinking about how it affects what goes on within the business. The effects are overt and covert. The organization exercises observable, intentional, and direct influences through things like goals, policies, procedure manuals, and corporate philosophy statements. Because they are visible, these influences are easier to change than those that are more subtle and covert. The latter effects are hidden, unintentional, and indirect, working through informal ground rules, unofficial guidelines, or the way things actually are done vs. the formal processes. These influences are difficult to change because they lie below the surface of awareness and people may be reluctant to discuss them openly.

Whether the influence is unstated or explicit in nature, a corporation's cultural mindsets and behaviors serve as a powerful means for defining, justifying, and reinforcing ongoing business operations.

Managerial Inattention to Culture

Many business leaders, perhaps a majority, do not pay sufficient attention to organizational culture when planning strategies and the accompanying changes. They often do not appreciate how stubbornly cultural forces resist change. Some believe that culture is so subjective and amorphous that it cannot be managed. Another rationale for ignoring culture is that efforts to change it will be too difficult and expensive. Perhaps it will adapt on its own after the new strategy is implemented. If it does not, the organization can address any cultural problems later.

None of these are sufficient reasons for failing to think seriously about the cultural implications of any strategic initiative.

Assessing the Fit Between the Existing Culture and the Proposed Strategy

Once management decides to pay attention to culture, it will want to assess the consistency between it and strategies that have been proposed. A three-question sequence has been suggested for doing this.[3]

First, how much incompatibility is there between the current culture of the organization and the culture that seems necessary to successfully implement the strategies? A large gap between the two increases the chances of problems with the strategies.

Second, how firmly established is the existing culture? If it is not a dominant force in the workplace, it may be relatively easy to change. On the other hand, a more powerful, influential culture is likely to require aggressive action to make it compatible with the strategic plans.

Third, if it appears that an expensive, difficult overhaul of the culture is called for, is it possible to adjust the strategy instead so that it better fits the culture? That adjustment could include reducing the goals of the strategy, extending the time period for implementation, or devoting more resources to it. Of course, the organization may conclude that neither the culture nor the strategy can be changed enough to bring them into agreement, in which case the strategy will have to be dropped.

Changing the Culture of an Organization

As a general rule, the best approach to changing an organization's culture is to focus on employee behaviors not mindsets.[4] It is easier and quicker to ask people to modify their activities than it is to change how they think. Once they start behaving differently and get used to it, their attitudes and values will begin to evolve.

There are numerous tools available to management for trying to sway the behaviors and mindsets of its employees. They range from the inspirational to the coercive.

Lead employees to a *vision* of where the organization is headed if the culture can be modified.

Tell a *story* or narrative of what it will be like working under the new culture.

Let the employees know that the managers, from top to bottom, will be *modeling* the roles that are expected under the new culture.

Use old-fashioned reasoning and argument to *persuade* employees to adopt the new cultural principles.

Beyond simple persuasion, *negotiate* with employees about the terms under which the new culture will be accepted.

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[3] "What Role Does Culture Play During Change?," Daryl Conner, April 2011. http://www.projectmanagement.com/blog/Change-Thinking/3825/.

[4] "Change Your Culture One Behavior at a Time," published July 12, 2012, with Jon Katzenbach, at http://www.strategyand.pwc.com/global/home/what-we-think/multimedia/video/mm-video_display/change-your-culture.

Explain the process behind the *strategic plans* that are depending on a culture change.

Describe the *learning methods* used by the most successful organizations to constantly adapt themselves and their cultures to changing environments.

Employ carefully crafted *rituals*, or change existing ones, to emphasize important elements of the new culture.

Deploy *measurement* systems to keep track of the detailed changes in the culture.

Complement them with *control* systems that will correct any deviations from the desired culture.

Specifically define the new *roles* that certain employees will perform under the new culture.

Promise *incentives* and disincentives to encourage and discourage desired cultural behaviors.

Through *hiring*, promotion, and firing practices (i.e., "talent management"), bring into the organization employees who fit the desired culture, advance them to positions of cultural influence, and dismiss them from the organization if they are unable to adapt to the new culture.

Modify all *operating procedures* that most reflect the principles of the new culture.

Issue *mandates* that employees must practice the behaviors implicit in the new culture.

Punish through available legal means employees who do not practice the behaviors.

Threaten other kinds of legally permissible consequences for employees who do not practice the behaviors.

Organization leaders must choose selectively from among these tools to carry out their culture change initiatives. A lot depends on the present nature and status of the culture, the degree of change that is intended, and the composition of the workforce. It may be necessary to experiment with different tools to see which are more effective.

Choosing the Best Culture and Structure for a Proposed Strategy

Some generalizations can be made about the most common generic types of strategy and the culture traits best suited to them.

Innovation. This is the primary strategy of drug companies and may be a good strategic choice for other entities. In an effort to compete more vigorously for new members, a health insurance company may decide to differentiate itself by offering a growing variety of benefit and delivery options. It seeks employees who can envisage and successfully introduce such options. This may be a significant shift from the company's traditional strategy of offering standardized insurance products at the lowest premiums. The mindsets and behaviors of its marketing department—primarily responsible for developing and promoting the new options—must be altered. This will require retraining of some employees, explanation of the new strategy, and setting new performance criteria. Desirable cultural characteristics: long-range perspective, willingness to experiment, willingness to fail, transparency, and curiosity.

Cost Efficiency. Once any profit-driven organization decides to compete as a low-cost leader in its industry, it must place heavy emphasis on the cost efficiency of its operations. To some degree, all companies want to exercise control over their spending. This strategy is implemented by narrower spans of control and more hierarchical structures (allowing tighter supervision of employees), formal job descriptions stressing narrowly defined tasks, including cost management goals in department and individual performance evaluations, celebrating and rewarding achievement of those goals, and hiring new employees with experience in cost control.

New Venture Creation. This is a strategy that is played out every time a company establishes a new facility, department, or division, whenever it decides to open a new overseas office, or initiate a new product line. It is virtually the equivalent of starting a new venture. Certain employees are comfortable and effective assuming this kind of responsibility and should be encouraged. It involves an element of risk: success must be rewarded, failure must be tolerated. Looser supervision and broader spans of control are called for. Useful personal traits are resilience, curiosity, flexibility, and optimism.

Sales. A third-party medical billing company has seen its revenues decline steadily over the last three years, while new, aggressive competitors have entered the market. The company has adopted a strategy based on growth that, at least initially, will be carried out through more driven sales efforts. Because the current salesforce may be accustomed to a more relaxed selling style, it may be necessary to replace many of them. Instruction in more persuasive sales tactics would be appropriate. Specific, ambitious sales goals should be set for each individual, coupled with public tracking of progress. It may also be a good idea to compensate sales personnel on a commission basis.

Customer/Patient Friendliness. For decades, a hospital has been well known for the superior quality of the clinical care that it delivered. To maintain this standard, its culture gave the highest priority to the satisfaction of its medical staff. Under pressure from payers and patients, it has made a major strategic shift to establish a reputation for world-class customer/patient friendliness. This shift calls for two changes in the existing culture—an increase in the concern for patients' needs by everyone who comes into contact with them and moderation in the status of the physicians treating the patients. Specific directions on new more patient-sensitive behaviors are given to those staff who deal most directly with patients. Managers make a point of walking through the hospital, engaging with patients, modeling the desired interactions, and reinforcing staff efforts. Reports from patient satisfaction surveys follow the progress of the change and illuminate problem areas. Explanation and negotiation tactics are used to placate physicians disappointed at loss of status.

Law and Finance Functions. There was a time when law and finance were two mundane functions in most health care organizations. That has changed dramatically in the last two to three decades. The steadily increasing mandates for compliance with laws regarding fraud and abuse, false claims, antitrust, tax, and privacy place a premium on vigilant, meticulous legal services. A first-class financial management function is needed to keep up with payer pressures for cost restraint and adapt to regular new reimbursement schemes. The culture in these two departments has not changed substantively, but it has been upgraded and intensified. It has been impressed upon the employees that they are performing professional services that are critical to the success of their organizations. Financial and legal metrics are used to assess how effectively the departments and individuals are performing their duties. In many cases, their compensation has been increased.

Merger and Acquisition. The real test of management's willingness and ability to support its strategies with appropriate structure and culture comes in a merger or acquisition scenario. This transaction brings together into a single entity two organizations with unique structures and cultures that must be blended. The cultural challenge is twofold—preparing one's own employees to accept working with others who may be suspicious and resentful and finding a new culture model that combines the best of both organizations. There are three broad alternatives: total assimilation of one business's culture by the other, integration of the two cultures usually with the acquiring business dominating the resulting arrangement, and separation that allows the two entities to maintain their own cultural identities. Important personal characteristics in these scenarios are adaptability, acceptance of others, willingness to support the process, and patience.

A final reminder: cultural changes are usually applied only to the units, departments, facilities, or employee groups that truly need them. It is not always necessary to modify the entire organizational culture.

Summary

Study Questions

1. How would you describe the difference between a functional and a business processes organization structure? What about the difference between a structure based on market segments and one organized by geography?
2. When might a matrix organization structure make sense and what problems does it present when used?
3. What are the differences between a biotech startup and a large established drug company that argue for employing dissimilar organization structures?
4. Explain the evolution over time of an organization structure, as proposed by Alfred Chandler.
5. Describe, in your own words, the concept of organizational culture, why it exists, and the positive and negative effects that it can have on the functioning of an organization.
6. Identify five distinct subcultures that exist in most hospitals.
7. How would you describe the culture where you work now or where you are going to school? What do you like about it and what do you dislike?

Learning Exercise 1

Become aware of the organization structure where you work now or have worked in the past. How would you describe it? Try drawing a chart of the structure. Can you think of any operating difficulties caused by the structure? Can you suggest a few improvements or even a wholesale change?

Learning Exercise 2

You are the founder of a start-up business focusing on telemedicine. You have two people working with you. You like to plan ahead, so you have decided on the kind of culture you wish to develop. You are wondering what steps you can take now and over the next six months to create such a culture.

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