Executive Summary

A team of the Public SPACE Foundation has recently carried out a research amongst the leaders and supervisors (executive and non-executive boards) of Dutch hospitals. The research was conducted under the supervision of Steven de Waal, and in cooperation with the Boer & Croon Strategy and Management Group. The most important question that was addressed, was: "Are these boards ready for the upcoming liberalization of the hospital sector in the Netherlands?

The most important findings are:

The Dutch hospitals are preparing themselves energetically on the steadily increasing liberalization and the introduction of market forces. Recent measures that make this apparent, are changes in middle management, both in structure as in people, more attention to leadership and entrepreneurship in the selection of board members, high investments in ICT and administrative processes and the development of more business like plans. Board members and supervisors developed certainly a positive attitude towards the liberalization and the strategic freedom that it will give them. However we did encounter multiple weak spots. It is hard for the strategic top of hospitals to:

- seize a real corporate grip on finances and (medical) performances and production;
- undertake the right external initiatives swiftly and with full dedication (they often miss the right combination of plans and decisive action);
- develop and implement the right organizational structures for a cooperation with entrepreneurial professionals.

The strategic top of Dutch hospitals is certainly in a transitional phase. This becomes evident by the confusion we found over the most suited leadership profile for future hospital boards. At this moment most managers in the healthcare sector embrace the concept of a leader as *facilitator*. This leader is a servant for the whole organization, inspiring where possible and mediating where necessary, clear about norms and values and steering primarily on figures and performance. There was a large tendency towards the leadership profile as describes by Collins as '*Level 5 leadership'*. This preference seems now primarily motivated by the lack of external pressure to change and very unclear internal structures. If this all changes by increasing the pace of liberalization and the introduction of new legislation, our research shows that the preference in leadership profile will shift towards more energetic entrepreneurship, decisiveness and even crisis management.

With the current pace of management and organizational development, the Dutch hospitals will be ready for further entrepreneurial action within a few years, much faster than the Dutch government and parliament plans. There is a strong political tendency to look at these first steps of liberalization as a kind of experiment. This experiment has to be tested and monitored fully, before taking next steps. A lot of conditions for further

liberalization were during the research not yet in place (like the public authority overseeing the current process of market making) and so, the whole process will take some years to be fully working and be really evaluated. In combination with the fact that it is very unlikely, at least uncertain, that the ruling political coalition will continue its work after the elections of spring 2007, this gives massive uncertainty about the future of the liberalizations agenda in the sector. I myself chaired a party committee of the opposing labour party (PvdA) about the social-democratic view on the whole system of health care. On this issue of liberalization of hospital care we advised strongly to 'hold the horses' (but not to withdraw from liberalization altogether), just because of these uncertainties, the lack of solid implementation, the uncertain effect of the influence the European courts can have on our health insurance system and the more conceptual doubt on the positive effect of introducing real market forces in hospital care. A kind of 'stuck in the middle' scenario looms and there is no guarantee that there will be an end result of 'full liberalization'.

This is why most hospitals keep the speed of change low for a number of critical areas, lower than they could operate. Because of this, preparing the hospital sector for liberalization looks a lot like *pumping the gas while pulling the breaks.*

So, on the one hand this study had to work with the concept of 'full liberalization' to view if 'the board are ready'. See the addendum. Which in the current situation is not very much more than political rhetoric and not even a certain end perspective. On the other hand we had to find a measure for the current state of liberalization in which there are certainly some steps taken to 'loosen up' public policies and regulations. Even within this last frame of reference, we found that hospital boards are not yet fully ready for this state of liberalization and still have to go on for some years. As said earlier, they have this time due to the delay in implementing all the intended steps and the political climate. These factors that are not yet overall in order, are the following.

First of all there is an ambiguous relation between medical specialists and the hospital board that gets in the way of a healthy entrepreneurial attitude. This is caused by the protective legal structures they work in. Every new initiative is discussed and negotiated into the most impractical and finest details with not only the involved specialists, but in addition (caused by the uniformed culture) with the entire medical staff. The current healthcare statutes protect the present systems of remuneration, consultation and fiscal incentives, that makes boards (and possible shareholders) powerless. They also are more based on a climate of dividing government budgets and other guaranteed income (grant-addiction) than on collective risk taking and earning your own money. The medical staff is increasingly dispersed into different roles like partner-entrepreneur, employee, middle manager and so on. The hospital management should be given the tools and freedom to act freely upon these different roles and new opportunities.

A second decelerating factor are the supervising boards that insufficiently realize that attention for the *discontinuity* (risks, uncertainty) is becoming as important as the current one sided attention for continuity and public performance. These supervisory boards still poorly judge the necessary changes in their own position and behaviour. For instance they do not have a clear view on the preferable relation between the management board

and the medical staff and they keep themselves to distinct from this sensitive issue. Their contribution to the legitimacy of the hospital's strategy towards external stakeholders never really sets their agenda. Hospital managers experience little backing or positive inspiration from their supervising board, even in a period where they have to reinvent and rebalance their relationship with the medical staff and their existing and new stakeholders. In structure as well as in culture the supervising boards become more and more estranged of management, staff and stakeholders.

Finally, the strategic environment of the hospital is still not organized and behaving in a fashion that decisive action and innovation is rewarded or passive tardy behaviour is punished. So apart from a policy change there is very much the need of a culture change. On the contrary, patients still do not know what to expect from their hospital or doctor and are not able or willing to vote with their feet. Health insurers fail to anticipate on new opportunities like shifting large production volumes from one provider to another. The restricted ten percent of the hospitals budget that is currently free negotiable, only covers a saturated market (like knees, hips etc.) that offers little space for growth or negotiation. All over, an uncertain and defensive attitude is dominant in the sector and the necessary change of culture holds up.

Therefore in the coming years hospitals will have a strong need for:

1. Innovative organizational structures that can accommodate entrepreneurship in healthy relations between boards and all different kinds of medical specialists;

2. Renewing and revitalizing the position of the supervising boards, especially focussed at horizontal transparancy and accountability to stakeholders;

3. Constructions for innovative partnerships with healthcare insurers;

4. Setting up an array of modern business tools for (operational) management and internal and external accounting;

5. Bring in more CEO's with an entrepreneurial and business-wise profile. In the Netherlands hospitals already have a recruitment problem considering the relatively ageing present board members and the lack of capable successors in the sector. Shifts in the profile of these new CEO's will also reflect on the manning of the supervising boards.

This research shows that Dutch hospitals are more than prepared to cooperate on the ongoing renewal of the sector for as far as it lies in their powers to do so. Given the current state of affairs and their pace of preparation, the majority of the boards of the Dutch hospitals will be ready for further liberalization within a few years from now. Their increasing speed in this process is now hindered by the piecemeal introduction of policies. Later it can create a clash when this process will be stopped or put to a stop due to public policy changes or doubts.

Characteristics of a fully liberal hospital care market

- The market works for all of the hospital treatments
- There are rules on how to handle uninsured care, with a lot of private risk
- There is freedom to make a profit and to distribute it to shareholders
- It is possible that hospitals are privately owned;
- Reward and punishment by the market: no safe nets or preventive action on hospitals that (seem to) go broke;
- Almost non interference of politics;
- The patient has real market power, so hospitals will make needs and demands of patients central to their strategies; the same holds true for the relation between consumer and health insurance and their joint influence on hospitals: the consumer has real market power and it translates in packages for different hospital care on issues like service level, proximity, price, quality and image.
- Advertisements on all relevant issues of hospital care for patients and insurance consumers are allowed and abundant; relevant information to make choices between hospitals, between treatment policies and between doctors is easy accessible and is freely and proactively given by all hospitals because it is a publicly recognized demand you can't ignore;
- There is no direct funding between government and hospitals, all their turnover comes from the market, patients and insurance companies;
- Hospitals own their real estate and are free in their strategic choices to handle this;
- Banks operate on a free market too: they can do their own risk management and make their offers in lending money to or withdrawing it from hospitals etc;
- Hospitals are free in their balance position policies (within normal regulation for companies in general), like reservations, lending money, issuing obligations, distributing profit etc.
- There are foreign owners of Dutch hospitals and there are foreign investors;
- There is real influence of shareholders on policies, boards, recruitment, internal affairs in hospitals;
- Members of Executive Boards, and to some extent also of non-executive boards, are legally to be held accountable by relevant stakeholders for mismanagement or the damage of wrong policies.

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