

WALLACE J. HOPP

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HOSPITAL OPERATIONS



Principles of High Efficiency Health Care

Co-authored with Jeffrey Desmond, MD; Christopher Friese, RN, PhD; Stephen Kronick, MD;
Michael Mulholland, MD, PhD; and Jeffrey Myers, MD

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PRINCIPLES OF HIGH EFFICIENCY
HEALTH CARE

Wallace J. Hopp
William S. Lovejoy

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To Melanie, Elliott, and Clara
—Wallace Hopp

To Lois and Julia
—William Lovejoy

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CONTENTS

1

INTRODUCTION TO HOSPITAL OPERATIONS 1

- 1.1 Stakeholders' Perspectives 1*
- 1.2 A Metaphor for Hospital Operations 3*
- 1.3 Health Care in Crisis 4*
- 1.4 A Focus on Practice 7*
- 1.5 The Time Is Now; The Tools Are Known 9*
- 1.6 Principles-Driven Management: Marrying Theory
and Practice 13*
- 1.7 The Structure of This Book 15*
- 1.8 References 19*

2

EMERGENCY DEPARTMENT 21

- 2.1 Stakeholders' Perspectives 21*
- 2.2 Introduction to the ED 29*
- 2.3 Managing the ED 42*
- 2.4 Key Management Issues in the ED 48*
- 2.5 Conclusions 112*
- 2.6 Stakeholders' Perspectives 113*
- 2.7 References 117*

3

NURSING UNITS 127

- 3.1 *Stakeholders' Perspectives* 127
- 3.2 *Introduction to Nursing Units* 137
- 3.3 *Managing a Nursing Unit* 153
- 3.4 *Key Management Issues in a Nursing Unit* 160
- 3.5 *Conclusions* 235
- 3.6 *Stakeholders' Perspectives* 236
- 3.7 *References* 240

4

OPERATING ROOMS 243

- 4.1 *Stakeholders' Perspectives* 243
- 4.2 *Introduction to the OR* 248
- 4.3 *Managing the OR Suite* 263
- 4.4 *Key Management Issues in the OR* 271
- 4.5 *Conclusions* 332
- 4.6 *Stakeholders' Perspectives* 333
- 4.7 *References* 336

5

DIAGNOSTIC SERVICES 339

- 5.1 *Stakeholders' Perspectives* 339
- 5.2 *Introduction to the Diagnostic Units* 344
- 5.3 *Managing a Diagnostic Unit* 370
- 5.4 *Key Management Issues in the Diagnostic Units* 376
- 5.5 *Conclusions* 449
- 5.6 *Stakeholders' Perspectives* 450
- 5.7 *References* 457

6

HOSPITAL OF THE FUTURE 463

6.1 Stakeholders' Perspectives 463

6.2 Product and Process Integration 466

6.3 Looking to the Future 476

6.4 Management Challenges 481

6.5 Final Message 495

6.6 References 496

Appendix A

MANAGEMENT PRINCIPLES 497

Appendix B

HISTORICAL JUSTIFICATION FOR AND DEVELOPMENT OF
STANDARD BED/POPULATION RATIOS 589

Index 595

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INTRODUCTION TO HOSPITAL OPERATIONS

1.1 Stakeholders' Perspectives

Thursday March 25, 2010, 8:46 p.m.

"#@%&*)^%#@!" Dr. Nate Greene swore as he clanged an easy layup clumsily off the rim.

Greene was an emergency physician from University Hospital who joined several of his medical colleagues to play basketball on Thursday evenings at a local elementary school gym. Because swearing was almost as rare as defense at these games, one of Greene's teammates, orthopedic surgeon Dr. Ben Arnold, took notice. When the game ended and the players began leaving the gym, Arnold hung back with Greene.

"You okay?" he asked. "You seem a bit off tonight."

"Aw," Greene groaned. "My layups were just bricks tonight."

"I don't mean your shooting. That's always terrible," Arnold smiled. "But you seem kind of distracted tonight."

Greene dropped the basketball banter and grew serious. "A woman I treated in the Emergency Department died in the hospital this morning. Bowel obstruction."

"Mmmm." Arnold commiserated. "That's tough."

"I knew her a little," Greene continued. "She was taking care of both her elderly parents and a handicapped son. The family is completely devastated."

"That is sad," agreed Arnold. "But when it's your time..."

"But that's just it," Greene's voice rose. "I'm not sure it *was* her time to go."

"Oh, oh. Did somebody screw up?" Arnold winced. "The surgeon?"

“No, not exactly.” Greene rubbed the basketball in his hands abstractedly. “I’ve been thinking about the case all day and I can’t put my finger on an outright error anywhere in the process. But we were slow at every step. The Emergency Department was crammed on Monday as usual, so she waited a long time. It took a while to get the CT scan and even longer to get the report. By the time we realized it wasn’t a virus, we’d already lost a day. Then the operating room was full, so it was another day before we got her on the schedule and a half day of delays after that. By the time they opened her up, there was no hope.” Greene dropped the ball and his voice. “I can’t help thinking that if we had been faster, she’d still be here.”

“Then it was the system that failed!” Arnold picked up the ball and began thumping it on the floor. “Every one of the people on the case did his or her job. So blame the hospital, not the people in it.”

“What are you talking about?” Greene grabbed the ball back and heaved up a shot that missed the rim by more than a foot. “The hospital *is* the people in it. We control what goes on there. So if it failed; we failed.”

“Are you kidding?” Arnold jeered, and not just about the wild shot. “Nobody controls the hospital. It’s too big, too complicated, and too set in its ways. That’s why I’m leaving.”

“What!” Greene had taken a step to retrieve the ball but stopped and turned to face Arnold. “Where are you going?”

“I’ve signed on with Andry Ortho,” Arnold replied. Nicolas Andry Orthopedic Surgery Center was a small physician-owned specialty hospital founded several years ago by a group of physicians from University Hospital. Greene was aware that the facility had undergone an expansion at the beginning of the year, right before the health care bill put a ban on further growth of physician-owned hospitals. But he didn’t know that Arnold had been considering joining them.

“Are you an owner?” Greene asked incredulously.

“Well, I have a piece,” Arnold admitted. “But it’s not the money that sold me. It’s the fact that the docs run the place. The hospital is small, simple, and new. We run on schedule. The IT system actually works. We can practice medicine instead of fighting the bureaucracy. The kind of system failure you had today won’t happen to us.”

“That does sound pretty good.” Greene recovered the basketball and flipped it to Arnold.

“You should join us.” Arnold launched a perfect jump shot that swished neatly through the center of the net. “We’ve been staffing the emergency facility with specialists, but demand has grown to the point where we could use a real Emergency Department doc. Specialty hospitals are the way of the future.”

“Hmmm...” Greene mused softly. “I’ll think about it.”



1.2 A Metaphor for Hospital Operations

Recently, an estimated 20,000 people from the community turned out for the grand opening of an architecturally and aesthetically stunning new children's hospital. As they streamed through the sparkling entrance, the enchanted visitors were struck by the success of the design in captivating the young. Wide-eyed children stared at dynamic sculptures and mixtures of professional and elementary school art. Upbeat colors and vaulting spaces gave reassurance that this was a place to get well. Operating rooms (ORs) were large and flexible, inpatient rooms state of the art. Panoramic views of the surrounding trees and rivers inspired parents and children alike. The site even contained an onsite hotel to enable parents to stay close to their sick child, and the Neonatal Intensive Care Unit (NICU) had convertible furniture to provide sleeping accommodations for parents who could not emotionally tolerate even a few floors of separation.

Unfortunately, however, many visitors never saw the full wonder of the new hospital. Stairwells had been closed off during the open house for safety reasons, and only the central elevators were operational. Insufficient elevator capacity led to long lines on every floor. Worse, although eager guides were positioned throughout the hospital to answer questions, neither they nor the signage steered people along the planned route from top to bottom. The resulting random traffic patterns served to further aggravate the congestion. Frustrated with their inability to move from floor to floor, many people gave up and went home.

This (true) story is an apt metaphor for modern hospital operations. Infrastructure and equipment are exquisite, but flows are ill-designed and confused. Visible capital assets are awe inspiring, but invisible processes are frustratingly inefficient. Technology is state-of-the-art, but management is not. People are dedicated and knowledgeable in their fields, but they are largely unaware of operations. The net result is a system that performs far below the sum of its parts.

But it need not be like this. Just as there is a science of medicine that guides the treatment of patients, there is a science of operations that can and should guide the design and management of hospitals. For example, the physics of flows implies that it is impossible to respond quickly to highly variable demand without surplus capacity. In an acute care hospital, patient arrivals are highly variable, both over time and in levels of severity. Capacity, in the form of nurses, physicians, and high-tech equipment, is costly and therefore not installed in abundance. So the delays that are prevalent in hospitals are completely predictable.

Fortunately, the physics of flows also tells us that when resources are busy, with long queues of patients and other tasks waiting for attention, even small capacity enhancements or demand reductions will yield disproportionately large returns. That is, a little bit goes a long way. Modest increases in staffing, improvements in resources, and efforts

to eliminate waste, if applied in the right places, can achieve major improvements in responsiveness. These insights can be used to speed the flow of visitors through a new hospital or the flow of patients through an existing one.

In this book, we define, explain, and apply management principles related to physical flows, decision making, quality, and human behavior. These principles encapsulate essential insights about management that can be used throughout the hospitals of today to significantly improve responsiveness, throughput, quality, patient satisfaction, and financial viability. But, because principles are by their nature timeless, they also provide the conceptual building blocks for ultra-high performance hospitals of the future.

1.3 Health Care in Crisis

Few things affect our quality of life more than health, so few issues are more important than health care. But, while we often speak of it as such, health care is not a single, monolithic topic. It ranges from delivery of basic public health in the poorest regions of the globe to stimulation of scientific breakthroughs in the advanced research laboratories of the world's wealthiest nations. As such, health care is too vast a subject for any single book. In this one, we focus specifically on a key part of the health care system: hospitals in developed countries. In addition to constituting a significant percentage of total health care expenditures, these hospitals are central to the delivery process, which makes them candidates as catalysts for improvements in the quality and efficiency of the overall health care system.

Compared to other developed countries, the United States spends significantly more on health care. Exhibit 1.1 shows that health care consumes 17.6% of the gross domestic product (GDP), which is 47% more than the next highest country (The Netherlands, at 12%) in the OECD (Organization for Economic Cooperation and Development, consisting of 34 largely developed countries). Exhibit 1.2 shows that the per capita expenditure in the United States is \$8,233, which is more than double the OECD average of \$3,268 and significantly higher than the next most profligate country (Norway at \$5,388).

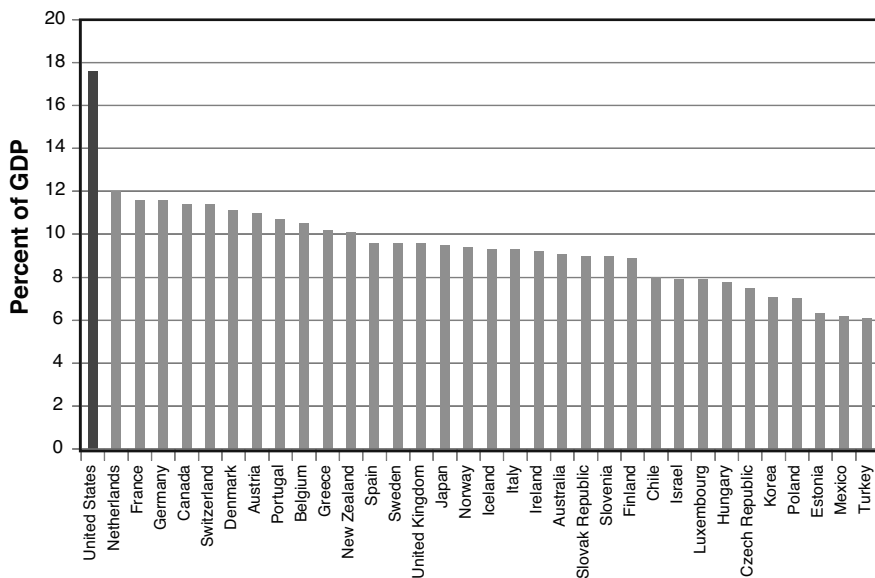


Exhibit 1.1 Health expenditures as a percent of GDP, 2010 or nearest year.

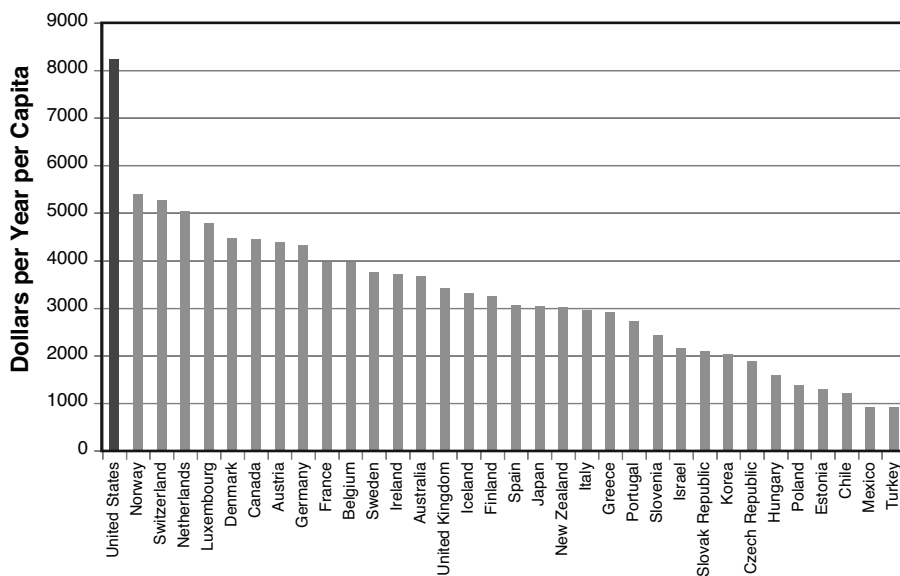


Exhibit 1.2 Health expenditure per capita, US\$ PPP¹, 2010 or nearest year.

As high as these costs are now, projections are for U.S. health care costs to escalate significantly in the future. The U.S. Department of Health and Human Services predicts that health care will consume 19.8% of GDP by 2020 (CMS 2011). The high cost of health care, and particularly the gap with the rest of the world, threatens the competitiveness of the U.S. economy.²

Financial costs are not the only cost dimension along which the United States fares poorly; America’s current health care system imposes costs beyond expenditures. Almost 50 million Americans (16% of the population) are uninsured, and even more are underinsured. The United States, Mexico, and Turkey are the only OECD countries without some form of universal health coverage (OECD 2008). What is the “cost” of the anxiety of nonwealthy Americans wondering if they will be bankrupted by a single major medical event? What is the social cost of the labor frictions injected into the economy when people hold onto jobs they don’t like and are ill-suited for, simply because it is the only way they can get affordable medical coverage? When vibrancy in the economy is commonly tied to entrepreneurial start-ups and small businesses, what is the social cost of tying affordable health insurance to employment by large companies? These issues place an even bigger burden on the U.S. economy than that indicated by direct costs alone.

While the United States spends much more on health care than any other country in the world, we do not get a good return on our investment. Exhibit 1.3 shows life expectancy in the 34 OECD countries (2010 data). The United States is below the OECD average and lower than all the OECD countries except the Czech Republic, Poland, Estonia, Mexico, the Slovak Republic, Hungary and Turkey. It is also well below the leaders (Japan, Switzerland, Spain, and Italy). Exhibit 1.4 shows infant mortality in the OECD countries, and again the United States does not fare well, with rates above the average and higher than all but Chile, Turkey, and Mexico. Also, although insured Americans experience shorter wait times for elective surgeries than citizens of many other countries, the percentage of people able to see a doctor within 48 hours is lower in the United States than in Australia, France, Germany, New Zealand, the Netherlands, Switzerland, and the UK according to a Commonwealth Fund (2010) survey.

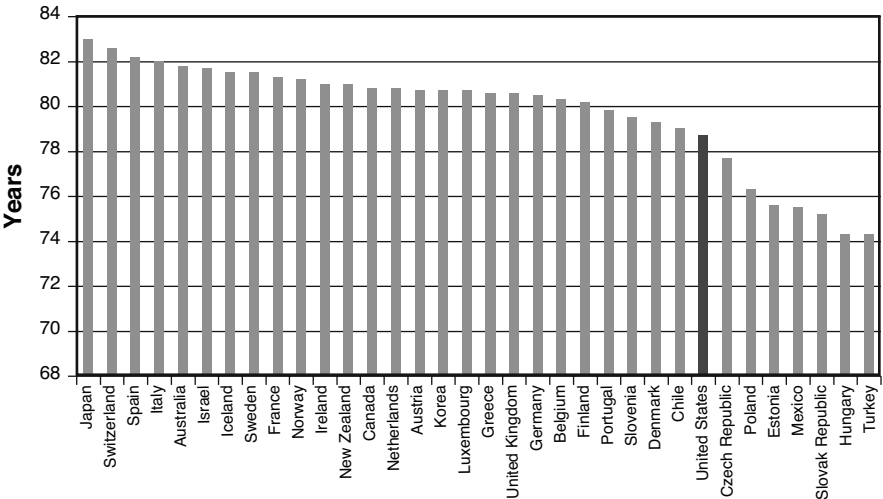


Exhibit 1.3 Total life expectancy in OECD countries, 2010 or nearest year.

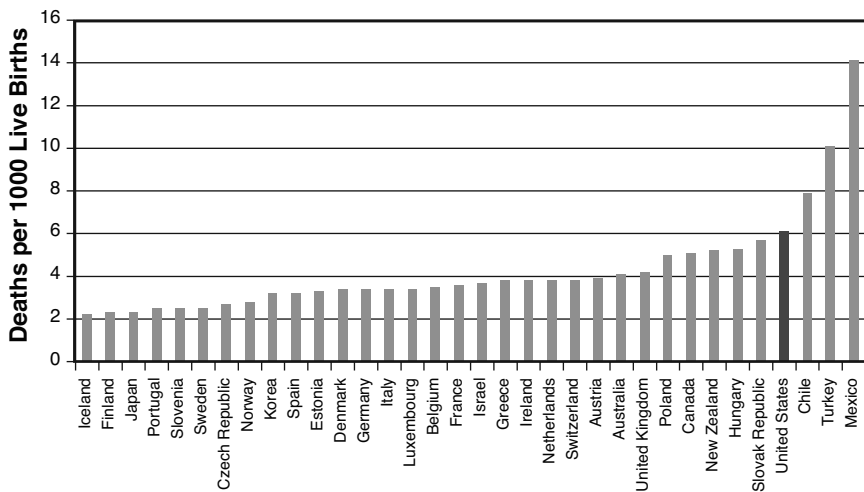


Exhibit 1.4 Infant mortality (deaths per 1,000 live births) in OECD countries, 2010 or nearest year.

The U.S. health care system does some things very well, as evidenced by the fact that some people travel great distances to come here for treatment. However, such “medical tourism” travel is typically for advanced procedures at the highest end of the health care spectrum, in which the United States excels. It is not exotic procedures for the rich that drive our embarrassing macro-statistics; it is in the inefficient (or absent) delivery of basic care (both prevention and cure) for the general population. The benefits of superior health care are not distributed evenly in the U.S. population, where death rates tend to correlate with income, race, and education (see Anderson et al. 2007, Barr 2008). To address this imbalance, we do not need more exotic procedures. We need a rationalization of basic care delivery. In this book, we focus on that rationalization within hospitals.

1.4 A Focus on Practice

Hospitals are part of a larger health care system in the United States, which has been shaped by a complex and often contradictory public policy structure. Fundamentally, health care policy debates revolve around this basic question: What is the appropriate political and economic structure for the promotion of health and health care in the country? Whether this is a centralized system with single-payer prices set by committee, a decentralized system with prices determined by a market, or anything in between, the debate tends to abstract away from actual hands-on medical practice. This abstraction is a dangerous oversimplification. All the value in any conceivable system is only realized in the actual delivery, when hands touch patients. Everything else is prelude. The closer

we get to this all-important transaction, the more immediate the returns on our investment will be.

Pundits gloss over the health care delivery process because they assume that if incentives (prices, rewards, costs) are set correctly, the rest will follow as people rationally respond by consuming more of this, less of that, and so on, reaching the desired allocation of resources and consumption. This faith is unfounded. “Correct” incentives are necessary but insufficient for efficient operations. Different firms routinely respond to the same market environment with very different internal organizations, policies, and practices. For example, the Toyota Motor Corporation revolutionized the way production is managed globally, with no significant differences in the prices or incentives it was facing relative to competing automobile companies. Granted, Toyota served a Japanese market (smaller in volume, but still demanding high variety) and was located in more rural settings where cynical models of management and labor did not hold sway. These differences may have facilitated, but cannot fully explain, the rise of the Toyota Production System, now known as “lean” or “just-in-time” production. Rather, a combination of individual genius (and near fanaticism) by one individual, Taiichi Ohno, a supportive management structure, and two decades of trial and error led to innovations that greatly enhanced the efficiency and competitiveness of Toyota. The company simply found a better way to do things. This sort of process innovation makes it possible to do more with existing resources or to achieve the same level of output using fewer resources.

In general, external incentives influence, but do not determine, outcomes. What takes place within the hospital, and how well internal processes are managed, governs how efficiently and well patients are served. Simply put, there are many ways to manage internal processes, and some ways are better than others. It is this observation that motivates this book. We seek to provide a framework for identifying the causes of inefficiencies and the path to improvement for hospital operations.

The potential social gain is significant. Hospital expenditures (including inpatient and outpatient hospitals, Emergency Departments [EDs], and ambulatory surgical centers) account for 36.3% of total health care expenditures in the United States (Exhibit 1.5). Improving these operations can have a major impact on the total social cost and benefits of our health care system. It is commonly assumed in consulting circles that if a system grows up in an ad hoc fashion, bringing some rationalization to its design can easily reduce costs by 10% or more. Applying this logic to the \$2.1 trillion in health care expenditures in 2009 (of which 36.3% are spent on hospitals), we estimate that rationalizing hospital operations has the potential to achieve annual savings of at least 10% of 36.3% of 2.1 trillion, or \$76 billion. We expect that the actual upside potential is significantly higher, because in the authors’ experience internal processes in a typical hospital are less mature than those in most other industries.

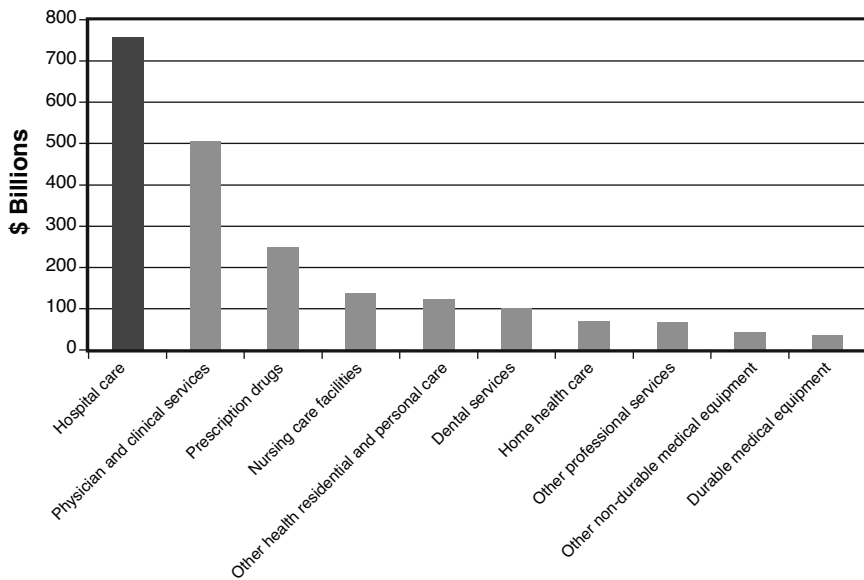


Exhibit 1.5 How to spend \$2.1 trillion.

1.5 The Time Is Now; The Tools Are Known

People have voiced the need for health care reform in the United States for years, but no significant changes have been able to get past the political and organizational hurdles to implementation. However, there is evidence that we are finally in a critical transition phase where inaction is not an option. The economic surpluses that historically masked our inefficiencies are disappearing, and the various binders that hold the entire system together are straining to the point of failure.

1.5.1 The Unraveling

The surpluses masking our inefficiency are no longer affordable.

One advantage of surplus resources that accrue in a rich economy is that they can mask inefficiencies. Excess resources can, in general, cover for inefficient management and organization. For example, a firm with a substantial excess capacity can continue to serve customers well even if it uses that capacity inefficiently. In a rich economy, patients can happily enjoy continuity of care even with inefficient health care processes. However, when surpluses dwindle, those excesses are no longer affordable and must be removed, exposing the inefficiencies in the underlying process.

The United States has emerged from a post-war era in which it was the dominant economy on earth, and it has entered an era in which competition is fierce from multiple continents. The natural surpluses that characterized the United States over the past 50 years are no longer automatic. The retirement of post-war baby boomers will soon place an increasing load on the nation's health care system, which already consumes too much of the country's GDP. In short, we can no longer afford to ignore our inefficiencies. Our economic future, and indeed our very lives, are at stake.

Our reliance on values is at risk.

Health care policy debates in the United States tend to oscillate around the proper role of personal responsibility for one's own fate and the obligation of society to care for those who cannot care for themselves. Sometimes this debate devolves into a "markets" versus "socialism" caricature, which remains unresolved because neither works in pure form. Markets will visit the highest costs on the sickest people, who will therefore die if they are poor. This is socially unacceptable. Yet, universal coverage without individual incentives leads to overuse of expensive resources and produces high levels of avoidable waste. This is unaffordable.

These natural and unresolved tensions have resulted in a complex potpourri of reimbursement structures for hospitals and physicians. To serve patients in this bewildering environment, the industry has relied more than most people realize on its people being guided by principles that transcend the sometimes perverse incentives they face. This is, after all, a profession that deals with life and death, and therefore ethics. Before the government assumed responsibility for health care, charities provided care, or doctors charged based on ability to pay. That is, society expressed its values in organic rather than formally legal ways. This continues today through free clinics, volunteerism, and hospitals incurring (on average in the United States) 6% of their total expenditures providing care for people who cannot pay for it.

Further, the professional code of doctors is one that puts the patient first, and patients put some faith in this code when seeking medical care. Indeed, overt pursuit of profits in the medical arena arouses suspicion and antagonism on the part of patients when choosing physicians, or referring physicians when choosing hospitals. As Arrow (1963) observed, "The social obligation for best practice is part of the commodity the physician sells, even if it is a part that is not subject to thorough inspection by the buyer."

Not surprisingly, trust plays a more critical role in health care interactions than in other business transactions. We expect our doctors to act in our best interests, more than we expect the sellers of other services to do so. Insurance companies can ask patients to get physical exams to reduce the information asymmetry between themselves and patients, trusting an honest report from the physician. Given the convoluted and often opaque reimbursement jumble that hospitals face from multiple insurers and Medicare/Medicaid, hospital administrators could slavishly maximize profits by

exploiting accounting confusions at the expense of patients and society at large. Yet we trust them not to. This system does not work perfectly, but trust and professional conduct that transcend the profit motive are central features of current health care markets. To date, values-based behaviors in medicine have been sufficient to keep the wheels from falling off this wagon.

This values-based glue is now coming under increased stress as economic surpluses disappear. Uninsured patients who cannot pay for their care are still cared for in hospital emergency rooms, but the cost of their care has to come out of a buffer of resources somewhere in the hospital-insurance-customer system. As buffers become unaffordable, the mere presence (or not) of an emergency room can become a matter of fiscal survival for hospitals. A 2011 report by the American Medical Association (Hsia et al. 2011) noted that urban and suburban areas have lost more than a quarter of their ED capacity over the past 20 years. EDs are more likely to close if they provide a lot of uncompensated care, are in for-profit hospitals, or are in competitive markets where margins are thin.

“Safety net” hospitals, which provide care for people who cannot access it anywhere else, are increasingly at risk. The travails of one such hospital, Grady Memorial Hospital in Atlanta, are not unique. Grady almost closed its doors in 2007, and since that time it has continually struggled to balance its social mission with financial realities. Grady remains dependent on outside funding (for example, federal funding for indigent care) that is increasingly at risk (Williams and Schneider 2011).

It is a unique feature of the health care industry that hospitals often do not want a competitor to close. If a hospital providing a significant amount of uncompensated care closes, nonpaying patients will either get no care (and die) or show up in the EDs of other hospitals. Hospitals like Grady have been kept afloat by financial transfusions from the outside because everybody realizes the consequences if they close. But this is more reactive crisis management than proactive rational policy. The reliance in the United States on values and charity will come under increasing stress as financial realities become more pressing.

Further, as doctors’ salaries stagnate, the temptation to shade decisions, consciously or not, toward profit maximization becomes stronger. Nallamothu et al. (2007) studied the rates of various coronary procedures in specialty hospitals relative to general hospitals. Specialty hospitals provide care limited to specific medical conditions or procedures, and two-thirds of Medicare payments to specialty hospitals are related to heart conditions. There are arguments based on both physics and economics that can justify the spinning off of specialty hospitals from general hospitals, based on economies of scale and concepts of a “focused factory” (see Skinner 1974 and Chapter 6 of this book). However, critics claim that specialty hospitals focus primarily on low-risk patients and provide less uncompensated care than general hospitals.

Nallamothu et al. found that the frequency of three key coronary procedures was higher in regions after the opening of a specialty hospital when compared with the opening of new cardiac programs in general hospitals. The authors did not comment on the appropriateness of the procedures, but their findings raise the concern that procedure utilization in specialty hospitals was higher than one might expect based on medical need alone. The authors state in their conclusions that, “Among the potential mechanisms underlying our findings, the most concerning is physician ownership.” Physician ownership allows physicians to collect not just their professional fees, but a share of the facility fee as well, creating a potential conflict of interest between the physician’s financial incentives and a patient’s clinical needs. Estimates of physician ownership of cardiac specialty hospitals range from 21% to 49%, and hospitals are currently exempted from anti-kickback laws that prevent referral of patients to facilities in which physicians have a significant financial stake. Although we cannot say for certain that economics is trumping values in these instances, we can conclude that values will be increasingly stressed as the economic climate becomes more challenging.

A similar concern applies to the rise of ambulatory surgical centers (ASCs) in the United States. An ASC performs surgical procedures that do not require hospitalization (for example cataracts, some knee and ear surgeries, and colonoscopies). Between 2000 and 2007, the number of such facilities increased by nearly 50%. This growth was largely financed by physician-owners, who had a financial stake in 83% of them and complete ownership of 43%. Hollingsworth et al. (2010) found that physician-owners, on average, had higher caseloads and operated on healthier (fewer accompanying health conditions) and better insured (more private and Medicare, less Medicaid) patients. Further, physicians who started as nonowners and became owners during the study period increased their caseloads after ownership. As always in such complex territory, there could be reasons for these results unrelated to financial incentives. But results like these raise concerns that physician-owners may increase caseloads beyond what is clinically necessary and route the lowest risk and most well-insured patients to their own facility, leaving the rest to be treated in a general hospital. This, of course, will increase the financial stress on the general hospital, decreasing its ability to manage their higher risk, lesser insured patients.

It is difficult to overstate the consequences if profit-maximization comes to dominate historical values in medical practice. The rush away from the poor, sick, and uninsured will accelerate, like a game of hot potato in which each party tries desperately to pass the ball. The cracks in the system are already beginning to show and will only get worse as baby boomers age.

As policy makers argue, there is a crisis to be met. Fortunately, with or without coherent leadership at the federal and state levels, we can do more with our current resources within hospitals. As the economic surpluses that have masked high levels of inefficiency

disappear, hospitals must begin an evolutionary process that we have seen in other industries. These prior experiences have revealed general principles that can serve as tools with which we can manage this process.

1.5.2 The Tools Are Known

There is a famous scene in the film *Apollo 13* in which an engineer dumps a pile of spacecraft parts and materials onto a desk and demands that the team make a CO₂ filter out of them. The situation they faced was new, and conditions under which the filter would have to operate were uncertain, but the basic building blocks they had to use were known. Hospitals face an analogous situation, in which the policy structure that society will adopt is uncertain, but there are known tools, the principles of management, available with which to craft a response. These principles and their application to management challenges are what this book is all about. We articulate and apply concepts that will stand the test of time so that hospitals can excel regardless of the policy regime to which they are subjected. We will say more about which tools apply in which environments in Chapter 6, after we lay the building blocks in the context of existing hospitals. Appendix A provides a standalone summary of the management principles that we employ. This can be read as a basic management primer or consulted as a reference for the problem-oriented chapters.

1.6 Principles-Driven Management: Marrying Theory and Practice

The skill and judgment of experienced clinical practitioners is critical to quality outcomes. Yet it would be a mistake to rely on clinical experience alone, unsupported by theory, to advance the field. We could watch a surgeon all day without understanding why she is doing what she's doing. To understand the “why” behind the “what,” we would need courses in chemistry and anatomy, physiology and neurology. Modern medical practice relies heavily on science.

This was not always the case. For example, doctors used leeches in ancient times for all manner of maladies (even headaches) without any scientific basis. As long as some patients got better, doctors continued to use leeches. But with only experience as a guide, outcomes were unreliable and usage of leeches steadily declined. However, more recently, science demonstrated the anesthetic and anticoagulant features of leech saliva, and modern circulatory theory helped explain when using leeches (or genetically engineered equivalents) might be beneficial and when it would be foolhardy. As a result,

leech usage has made something of a comeback. Theory tells us why things work as they do, and by so doing both explains practice and provides us with the tools to improve it.

A *theory*, according to *The American Heritage Dictionary* (1985 edition), is “systematically organized knowledge applicable in a wide variety of circumstances, especially a system of assumptions, accepted principles, and rules of procedure devised to analyze, predict or otherwise explain the nature of behavior of a specialized set of phenomena.” Practice without theory is just trial and error, with no guiding principles beyond what “seems to work.” At the same time, theory without practice is ultimately sterile. In academic disciplines, it is a constant temptation to develop theories on theories, moving ever further into the sterile realm of abstraction and away from the real world of actual practice. Yet, it is practice that directly adds value to people’s lives. The best theories are focused on informing real problems that real decision makers face.

Theory development involves separating out phenomena that are idiosyncratic to a certain narrow context from those that are more universal in application. The latter can be expected to stand the test of time, more so than any particular practice. Some theories are more predictably accurate (most laws of physics can be counted on to hold and to predict outcomes) than others (theories of human behavior are less reliable given the open-ended and evolving nature of human understanding and culture). But, in all cases, researchers seek guiding principles that provide fundamental understanding, inform practice, and give us the tools to improve outcomes. As new diseases, risks, and contexts evolve over time, practice can become obsolete. Theory, however, is semipermanent and should apply in circumstances old and new. Theory can therefore provide guidance in new territory, which is why we need it now.

In this book, we strive to marry the worlds of theory and practice by taking a principles-driven approach to hospital management. We identify key hospital management challenges, and for each we base potential responses on general principles that can be relied on to be applicable in a variety of circumstances and help predict or otherwise explain behaviors. Because the same principles apply to a range of specific hospital management challenges, we avoid excessive repetition by accumulating them in Appendix A. Readers who are not yet familiar with one or more of them can consult Appendix A for descriptions, explanations, and examples.

The result is a book that uses general principles of management, derived from many years of research in a variety of business subfields, to inform and improve practical hospital operations. In this way, we allow medically oriented readers to acquire general management knowledge by focusing on specific hospital issues that are familiar to them but that, once mastered, provide an approach that is applicable to new problems in the evolving future.

1.7 The Structure of This Book

Our focus is within the walls of the hospital, but occasionally it extends to extra-hospital initiatives. For example, if inpatient capacity is strained, one possibility would be to reduce demand by promoting healthy lifestyle choices or home therapies, possibly through a website. If the ED receives a pulse of older patients on Monday morning because no registered nurse (RN) was on duty in local nursing homes over the weekend, one response could be to put a hospital staff RN into the homes. In this way, we recognize the close interdependence between the hospital and the community it serves, but we consider it through the lens of hospital management rather than the broader perspective of public policy.

Until the final chapter, we assume a hospital configuration that is consistent with current practice. Specifically, we view the hospital as divided into four identifiable areas: ED, nursing units, ORs, and diagnostic facilities. We devote a chapter to each of these, and within each chapter we follow the common content format shown in Exhibit 1.6.

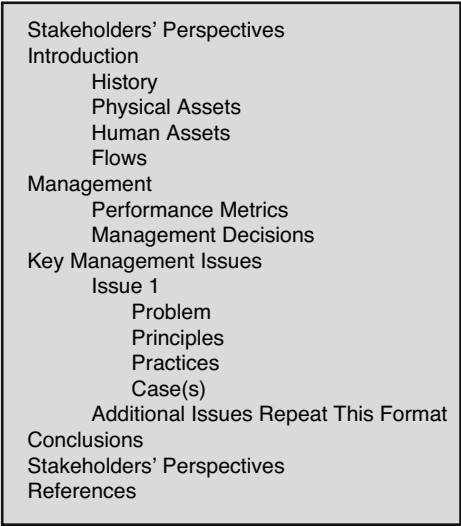


Exhibit 1.6 Hospital Operations general chapter outline.

We begin each chapter with a “stakeholders’ perspective” narrative (that continues through all of the chapters) before turning to unit-specific material, beginning with an introduction, brief history, and the unit’s assets and flows. We then list common metrics by which the unit’s performance is judged and some management decisions that the

unit must make in practice. This is followed by two or more key management challenges, and for each we provide an introduction, affected metrics, relevant management principles, and a translation of principles into practices followed by illustrative case examples. Each chapter then ends with a continuation of the narrative.

1.7.1 Principles-Driven Brainstorming

To solve problems for complex organizations, it is helpful to begin with a broad landscape of options from which to choose. It is universal in books on brainstorming and innovation that one should not narrow the focus too early to only a few options. Rather, one should start with a long, open-ended, and uncensored list of possibilities to be sure that all options are considered. Then, using judgment, this list should be winnowed down to the most promising few, which are subjected to more detailed and rigorous analysis. The most difficult part of this exercise for many people is not the analysis part, for which tools exist, but the brainstorming part that involves coming up with a wide array of options. This is called the *concept generation* stage of an innovative process and entails a long list of concepts being generated prior to the *concept selection* phase of choosing one or a few for closer scrutiny and eventual implementation.

Principles-driven management provides a helpful tool for concept generation. Principles relate precursors to consequences, so if we want to improve the consequences, we should work on the precursors. For example, suppose the management challenge is to reduce delays getting onto the surgical schedule. What can we do to shorten delays? By turning to the principles, we can list the causes of delays and look at each of these individually as an opportunity. Delays, for example, can result from excessive workload, insufficient capacity, poor synchronization of demand and capacity, high variability, or poor sequencing of the jobs in queue. Improvements can be achieved by working on any one of these subtopics. So, in a brainstorming exercise, we can think of all the ways the hospital can work on each subtopic. For example, the hospital can reduce workload by reducing the patients served per day or reducing the time per patient in surgery. Likewise, increasing capacity, improving synchronization, reducing variability, and improving sequencing can be broken down into more detailed components. By continuing in this fashion—breaking down higher-order concepts into more detailed concepts—we will eventually reach a level of implementable specificity. By this process of cascading refinement, a few general principles beget a wide array of specific potential solutions.

Because each higher-level concept generates many lower-level offspring, after two or three levels we will have constructed a long list of possible action items. This is good and

signals a robust concept generation phase. Many of the options may be infeasible, undesirable, or difficult to implement for various practical reasons, but all of them should still be listed. The worst enemy of a productive concept generation activity is premature censoring. Sometimes an option that appears impractical can, with a small twist, become a novel and winning solution.

This principles-driven brainstorming approach is used for the key management challenges covered in each chapter. The reader may want to flip through a few chapters and inspect the tables. Their size will be striking. The illustrative cases then describe how to analyze or implement one or a few of the options in practice. Once a reader is familiar and comfortable with this approach, he or she can use it for other challenges not covered in this book. The principles and our approach are generic.

While examining the management challenges of the different units of the hospital, it quickly became apparent that three issues—responsiveness, patient safety, and organizational learning—are ubiquitous. Responsiveness is a common problem because delays negatively affect both patient satisfaction and clinical consequences. Whether the challenge is to reduce delays in the ED, the ORs, on nursing units, or in the lab, the underlying principles driving delays are the same. Similarly, ensuring and protecting patient safety and promoting organizational learning are issues that arise in many contexts and are amenable to some general principles regardless of context. So, for each of these generic management challenges, we have constructed the first three levels of the brainstorming process and have summarized them in three generic tables in Appendix A. When addressing one of these three generic challenges, a reader can start with a prepopulated generic table and then continue to break down the third-level list of options into specific action items.

1.7.2 Policies Progress but Principles Persist

The management principles presented in this book will continue to apply regardless of how the health care policy regime eventually evolves or what internal hospital structures dominate in the future. Although our division into the four subunits (ED, OR, nursing units, and diagnostics) is common in modern hospitals, one criticism of this structure is that it accepts as given the one thing that most impedes seamless patient care: a lack of cohesive integration between these subunits. Patients (and their information) often must pass through all of them during their acute-care experience (see Exhibit 1.7), and lack of coordination among them leads to poorer clinical, patient satisfaction, operational, and financial outcomes. While we focus on individual sections of the hospital, because each has its own culture of practice, the need for coordination between sections cannot be ignored.

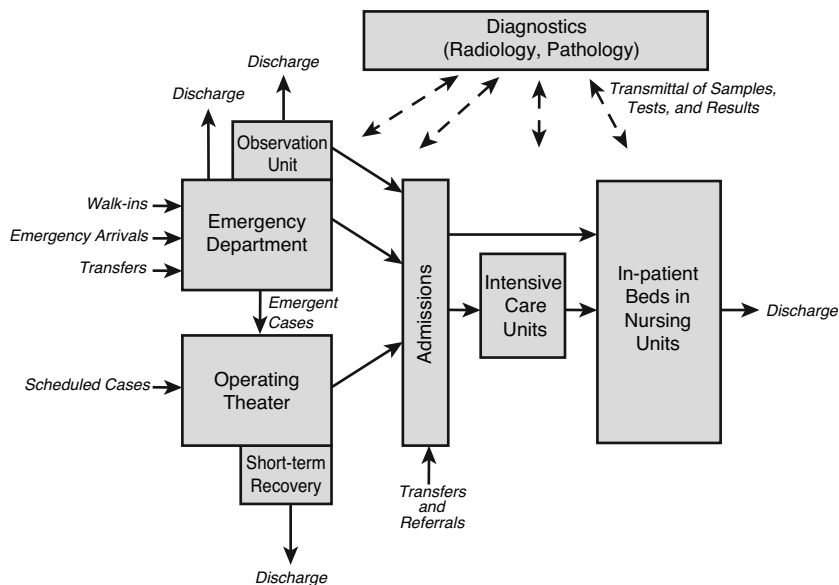


Exhibit 1.7 Hospital flows.

We pay attention to this need in some of our managerial challenges. For example, sizing inpatient units must take into account the need for post-surgery beds for patients coming out of the ORs (see Section 3.4.1). In other cases, the unit-specific managerial challenge that we cover can extend to interunit issues. For example, managing shift-to-shift patient handoffs on a nursing unit has the same character as managing ED to bed floor admissions handoffs (see Section 3.4.3).

However, we delay until Chapter 6 a more thorough discussion of alternatives to current practice in the internal organization of hospitals. There, we contrast the evolution of hospitals as service organizations to known evolutionary trajectories in other industries. We note that hospitals have been sheltered from the natural economic and competitive pressures that force firms in most industries to transit from “job shops” with poorly connected islands of expertise to “flow shops” of seamless processes as time and technology advances. The life-saving mission of hospitals does not exempt them from these pressures, but it does make addressing them significantly more complicated. In the end, however, the same erosion of economic surpluses that is threatening values-based conduct will challenge the current organization of health care services.

However, there is nothing in the future of health care that changes the basic principles of management. By focusing on these principles in the context of current practice, we equip readers to think strategically about their future and leverage fundamental management insights to get there. In the midst of an acknowledged health care crisis

featuring high expenditures, mediocre outcomes, and confusion at the policy level, there are things we can and should do at the level of the most important transaction of all—that between patient and caregiver. It is to these we turn in the remainder of the book.

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1 PPP = Purchasing Power Parity, meaning exchange rates are adjusted to reflect the cost of a fixed basket of goods among countries being compared, equating the purchasing power of currencies in those countries.

2 For example, when General Motors went bankrupt in 2009, hourly wages for production workers were only slightly higher than those at Toyota, but health care costs were seven times greater, resulting in a \$1,500 per vehicle penalty for GM.

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A

- accessioned specimens, 394
- Accidental Death and Disability: The Neglected Disease of Modern Society*, 30
- accuracy metrics, 555
- accuracy of treatment in EDs (Emergency Departments), 81-82
- ACEP (American College of Emergency Physicians), 30
- ACS (American College of Surgeons), Hospital Standardization Program, 326
- active data collection, 317-318, 581
- acute care (major) units (ED), 36
- adjusting
 - capacity, 567
 - demand rate, 566
- administrative staff
 - in diagnostic units, 363-364
 - in nursing hierarchy, 147-148
- admissions (OR), 256
- adverse events, 293
- agglutinins, discovery of, 251
- Agnew Clinic* (Eakins), 253
- Alcott, Louisa May, 139
- aliquoting, 367
- Allen, Jason, 326, 329, 332
- alternate futures, 478-481
- Amazon, 469
- ambulatory surgical centers (ASCs), 12
- American College of Emergency Physicians (ACEP), 30
- American College of Surgeons (ACS), Hospital Standardization Program, 326
- American Nursing Association (ANA), 141
- analysis
 - analytic steps (diagnostic unit flows), 366
 - anticipatory analysis, 103
 - retrospective analysis, 103
- anatomical pathology, 360
- anchor period, 98
- anchoring, 96, 533
- ancillary services, 344
- Andral, Gabriel, 351
- anesthesiologists, 259
- anesthesiology, history of, 251-252
- anticipatory analysis, 103
- arrival variability, reducing, 567
- ascertainment bias, 534
- ASCs (ambulatory surgical centers), 12
- assets
 - fixed versus variable cost assets, 155-156
 - human assets
 - of EDs (*Emergency Departments*), 36-39
 - of nursing units, 146-151
 - of operating rooms, 258-260
 - physical assets
 - of EDs (*Emergency Departments*), 33-36
 - of nursing units, 144-146
 - of operating rooms, 254-258
- assignment, improving, 574-576
 - EDs (*Emergency Departments*), 95, 100
 - laboratories, 430, 438, 442
 - nurse shift handoffs, 226
 - surgical patient safety, 300
- Aston, Francis William, 352
- attending physicians, 37
- Auenbrugger, Leopold, 357
- AutoAnalyzer, 349
- automated immunohistochemistry platforms, 361

automation, 391
autostainers, 361
Avenzoar, 350
average hospitalization rates
 explained, 171-172
 Seaberg Hospital case study, 175

B

Babbage, Charles, 357
balancing workload, 564-565
Baruch, Hans, 349
Basch, Samuel Siegfried Karl Ritter von, 357
Bassi, Agostino, 346, 351
Batching principle, 125, 504-505, 567
 imaging responsiveness, 399-400
 laboratory turnaround time, 380
Bayes' Rule, 530-533
bed holds, 161
bed inventories, 162-163
bed-to-population ratios
 development of
 central planning initiatives, emergence of, 590-591
 Hill-Burton Act of 1946, 589-590
 national health planning goals, 591-592
 references, 593
 explained, 171
 Seaberg Hospital case study, 174
behavioral principles
 cognitive efficiency principles
 explained, 537-538
 Fatigue, 540
 Interruptions, 539-540
 Workload, 538-539
 explained, 537
 groups behavior principles
 explained, 546
 Key Stakeholders, 547
 Motivation for Change, 549-550
 Pareto Efficiency, 547-549
 Veto Power, 547
individual behavior principles
 Hoarding, 545
 Inertia, 545-546
 Self-Interest, 543-544
perception principles
 explained, 540-541
 Negative Experiences, 542-543
 Waiting Time Psychology, 541-542
Bell, Alexander Graham, 353
Bellevue Hospital (New York), 30
Bennett, John Hughes, 351
Berson, Solomon, 352
bias
 confirmation bias, 533
 sunk cost bias, 534
Binnig, Gerd, 353
birthing centers, Seaberg Hospital case study, 173
bleeding, historical methods of controlling, 250-251
Bloch, Felix, 356
blocking, reducing, 64-65, 566
blood transfusions, history of, 251
blood types, discovery of, 251
Blundell, James, 251
blunt end of treatment process, 81
Borders, 470
bottlenecks
 definition of, 50, 500
 metrics, 156-157
 in operating room, 273, 285-286
 long-range bed and nurse capacity planning, 166
brainstorming, principles-driven, 16-17
Bright, Richard, 351
Buffer Flexibility principle, 52, 511
 imaging responsiveness, 401-402
 laboratory turnaround time, 379
 long-range bed and nurse capacity planning, 168
 nurse scheduling, 185
bundling, 478

C

Cannon, Walter, 355, 358

capacity

adjusting, 567

capacity principles, 499

Batching, 504-505

Newsvendor, 505-506

Newsvendor with Normal Demand,
506-507

System Capacity, 500-502

Utilization, 502-503

EDs (Emergency Departments), 50-51,
62-65

increasing, 563-566

EDs (Emergency Departments), 62-65

nurse scheduling, 187-188

nurse shift handoffs, 225

imaging postexam time, 411

imaging preexam time, 409

laboratory TAT, 391

operating room scheduling delays,
279-280, 285-286

postlab TAT, 392

prelab TAT, 387-388

long-range bed and nurse

capacity planning

bed inventories, 162-163

nature of problem, 161-162

objectives and practices, 169-173

relevant management principles,
164-169

Seaberg Hospital case study, 173-178

staffing levels, 163-164

resource capacity, 499-500

capitation payment, 478

carbolic acid, 253

Casablanca strategy, 125

case sequencing in operating room, 287

casino scheduling, 98

CAT (Computerized Axial Tomography)

technology, history of, 355

cautery, historical use of, 250

CDUs (clinical decision units). *See*
observation units

cell counters, 361

cellular manufacturing, 72

central planning initiatives, emergence of,
590-591

Certificate of Need (CON), 108, 125, 591

charge nurses, 38

Cheaper by the Dozen, 563

chloroform, 252

circulating nurses, 259

CIWA-Ar (Clinical Institute Withdrawal
Assessment of Alcohol Scale, Revised),
310-312

clean corridor (OR), 257

clean storage rooms (OR), 257

"clean zone," 255

clerks, 39

Clifford, Joyce, 142

Cline, Henry, 251

clinical decision units (CDUs). *See*
observation units

Clinical Institute Withdrawal Assessment of
Alcohol Scale, Revised (CIWA-Ar), 310-312

clinical laboratories

flows, 364-367

history of, 346-353

human assets, 362-363

laboratory error

case study: Henry Ford Health System,
445-449

improvement policies, 423-445

nature of problem, 416-418

relevant management principles,
418-423

laboratory turnaround time

improvement policies, 381-393

nature of problem, 377-378

relevant management principles,
378-381

University of Michigan Hospital System
(UMHS) *case study*, 393-396

- metrics, 370-373
- milestones in clinical laboratory science
 - and practice, 350, 352
- overview, 344-345
- physical assets, 360-361
- stakeholders' perspectives, 339-344, 450-457
- clinical laboratory error**
 - case study: Henry Ford Health System, 445-449
 - improvement policies, 423-445
 - reducing collection errors by phlebotomists, 428-432*
 - reducing errors in sample analysis, 436-439*
 - reducing errors in sample receipt/preparation, 433-436*
 - reducing interpretation errors, 442-444*
 - reducing ordering errors by requesting physicians, 425-429*
 - reducing validation/reporting errors by technologist/pathologist, 439, 442*
 - nature of problem, 416-418
 - relevant management principles, 418-423
- clinical metrics for nursing units, 178
- clinical pathology, 360
- coagulometers, 361
- cocaine, 252
- Codman, Ernest, 326
- cognitive efficiency principles**
 - explained, 537-538
 - Fatigue, 540
 - Interruptions, 539-540
 - Workload, 538-539
- cognitive shortcuts for resolving uncertainty, 96**
- Commercial Hospital of Cincinnati, 30**
- communication**
 - communication errors, 420
 - communication technology, 99
 - of need for change, 584
 - of organizational goals, 582
 - organization learning in the OR, 319-323
 - of organizational performance, 582
- completion time, 378**
- complexity of tasks, 514-515**
- computer technology in information transfer, 99**
- Computerized Axial Tomography (CAT) technology, history of, 355**
- CON (Certificate of Need), 108, 125, 591**
- concept generation, 16-17, 320-321, 549, 583**
- concept selection, 16, 321-322, 550, 583**
- confirmation bias, 533**
- controlling**
 - bleeding, 250-251
 - infection, 252-254
 - pain, 251-252
- convenient systems, 102**
- Coolidge, William, 355, 358**
- Cormack, Allan, 355**
- costs**
 - cost metrics, 558-559
 - for EDs (Emergency Departments), 46
 - increased cost pressure, 477
- Coulter counter, 349**
- Coulter, Wallace, 349, 352**
- creative destruction, 481**
- Crick, Francis, 349, 352**
- crisis in health care**
 - health care costs, 4
 - health expenditure per capita, 5*
 - hospital expenditures, 8*
 - indirect costs, 6*
 - predicted escalation of, 5*
 - profit maximization versus historical values, 9-13*
 - inefficient delivery of basic care, 6-7
- Critical Path principle, 518-519**
- Critical Ratio Sequencing principle, 520-521**
 - and OR scheduling delays, 274
 - imaging responsiveness, 400-401
 - in ED (Emergency Department), 53, 80
 - laboratory turnaround time, 380-381

cross-training and cooperative staffing
model, St. Mary's Hospital case study,
203-206

CT scanners, 361

curare, 252

Curie, Marie, 358

Curie, Pierre, 358

custom care hospitals, patient flow, 491

cytotechnologists, 363

Czolgosz, Leon, 462

D

Damadian, Raymond, 357

data access

improving, 581

in OR, 318

data collection

active data collection, 317-318, 581

passive data collection, 317, 580

data interpretation, 319, 581

De Sedibus (Morgagni), 351

Death and Complication (D&C)

conferences, 326

decisions, improving, 574-576

decision errors, 419

decision making principles

Bayes' Rule, 530-533

explained, 527-528

First Impressions, 534

Incidence Rate, 533-534

in EDs (Emergency Departments), 94-98

in laboratories, 426-443

simplifying, 575

in OR (operating room)

case study: to operate or not?, 307-309

strategies for surgical patient safety, 302

surgical patient safety, 298-306

decision making principles

Bayes' Rule, 530-533

explained, 527-528

First Impressions, 534

Incidence Rate, 533-534

delays to get on surgical schedule

case study: Highland Hospital, 288-292

improvement policies, 277-288

nature of problem, 271-272

relevant management principles, 272-277

Critical Ratio Sequencing, 274

Key Stakeholders, 276

Little's Law, 272

Pareto Efficiency, 277

SPT Sequencing, 274

System Capacity, 273

Utilization, 274

Variability, 274

Veto Power, 276

Waiting Time Psychology, 275-276

"demand chase" strategy, 286

demand rate, adjusting, 566

diagnostic units

flows

in clinical laboratories, 364-367

in Imaging Department, 367-369

history of diagnostics, 345-346

clinical laboratories, 346-353

medical imaging, 353-359

human assets

in clinical laboratories, 362-363

in Imaging Department, 363-364

imaging responsiveness

case study: MRI wait time reduction at

Windsor Regional Hospital, 415-416

improvement policies, 403-415

nature of problem, 396-397

relevant management principles,

397-403

intermediate-term scheduling

decisions, 376

laboratory error

case study: Henry Ford Health System,

445-449

improvement policies, 423-445

nature of problem, 416-418

relevant management principles,

418-423

- laboratory turnaround time
 - improvement policies*, 381-393
 - nature of problem*, 377-378
 - relevant management principles*, 378-381
 - University of Michigan Hospital System (UMHS) case study*, 393-396
 - long-term capacity decisions, 375
 - metrics
 - performance metrics for clinical laboratories*, 370-373
 - performance metrics for Imaging Department*, 373-374
 - overview, 344-345
 - physical assets, 359
 - in clinical laboratories*, 360-361
 - in Imaging Department*, 361-362
 - short-term flow decisions, 376
 - stakeholders' perspectives, 339-344, 450-457
 - diagnostic units (ED), 35
 - directors (lab), 362-363
 - disaster preparedness, 31
 - disintegration future, 479
 - Disney Institute Healthcare Service Program, 467
 - diverting patients from EDs (Emergency Departments), 61-62
 - dLife.com, 468
 - doing rounds, 148-151
 - Donald, Ian, 356, 358
 - Donné, Alfred François, 351
 - Duboscq colorimeter, 351
 - Duboscq, Jules, 351
- E**
- Eakins, Thomas, 253
 - Echo Planar MR Imaging (EPI), 359
 - ED (Emergency Department), 21
 - conclusions, 111-112
 - disaster preparedness, 31
 - history of, 29-33
 - human assets, 36-39
 - management decisions, 47
 - observation unit design
 - case study: designing an observation unit for Lincoln Hospital*, 109-111
 - improvement policies*, 108-109
 - management principles*, 108
 - problems with*, 107-108
 - overcrowding
 - capacity overloads*, 50-51
 - case study: improving ED responsiveness at Oakwood Hospital (Dearborn, MI)*, 73-75
 - causes of*, 32, 48-49
 - improvement policies*, 54-73
 - negative consequences of*, 32, 49
 - psychology*, 53-54
 - sequencing*, 52-53
 - variability*, 51-52
 - patient flow, 39-41
 - patient safety
 - accuracy of treatment*, 81-82
 - case study: eliminating ICU infections at Johns Hopkins Hospital*, 104-107
 - causes of preventable adverse outcomes*, 78
 - execution phase*, 84-85
 - improvement policies*, 88-104
 - information phase*, 82-83
 - liability challenges*, 76
 - patient protection*, 85-88
 - planning phase*, 84
 - rates of medical errors in ED*, 75-76
 - speed of treatment*, 79-81
 - systems perspective on patient safety*, 76-78
 - performance metrics, 42-47
 - physical assets, 33-36
 - rising costs of, 32
 - stakeholders' perspectives, 21-29, 112-116
 - ED technicians, 38
 - Edison, Thomas, 354

efficiency

- implementation efficiency, increasing, 584
- improving in hospitals of the future, 482-483

Ehrlich, Paul, 351

Einstein, Albert, 357

Einthoven, Willem, 358

electronic whiteboards, 98

eliminating steps, 563-564

emergence of central planning initiatives, 590-591

Emergency Department. *See* ED

emergency medical service (EMS) systems, history of, 30-32

emergency medical technicians (EMTs), development of, 30

Emergency Medical Treatment and Active Labor Act (EMTALA), 31

emergency nurses, 38

emergency physicians, 37

Emergency Severity Index (ESI) system, 40

emergent (triage), 40

Emerson, Ralph Waldo, 480

empirical medicine, 471

EMS (emergency medical service) systems, history of, 30-32

EMS Entrance, 34

EMTALA (Emergency Medical Treatment and Active Labor Act), 31

EMTs (emergency medical technicians), development of, 30

enhancements. *See* improvement strategies

enhancing

- patient perceptions, 570-572
 - in EDs (*Emergency Departments*), 72-73
 - nurse scheduling, 193
 - of operating room scheduling delays, 284-287

- staff perceptions of nurse scheduling, 193-194

EPI (Echo Planar MR Imaging), 359

equipment storage rooms (OR), 257

errors

- case study: error leading to learning and improved processes in surgical team, 309-312

communication errors, 420

decision errors, 419

definition of, 293

execution errors, 419

human error, 293

laboratory error. *See* laboratory error

protection and recovery errors, 419

reporting systems, 313-315

system or process errors, 293

technological errors, 293

ESI (Emergency Severity Index) system, 40

Essai d'hématologie pathologique (Andral), 351

ether, 252

evidence-based medicine, 496

execution, improving, 576-577

- in EDs (*Emergency Departments*), 84-85, 101

execution errors, 419

execution of learning process, 582-584

simplifying execution, 577

surgical patient safety, 303-306

extensively drug-resistant tuberculosis (XDR-TB), 496

F

factory-within-a-factory approach, 483

Fast Track units (ED), 69

fast-track (minor) units (ED), 36

FastPass concept, applying to EDs (*Emergency Departments*), 68

Fatigue principle, 540

- in ED (*Emergency Department*), 84

laboratory error reduction, 422-423

nurse shift handoffs, 223

surgical patient safety, 296

fee-for-episode, 478

fee-for-membership, 478

fee-for-service, 478

financial metrics for nursing units, 179

first assistants, 259

First Impressions principle, 534

laboratory error reduction, 422

surgical patient safety, 296

5S (Sort, Straighten, Sweep, Standardize, Sustain), 125

fixed-cost assets, 155-156

flexibility, 588

flexible nursing capacity, St. Mary's Hospital case study, 202-203

flow principles

capacity principles, 499

Batching, 504-505

Newsvendor, 505-506

Newsvendor with Normal Demand, 506-507

System Capacity, 500-502

Utilization, 502-503

protection principles

explained, 522

Foolproofing, 523-524

Intuitive Information, 524-525

Redundancy, 522-523

sequencing principles

Critical Ratio Sequencing, 520-521

explained, 519

SPT (shortest processing time)

Sequencing, 521-522

task efficiency principles

Critical Path, 518-519

Task Simplification, 515-516

Task Standardization, 516-518

variability principles

Buffer Flexibility, 511

explained, 507

Little's Law, 511-513

Pooling, 513

Variability, 507-510

Variability Buffering, 510-511

Variability Buffering in Service Systems, 511

flow shops

explained, 468

MinuteClinic case study, 473, 475, 493

Shouldice Hospital case study, 475

structure, 61

flows. See also flow principles; flow shops

material flow in operating room, 262-263

patient flow

in clinical laboratories, 364-367

in custom care hospitals, 491-492

in EDs (Emergency Departments), 39-41

in general hospitals, 489-490

in Imaging Department, 367-369

in integration hub hospitals, 490

in operating room, 260-261

through nursing units, 151-152

staff flow in operating room, 262

focus, improving, 575-577

EDs (Emergency Departments), 97-98

focus on practice, 7-8

nurse shift handoffs, 228

in OR (operating room), 302-305

in laboratory, 426-441

Folin, Otto, 348, 352

Foolproofing principle, 523-524

in ED (Emergency Department), 87

laboratory error reduction, 422-423

nurse shift handoffs, 223

surgical patient safety, 297

Forssmann, Werner, 358

Fracastoro, Girolamo, 346, 350

full capacity protocols, 67, 125

future hospitals

alternate futures, 478-481

custom care hospitals

explained, 489

patient flow, 491-492

disintegration future, 479

integration future, 480-481

integration hub hospitals

explained, 489

patient flow, 490

key trends, 477-478

- management challenges
 - creative destruction*, 481
 - efficiency improvements*, 482-483
 - hospital-within-a-hospital approach*, 483
 - institutional inertia*, 484-485
 - roles in the future*, 485-494
 - specialized resource sharing*, 483-484
- product and process integration, 466-467
 - process hierarchy*, 467-470
 - product variety*, 470-472
 - product/process matrix*, 472-476
- stakeholders' perspectives, 463-466

G

- Galen, 250
- Garfield, James, 353
- gatekeepers, 479
- gemba walks, 394, 462
- general care beds, 145
- General Motors, 20
- generating information, 568-569
- genetic testing, history of, 349-350
- germ theory, 253, 346-348
- Gilbert, Walter, 349, 353
- Gilbreth, Frank, 563
- good catch incident, 555
- Grady Memorial Hospital (Atlanta), 11
- Gretzky, Wayne, 476
- The Gross Clinic* (Eakins), 253
- grossed specimens, 394
- group waiting (EDs), 73
- groups behavior principles
 - explained, 546
 - Key Stakeholders, 547
 - Motivation for Change, 549-550
 - Pareto Efficiency, 547-549
 - Veto Power, 547

H

- handoffs, 220, 526-527
 - in ED (Emergency Department), 83
 - imaging responsiveness, 403

- Mercy Academic Medical Center (MAMC) case study, 229
 - change planning*, 229-231
 - evaluation*, 234-235
 - recommendations*, 232-234
- in laboratories
 - laboratory error reduction*, 422
 - laboratory turnaround time*, 381
- nature of problem, 220-221
- nurse shift handoffs, 222
- objectives and practices, 224-228
- relevant management principles, 222-223
- surgical patient safety, 296-297
- hanging protocols, 462
- harm mitigation, 578
 - in laboratories, 432-443
- Harvey, William, 251, 350
- health care costs, 4
 - health expenditure per capita, 5
 - hospital expenditures, 8
 - indirect costs, 6
 - predicted escalation of, 5
 - profit maximization versus historical values, 9-13
- health care levels
 - minimal care, 486
 - prevention, 486
 - self-care, 486
 - specialized care, 486
- health care policy debates, 10
- health expenditures
 - hospital expenditures, 8
 - per capita, 5
 - predicted escalation of, 5
- Health System Agencies (HSAs), 591
- Health System Plan (HSP), 591
- Helmholtz, Hermann von, 357
- hemimandibulectomy, 420
- Henry Ford Health System case study, 445-449
- Henry Ford Laboratories, 475
- Henry Ford Production System, 445
- Herophilos, 350

- hiding beds, 152
- hierarchy
 - process hierarchy, 467-470
- Highland Hospital case study, 288-292
- Hill-Burton Act of 1946, 589-590
- Hippocrates, 250, 345, 350
- Hirschowitz, Basil, 358
- history
 - of diagnostics, 345-346
 - clinical laboratories*, 346-353
 - medical imaging*, 353-359
 - of ED (Emergency Department), 29-33
 - of nursing, 137-143
 - of surgery
 - control of bleeding*, 250-251
 - infection control*, 252-254
 - knowledge of human anatomy*, 249-250
 - pain control*, 251-252
 - Stone Age evidence*, 248-249
- histotechnologists, 363
- Hoarding principle, 545
- hospital expenditures, 8
- Hospital Sketches* (Alcott), 139
- Hospital Standardization Program, 326
- hospital-within-a-hospital approach, 483
- Hospitaler Dames of the Order of St. John of Jerusalem, 137
- hospitals of the future. *See* future hospitals
- Hounsfield, Godfrey, 355, 358
- housekeeping rooms (OR), 257
- HSAs (Health System Agencies), 591
- HSP (Health System Plan), 591
- human anatomy, historical knowledge of, 249-250
- human assets
 - diagnostic units
 - clinical laboratories*, 362-363
 - Imaging Department*, 363-364
 - EDs (Emergency Departments), 36-39
 - nursing units
 - administrators and technicians*, 147-148
 - doctors*, 148-151
 - nurses*, 146-147
 - operating rooms, 258-260

- human error, 293
- Human Genome Project, 353
- human resources, adding, 563
- humorism, 346

I

- iatrogenic mortality, 138
- ICU, 104-107, 145
- Imaging Department
 - flows, 367-369
 - history of medical imaging, 353-359
 - human assets, 363-364
 - imaging responsiveness
 - case study: MRI wait time reduction at Windsor Regional Hospital*, 415-416
 - improvement policies*, 403-415
 - nature of problem*, 396-397
 - relevant management principles*, 397-403
 - metrics, 373-374
 - overview, 344-345
 - physical assets, 361-362
 - stakeholders' perspectives, 339-344, 450-457
- imaging responsiveness
 - case study: MRI wait time reduction at Windsor Regional Hospital*, 415-416
 - improvement policies*, 403-415
 - reducing postexam time*, 411-415
 - reducing preexam time*, 408-411
 - table of*, 404-408
 - nature of problem*, 396-397
 - relevant management principles*, 397-403
 - Batching*, 399-400
 - Buffer Flexibility*, 401-402
 - Critical Ratio Sequencing*, 400-401
 - Handoffs*, 403
 - Task Simplification*, 399
 - Task Standardization*, 399
 - Utilization*, 398
 - Variability*, 397
 - Variability Buffering*, 398

- Variability Buffering in Service Systems*, 398
- Waiting Time Psychology*, 402-403
- immuno-based analyzers**, 361
- implementation, improving**
 - increasing efficiency of, 584
 - organizational learning in OR, 323-325
- implementation stage**, 550
- improved technology**, 477
- improvement policies**
 - ED (Emergency Department) patient safety
 - improving assignment*, 95-100
 - improving decisions*, 94
 - improving focus*, 97-98
 - improving incentives*, 100
 - improving information*, 94-103
 - improving responsiveness*, 93-94
 - improving training*, 96-100
 - increasing redundancy*, 98-103
 - mitigating harm*, 104
 - simplifying/standardizing decision process*, 97-98
 - simplifying/standardizing execution process*, 101
 - table of*, 88-93
- EDs (Emergency Departments)
 - overcrowding
 - enhancing patient perceptions*, 72-73
 - improving sequencing*, 70-72
 - improving synchronization*, 65-67
 - increasing capacity*, 62-65
 - reducing variability*, 67-70
 - reducing workload*, 60-62
 - table of*, 54-60
- explained, 561-562
- imaging responsiveness, 403-415
 - reducing postexam time*, 411-415
 - reducing preexam time*, 408-411
 - table of*, 404-408
- laboratory errors, 423-445
 - reducing collection errors by phlebotomists*, 428-432
 - reducing errors in sample analysis*, 436-439
 - reducing errors in sample preparation*, 433-436
 - reducing interpretation errors*, 442-444
 - reducing ordering errors by requesting physicians*, 425-429
 - reducing validation/reporting errors by technologist/pathologist*, 439-442
- long-range bed and nurse capacity planning, 169-173
 - average hospitalization rates*, 171-172
 - Monte Carlo simulation*, 173
 - queuing theory*, 172
 - service-line forecasting*, 172
 - standard bed-to-population ratios*, 171
- nurse scheduling, 186-195
- nurse shift handoffs, 224-228
- operating room scheduling delays, 277-288
- organizational learning, 316-326, 579-585
 - improving execution of learning process*, 320-323, 582-584
 - improving implementation of change*, 323-325, 584
 - improving information*, 317-319, 580-581
 - increasing motivation*, 319-320, 582
 - table of generic options*, 585
- patient safety, 573-579
 - case study: medical decision making*, 307-309
 - improving decisions*, 574-576
 - improving execution*, 576-577
 - improving protection and mitigation*, 577-578
 - improving responsiveness*, 574
 - surgical patient safety*, 297-307
 - table of generic options*, 579
- responsiveness, 562-573
 - enhancing patient perceptions*, 570-572
 - improving sequencing*, 568-570
 - improving synchronization*, 566-567
 - increasing capacity*, 563-566

- reducing variability*, 567-568
- reducing workload*, 563
- table of generic options*, 573
- in vitro diagnostics**, 345
- in vivo diagnostics**, 345
- incentives, improving**, 575-577
 - laboratory error reduction, 425-442
 - nurse shift handoffs, 227
 - surgical patient safety, 301
 - EDs (Emergency Departments), 100
- Incidence Rate principle**, 422, 533-534
- increased cost pressure**, 477
- increasing**
 - capacity, 563-566
 - nurse scheduling*, 187-188
 - nurse shift handoffs*, 225
 - EDs (Emergency Departments)*, 62-65
 - imaging postexam time*, 411
 - imaging preexam time*, 409
 - laboratory TAT*, 391
 - operating room scheduling delays*, 279-280, 285-286
 - postlab TAT*, 392
 - prelab TAT*, 387-388
 - implementation efficiency, 584
 - motivation, 319-320, 582
 - redundancy, 576-578
 - in EDs (Emergency Departments)*, 98-103
 - in laboratories*, 426-443
 - in nurse shift handoffs*, 228
 - in OR (operating room)*, 305
 - synchronization
 - laboratory TAT*, 391
 - prelab TAT*, 388-389
 - task parallelism, 565
 - time/resources dedicated to learning, 320
 - utilization, 409
- incremental enhancements**, 474
- individual behavior principles**
 - Hoarding, 545
 - Inertia, 545-546
 - Self-Interest, 543-544

- Industrial Revolution, effect on nursing profession**, 140
- Inertia principle**, 316, 545-546
- infant mortality, U.S. versus other OECD countries**, 6-7
- infection control, historical methods of**, 252-254
- information**
 - generating, 568-569
 - improving, 574, 578, 580-581
 - EDs (Emergency Departments)*, 94-103
 - nurse shift handoffs*, 226
 - strategies for organizational learning in OR*, 317-319
 - strategies for surgical patient safety*, 298-300
 - strategies to reduce laboratory errors*, 425-443
 - information transfer principles
 - Handoffs*, 526-527
 - Knowledge Sharing*, 527
 - information use principles (decision making)
 - Bayes' Rule*, 530-533
 - explained*, 527-528
 - First Impressions*, 534
 - Incidence Rate*, 533-534
 - information value principles, 534-535
 - Test Quality*, 536-537
 - Value of Information*, 535-536
- information phase in EDs (Emergency Departments)**, 82-83
- information principles**
 - information transfer principles
 - Handoffs*, 526-527
 - Knowledge Sharing*, 527
 - information use principles (decision making)
 - Bayes' Rule*, 530-533
 - explained*, 527-528
 - First Impressions*, 534
 - Incidence Rate*, 533-534

- information value principles, 534-535
 - Test Quality*, 536-537
 - Value of Information*, 535-536
- InQuickER, 68
- inspecting quality into the process, 555
- Institute of Medicine (IOM), 293
- Institute of Medicine, Health Resources
 - Administration 1980 report (HRA 1980), 591-592
- institutional inertia, 484-485
- integration
 - integration future, 480-481
 - integration hub hospitals, 489-490
 - product and process integration, 466-467
 - process hierarchy*, 467-470
 - product variety*, 470-472
 - product/process matrix*, 472-476
- integration hub hospitals, 489-490
- intermediate-range scheduling, 47
 - for diagnostic units, 376
 - for nursing units, 159
 - for operating rooms, 268-269
- interns, 37
- interpreting data, 319
- Interruptions principle, 539-540
 - ED (Emergency Department), 84
 - laboratory error reduction, 422-423
 - nurse shift handoffs, 223
- Intuitive Information principle, 524-525
 - ED (Emergency Department), 83, 88
 - nurse shift handoffs, 223
 - surgical patient safety, 297
- intuitive medicine, 470
- IOM (Institute of Medicine), 293

J

- JCAHO (Joint Commission on Accreditation of Healthcare Organizations), 293
- Jenner, Edward, 347, 351
- job shops, 61, 468
- Johns Hopkins Hospital, elimination of ICU infections at, 104-107

- Joint Commission on Accreditation of Healthcare Organizations (JCAHO), 293
- Joliot-Curie, Frédéric, 358
- Joliot-Curie, Irène, 358
- just-in-time production, 8

K

- Kaiserwerth School (Germany), 138
- Key Stakeholders principle, 547
 - OR scheduling, 276
 - OR organization learning, 324-325
 - nurse scheduling, 185
- key trends, 477-478
- Knights Hospitalers, 137
- Knights Templars, 137
- Knoll, Max, 352
- Knowledge Sharing principle, 315, 527
- Koch, Robert, 345-348, 351, 471

L

- laboratories. *See* clinical laboratories
- Laennec, Rene, 357
- Lamke, Heinz, 358
- Landsteiner, Karl, 352
- Laplace, Pierre-Simon, 471
- Larrey, Dominique Jean, 29
- laughing gas, 251
- Lauterbur, Paul, 356-358
- lean production, 8
- Lean Six Sigma, 78
- learning
 - metrics, 561
 - general organizational learning, 579-585
 - improving execution of learning process*, 582-584
 - improving implementation of change*, 584
 - improving information*, 580-581
 - increasing motivation*, 582

- OR organizational learning
 - case study: Western Hospital D&C (Death and Complication) conferences, 326-332*
 - improvement policies, 316-326*
 - nature of problem, 313-315*
 - relevant management principles, 315-316*
- standardizing learning process, 583
- Leeuwenhoek, Antoine van, 346, 350
- legislation
 - 1972 amendments to Social Security Act (Public Law 92-603) Section 1122, 590
 - Emergency Medical Treatment and Active Labor Act (EMTALA), 31
 - Hill-Burton Act of 1946, 589-590
 - The National Health Planning and Development Act of 1974, 591
- Lemaster, John, 328
- Lenard, Phillipp, 356
- “level demand” strategy, 286
- levels of health care, 486
- LH (Lincoln Hospital) ED observation unit, 109-111
- licensed practical nurses (LPNs), 38
- life expectancy, U.S. versus other OECD countries, 6
- ligature, 250
- Lincoln Hospital (LH) ED observation unit, 109-111
- Lister, Joseph, 253, 347, 351
- Little’s Law, 52, 108, 511-513
 - OR scheduling, 272
 - long-range bed and nurse capacity planning, 165
- Long, Crawford, 252
- long-range bed and nurse capacity planning
 - bed inventories, 162-163
 - nature of problem, 161-162
 - objectives and practices, 169-173
 - average hospitalization rates, 171-172*
 - Monte Carlo simulation, 173*
 - queuing theory, 172*

- service-line forecasting, 172*
- standard bed-to-population ratios, 171*
- relevant management principles, 164-169
 - Buffer Flexibility, 168*
 - Little’s Law, 165*
 - Newsvendor, 168-169*
 - Pooling, 167*
 - System Capacity, 166*
 - Utilization, 167*
 - Variability, 166*
- Seaberg Hospital case study, 173-178
- staffing levels, 163-164
- long-range strategic planning, 47
 - for diagnostic units, 375
 - for nursing units, 158
 - for operating rooms, 266-268
- Louis, Pierre Charles Alexandre, 471
- Lower, Richard, 251
- LPNs (licensed practical nurses), 38

M

- Magnetic Resonance Imaging (MRI)
 - technology, 356, 361
- Malassez hemocytometer, 348
- Malassez, Louis-Charles, 351
- MAMC (Mercy Academic Medical Center),
 - shift-to-shift nursing report practices
 - change planning, 229-231
 - evaluation, 234-235
 - recommendations, 232-234
- mammography, 358
- management principles
 - Batching, 504-505
 - imaging responsiveness, 399-400*
 - laboratory turnaround time, 380*
 - Bayes’ Rule, 530-533
 - Buffer Flexibility, 52, 511
 - imaging responsiveness, 401-402*
 - laboratory turnaround time, 379*
 - long-range bed and nurse capacity planning, 168*
 - nurse scheduling, 185*
 - categories of, 498

- Critical Path, 518-519
- Critical Ratio Sequencing, 53, 80, 520-521
 - imaging responsiveness*, 400-401
 - laboratory turnaround time*, 380-381
 - OR scheduling*, 274
- definition of, 497
- Fatigue, 84, 540
 - laboratory error reduction*, 422-423
 - nurse shift handoffs*, 223
 - surgical patient safety*, 296
- First Impressions, 534
 - laboratory error reduction*, 422
 - surgical patient safety*, 296
- Foolproofing, 87, 523-524
 - laboratory error reduction*, 422-423
 - nurse shift handoffs*, 223
 - surgical patient safety*, 297
- Handoffs, 83, 526-527
 - imaging responsiveness*, 403
 - laboratory error reduction*, 422
 - laboratory turnaround time*, 381
 - nurse shift handoffs*, 222
 - surgical patient safety*, 296-297
- Hoarding, 545
- Incidence Rate, 422, 533-534
- Inertia, 316, 545-546
- Interruptions, 84, 539-540
 - laboratory error reduction*, 422-423
 - nurse shift handoffs*, 223
- Intuitive Information, 83, 88, 524-525
 - nurse shift handoffs*, 223
 - surgical patient safety*, 297
- Key Stakeholders, 547
 - nurse scheduling*, 185
 - OR scheduling*, 276
- Knowledge Sharing, 315, 527
- Little's Law, 52, 108, 511-513
 - long-range bed and nurse capacity planning*, 165
 - OR scheduling*, 272
- Motivation for Change, 315-316, 549-550
- Negative Experiences, 542-543
- Newsvendor, 168-169, 505-506
- Newsvendor with Normal Demand, 506-507
- Pareto Efficiency, 547-549
 - nurse scheduling*, 186
 - OR scheduling*, 277
- Pooling, 52, 513
 - long-range bed and nurse capacity planning*, 167
 - nurse scheduling*, 185
- Redundancy, 87, 522-523
 - laboratory error reduction*, 423
 - nurse shift handoffs*, 223
 - surgical patient safety*, 296
- Self-Interest, 543-544
 - nurse scheduling*, 185
 - reporting of errors and near misses*, 315
- SPT (shortest processing time)
- Sequencing, 274, 521-522
- System Capacity, 51, 500-502
 - long-range bed and nurse capacity planning*, 166
 - OR scheduling*, 273
- Task Simplification, 52, 80, 85, 515-516
 - imaging responsiveness*, 399
 - laboratory error reduction*, 422
 - laboratory turnaround time*, 379
 - nurse shift handoffs*, 222
- Task Standardization, 52, 80, 85, 516-518
 - imaging responsiveness*, 399
 - laboratory error reduction*, 422
 - laboratory turnaround time*, 379
 - nurse shift handoffs*, 222
- Test Quality, 536-537
 - laboratory error reduction*, 422
 - surgical patient safety*, 295
- Utilization, 51, 79, 502-503
 - imaging responsiveness*, 398
 - laboratory turnaround time*, 378
 - long-range bed and nurse capacity planning*, 167
 - OR scheduling*, 274

- Value of Information, 535-536
 - laboratory error reduction*, 422
 - nurse shift handoffs*, 222
 - surgical patient safety*, 295
- Variability, 51, 79, 507-510
 - imaging responsiveness*, 397
 - laboratory turnaround time*, 378
 - long-range bed and nurse capacity planning*, 166
 - nurse scheduling*, 185
 - OR scheduling*, 274
- Variability Buffering, 51-52, 510-511
 - imaging responsiveness*, 398
 - laboratory turnaround time*, 379
 - nurse scheduling*, 185
- Variability Buffering in Service Systems, 511
 - imaging responsiveness*, 398
 - laboratory turnaround time*, 379
- Veto Power, 547
 - and OR scheduling delays*, 276
 - nurse scheduling*, 185
- Visual Information, 422
- Waiting Time Psychology, 541-542
 - imaging responsiveness*, 402-403
 - OR scheduling*, 275-276
- Workload, 84, 422-423, 538-539
- Mansfield, Peter, 356-357
- material flow in operating room, 262-263
- Material Requirements Planning (MRP) systems, 470
- Mayo Clinic, 475
- McKinley, William, 354
- medical directors (ED), 37
- Medical School of Salerno, 250
- medical technicians, 363
- medical technologists, 363
- medical tourism, 7
- Mendel, Gregor, 349, 351
- Mercalón Hospital Trauma-Burn Center (TBC), nurse scheduling case study, 206-208
 - burn average daily arrivals by month, 209
 - nurse shift auctions, 216, 218-220
 - refined patient demand model, 213-215
 - TBC census and staff by month, 209
 - trauma average daily arrivals by month, 208
 - understaffing/overstaffing cost management, 210-212
- Mercy Academic Medical Center (MAMC), shift-to-shift nursing report practices, 229
 - change planning, 229-231
 - evaluation, 234-235
 - recommendations, 232, 234
- metrics
 - cost metrics, 558-559
 - diagnostic unit performance metrics, 370
 - clinical laboratories*, 370-373
 - Imaging Department*, 373-374
 - EDs (Emergency Departments)
 - performance metrics, 42-47
 - establishing, 580
 - explained, 550-552
 - learning metrics, 561
 - operating room performance metrics, 263-265
 - nursing unit performance metrics, 153, 157, 178-180
 - bottleneck resources*, 156-157
 - clinical*, 178
 - financial*, 179
 - fixed versus variable cost assets*, 155-156
 - operational*, 178
 - organizational*, 180
 - sample performance metrics*, 153-155
 - patient satisfaction metrics, 557
 - quality metrics, 554-557
 - revenue metrics, 559-560
 - staff satisfaction metrics, 560
 - time metrics, 553-554
 - volume metrics, 552-553
- miasma theory, 346
- microbes, 253
- mid-level practitioners (MLPs), 38
- military emergency medical services, history of, 30

- minimal care, 486
- MinuteClinic, 473-475, 493
- mitigating harm, 577-578
 - EDs (Emergency Departments), 104
 - laboratory errors, 432, 436-443
 - surgical patient safety, 305-306
- MLPs (mid-level practitioners), 38
- modular manufacturing, 72
- Moniz, Egas, 358
- Monte Carlo simulation, 173
- Morgagni, Giovanni Battista, 351
- Mortality and Morbidity (M&M)
 - conferences, 326
- Motivation for Change principle, 315-316, 549-550
- motivation, increasing, 319-320, 582
- Mouyen, Francis, 359
- MRI (Magnetic Resonance Imaging)
 - technology, 356, 361
- MRI scanners
- MRP (Material Requirements Planning)
 - systems, 470
- Mullis, Kary, 353

N

- National Center for Injury Prevention and Control (NCIPC), 31
- National Council Licensing Examination for Practical Nurses (NCLEX-PN), 147
- National Council Licensing Examination for Registered Nurses (NCLEX-RN), 147
- The National Health Planning and Development Act of 1974, 591
- national health planning goals, 591-592
- NCIPC (National Center for Injury Prevention and Control), 31
- NCLEX-PN (National Council Licensing Examination for Practical Nurses), 147
- NCLEX-RN (National Council Licensing Examination for Registered Nurses), 147
- near misses, 293, 555
- Negative Experiences principle, 542-543
- nervousness, 470

- News vendor principle, 168-169, 505-506
- News vendor with Normal Demand principle, 506-507
- NHS (Northampton Health System),
 - Seaberg Hospital case study, 173-178
- Nightingale, Florence, 138-139, 143, 346
- 9-1-1 system, development of, 30
- nitrous oxide, 251
- no harms incident, 555
- nonurgent (triage), 40
- nonvalue added time, 588
- Northampton Health System (NHS),
 - Seaberg Hospital case study, 173-178
- nosocomial infections, 152
- Novo Nordisk insulin pen, 475
- NPs (nurse practitioners), 38
- nuclear medicine equipment, 362
- nurse managers, 38
- nurse practitioners (NPs), 38
- nurse scheduling
 - characteristics of good nurse scheduling system, 181
 - general scheduling process, 181-185
 - Mercalon Hospital Trauma-Burn Center (TBC) case study, 206-208
 - burn average daily arrivals by month, 209*
 - nurse shift auctions, 216-220*
 - refined patient demand model, 213-215*
 - TBC census and staff by month, 209*
 - trauma average daily arrivals by month, 208*
 - understaffing/overstaffing cost management, 210-212*
- metrics, 178-180
 - clinical, 178*
 - financial, 179*
 - operational, 178*
 - organizational, 180*
- nature of problem, 180-181
- objectives and practices, 186-195
- relevant management principles, 185-186

- St. Mary's Hospital case study
 - analysis*, 200-202
 - cross-training and cooperative staffing model*, 203-206
 - flexible nursing capacity*, 202-203
 - nurse staffing costs*, 196-197
 - patient rotation system*, 198-200
 - traditional patient placement*, 197-198
 - nurse shift auctions**, 216-220
 - nurse shift handoffs**, 220
 - Mercy Academic Medical Center (AMMC) case study
 - change planning*, 229-231
 - evaluation*, 234-235
 - recommendations*, 232, 234
 - nature of problem, 220-221
 - objectives and practices, 224-228
 - relevant management principles, 222-223
 - nurse stations (ED)**, 34-35
 - nurse supervisors**, 38
 - nursing report**, 220
 - nursing shift report**, 220
 - nursing units**
 - charge nurses, 38
 - circulating nurses, 259
 - emergency nurses, 38
 - history of, 137-143
 - human assets
 - administrators and technicians*, 147-148
 - doctors*, 148, 150-151
 - nurses*, 146-147
 - intermediate-range scheduling, 159
 - licensed practical nurses (LPNs), 38
 - long-range bed and nurse capacity planning
 - bed inventories*, 162-163
 - nature of problem*, 161-162
 - objectives and practices*, 169-173
 - relevant management principles*, 164-169
 - Seaberg Hospital case study*, 173-178
 - staffing levels*, 163-164
 - long-range strategic planning, 158
 - metrics, 153
 - fixed versus variable cost assets*, 155-156
 - for bottleneck resources*, 156-157
 - overview*, 157
 - sample performance metrics*, 153-155
 - nurse managers, 38
 - nurse practitioners (NPs), 38
 - perioperative nurses, 259
 - primary nurses, 38
 - nurse shift handoffs, 220
 - Mercy Academic Medical Center (AMMC) case study, 229-235
 - nature of problem*, 220-221
 - objectives and practices*, 224-228
 - relevant management principles*, 222-223
 - nurse supervisors, 38
 - nursing education, 146-147
 - nursing hierarchy, 147-148
 - patient flow, 151-152
 - physical assets, 144-146
 - radiological nurses, 364
 - registered nurses (RNs), 38
 - scheduling
 - characteristics of good nurse scheduling system*, 181
 - general scheduling process*, 181-185
 - Mercalón Hospital Trauma-Burn Center (TBC) case study*, 206-220
 - metrics*, 178-180
 - nature of problem*, 180-181
 - objectives and practices*, 186-195
 - relevant management principles*, 185-186
 - St. Mary's Hospital case study*, 196-206
 - scrub nurses, 259
 - short-term scheduling, 159-160
 - stakeholders' perspectives, 127-136, 235-239
- O**
- Oakwood Hospital (Dearborn, MI), ED responsiveness at**, 73-75
 - observation beds**, 146

- observation units (ED), 36**
 - case study: designing an observation unit for Lincoln Hospital, 109-111
 - improvement policies, 108-109
 - management principles, 108
 - problems with, 107-108
- Ohno, Taiichi, 8, 462**
- on-call specialists, 39**
- Open MRI Systems, 359**
- operating rooms**
 - delays to get on surgical schedule
 - Highland Hospital case study, 288-292*
 - improvement policies, 277-288*
 - nature of problem, 271-272*
 - relevant management principles, 272-277*
 - history of surgery
 - control of bleeding, 250-251*
 - infection control, 252-254*
 - knowledge of human anatomy, 249-250*
 - pain control, 251-252*
 - Stone Age evidence, 248-249*
 - human assets, 258-260
 - management decisions
 - decision hierarchy, 266*
 - intermediate-range scheduling, 268-269*
 - long-range strategic planning, 266-268*
 - short-term scheduling, 269-271*
 - material flow, 262-263
 - organizational learning, 312
 - case study: Western Hospital D&C (Death and Complication) conferences, 326-332*
 - improvement policies, 316-326*
 - nature of problem, 313-315*
 - relevant management principles, 315-316*
 - patient flow, 260-261
 - patient safety, 292
 - case study: medical decision making, 307-309*
 - improvement policies, 297-307*
 - nature of problem, 292-294*
 - relevant management principles, 294-297*
 - performance metrics, 263-265*
 - physical assets, 254-258*
 - staff flow, 262*
 - stakeholders' perspectives, 243-248, 333-336*
- operational metrics for nursing units, 178**
- optimizing sequencing, 569-570**
- organizational learning, 579-585**
 - improving execution of learning process, 582-584
 - improving implementation of change, 584
 - improving information, 580-581
 - in operating rooms, 312
 - case study: Western Hospital D&C (Death and Complication) conferences, 326-332*
 - improvement policies, 316-326*
 - nature of problem, 313-315*
 - relevant management principles, 315-316*
 - increasing motivation, 582
 - table of generic options, 585
- organizational metrics**
 - for EDs (Emergency Departments), 46
 - for nursing units, 180
- ORs. See operating rooms**
- Osler, William, 462**
- outcome metrics for EDs (Emergency Departments), 42**
- overcrowding in EDs (Emergency Departments)**
 - capacity overloads, 50-51
 - case study: improving ED responsiveness at Oakwood Hospital (Dearborn, MI), 73-75
 - causes of, 32, 48-49
 - improvement policies
 - enhancing patient perceptions, 72-73*
 - improving sequencing, 70-72*
 - improving synchronization, 65-67*

increasing capacity, 62-65
reducing variability, 67-70
reducing workload, 60-62
table of, 54-60

negative consequences of, 32, 49
psychology, 53-54
sequencing, 52-53
variability, 51-52

overstaffing cost management, Mercalón
Hospital Trauma-Burn Center (TBC) case
study, 210-212

P

PACS (picture archiving and communication
system), 358

pain control, 251-252

Pare, Ambroise, 250

Pareto Efficiency principle, 547-549
nurse scheduling, 186
OR scheduling, 277

PAAs (physician assistants), 38

passive data collection, 317, 580

Pasteur, Louis, 253, 345, 347, 351

pathology assistants, 362

Pathology Department. *See*
clinical laboratories

patient anxiety, reducing, 571

patient demand model, Mercalón Hospital
Trauma-Burn Center (TBC) case study,
213-215

patient flow

custom care hospitals, 491-492
definition of, 498
EDs (Emergency Departments), 39-41
flow principles
capacity principles, 499-507
protection principles, 522-525
sequencing principles, 519-522
task efficiency principles, 513-519
variability principles, 507-513
general hospitals, 489-490
integration hub hospitals, 490

operating room, 260-261

nursing units, 151-152

patient perceptions, enhancing, 570-572

in EDs (Emergency Departments), 72-73

nurse scheduling, 193

operating room scheduling delays,
284-287

patient placement, St. Mary's Hospital
case study

analysis, 200-202

patient rotation system, 198-200

traditional patient placement, 197-198

patient safety, improving, 573-579

EDs (Emergency Departments), 85-88

accuracy of treatment, 81-82

*case study: eliminating ICU infections at
Johns Hopkins Hospital*, 104-107

*causes of preventable adverse
outcomes*, 78

execution phase, 84-85

improvement policies, 88-104

information phase, 82-83

liability challenges, 76

patient protection, 85-88

planning phase, 84

rates of medical errors in ED, 75-76

speed of treatment, 79-81

systems perspective on patient safety,
76-78

improving decisions, 574-576

improving execution, 576-577

improving protection and mitigation,
577-578

improving responsiveness, 574

table of generic options, 579

surgical patient safety

nature of problem, 292-294

relevant management principles,
294-297

patient satisfaction metrics, 42, 557

pediatric units (ED), 36

penicillin G benzathine case (1996 death of
day-old infant), 86

Pepys, Samuel, 251
 perception principles
 explained, 540-541
 Negative Experiences, 542-543
 Waiting Time Psychology, 541-542
 performance metrics. *See* metrics
 perioperative nurses, 259
 Petri, Richard Julius, 352
 pharmacists, 39
 pharmacogenetics, 350
 phlebotomists, 363
 physical assets
 of diagnostic units, 359
 clinical laboratories, 360-361
 Imaging Department, 361-362
 of EDs (Emergency Departments), 33-36
 of nursing units, 144-146
 of operating rooms, 254-258
 physical resources, adding, 563
 physician assistants (PAs), 38
 physicians
 attending physicians, 37
 emergency physicians, 37
 hospital rounds, 148, 150-151
 physicians in training, 37
 physician ownership
 in ambulatory surgical centers
 (ASCs), 12
 in specialty hospitals, 12
 trauma surgeons, 37
 picture archiving and communication
 system (PACS), 358
 Pirquet, Clemens von, 352
 planning
 in EDs (Emergency Departments), 84
 for nursing units
 intermediate-range scheduling, 159
 long-range capacity planning. See
 long-range bed and nurse
 capacity planning
 long-range strategic planning, 158
 nurse scheduling. See nurse scheduling
 short-term scheduling, 159-160
 for operating rooms
 intermediate-range scheduling, 268-269
 long-range strategic planning, 266-268
 short-term scheduling, 269-271
 point kaizens, 467
 Pooling principle, 52, 513
 long-range bed and nurse capacity
 planning, 167
 nurse scheduling, 185
 portable external defibrillators,
 development of, 30
 post-postanalytic steps (diagnostic unit
 flows), 366
 post-symptomatic diagnosis, 350
 postanalytic steps (diagnostic unit
 flows), 366
 posterior probabilities, 529
 postexam time (imaging), reducing, 411-415
 postprocedure recovery (OR), 257
 potassium citrate, 251
 practice
 combining with theory, 13-14
 focus on, 7-8
 pre-preanalytic steps (diagnostic unit
 flows), 366
 preanalytic steps (diagnostic unit flows), 366
 precision medicine, 471
 preexam time (imaging), reducing, 408-411
 prelab turnaround time, reducing, 387-390
 prelaboratory time, 366
 preprocedure preparation (OR), 256
 Press Ganey, 124
 presymptomatic diagnosis, 350
 preventable adverse events, 293
 prevention, 486
 primary nurses, 38
 principles-driven brainstorming, 16-17
 principles-driven management
 combining theory and practice, 13-14
 future health care policy changes, 17-19
 principles-driven brainstorming, 16-17
 prior probabilities, 529
 prioritizing tasks in nurse scheduling, 192

probabilities

posterior probabilities, 529

prior probabilities, 529

procedure rooms (OR), 256

process errors, 293

process integration, 466-467

process hierarchy, 467-470

product variety, 470-472

product/process matrix, 472-476

process metrics for EDs (Emergency Departments), 42

process times, reducing, 564

process variability, reducing, 568

product integration, 466-467

process hierarchy, 467-470

product variety, 470-472

product/process matrix, 472-476

product variety, 470-472

product/process matrix, 472-476

profit maximization versus historical values, 9-13

protection errors, 419

protection metrics, 555

protection principles

explained, 522

Foolproofing, 523-524

Intuitive Information, 524-525

Redundancy, 522-523

protection, improving, 577-578

psychiatric unit (ED), 36

psychology, wait time psychology, 53-54

puerperal fever, 252

Purcell, Edward, 356

Q

quality at the source, 555

quality metrics, 554-557

quality variability, 556

queuing theory, 172

R

radioimmunoassay, 352

radiologic technologists, 364

radiological nurses, 364

radiologist assistants, 364

radiologists, 363

Radiology Department. *See* Imaging Department

Rapid Medical Evaluation (RME) carts, 63

read-back protocols, 99

recovery errors, 419

reducing

blocking/starving, 64-65, 566

imaging postexam time, 411-415

imaging preexam time, 408-411

laboratory error. *See* clinical laboratory error

laboratory turnaround time. *See* turnaround time in clinical laboratories

patient anxiety, 571

process times, 564

resistance among key stakeholders, 324-325

resistance to change, 584

variability, 567-568

EDs (Emergency Departments), 67-70

nurse scheduling, 187-192

imaging postexam time, 412-413

imaging preexam time, 410

laboratory TAT, 392

operating room scheduling delays, 281-282, 287

postlab TAT, 393

prelab TAT, 389

workload, 563

ED (Emergency Department)

workload, 60-62

nurse scheduling, 187

nurse shift handoffs, 224

imaging postexam time, 411

imaging preexam time, 408

laboratory TAT, 390

operating room scheduling delays,

- 278-279, 285
 - postlab TAT*, 392
 - prelab TAT*, 387
 - redundancy, increasing**, 576-578
 - EDs (Emergency Departments), 98-103
 - nurse shift handoffs, 228
 - strategies for surgical patient safety, 305
 - strategies to reduce laboratory errors, 426-443
 - Redundancy principle**, 522-523
 - ED (Emergency Department), 87
 - laboratory error reduction, 423
 - nurse shift handoffs, 223
 - surgical patient safety, 296
 - registered nurses (RNs)**, 38
 - registration area (ED)**, 34
 - registration for nurses**, 147
 - reimbursement**
 - bundling, 478
 - fee-for-episode, 478
 - fee-for-membership, 478
 - fee-for-service, 478
 - Reisman, Karina**, 207. *See also* Mercalon Hospital Trauma-Burn Center (TBC) case study
 - reporting**, 102-103, 220, 313-315
 - residents**, 37, 362
 - resistance among key stakeholders, reducing**, 324-325
 - resistance to change, reducing**, 584
 - resource capacity**
 - definition of, 50, 499-500
 - long-range bed and nurse capacity planning, 165
 - OR scheduling, 273
 - resources**
 - adding, 563
 - increasing resources allocated to learning, 320
 - resource capacity
 - definition of*, 50, 499-500
 - long-range bed and nurse capacity planning*, 165
 - OR scheduling*, 273
 - specialized resource sharing, 483-484
 - utilization, 500
 - responsiveness, improving**, 562-573
 - EDs (Emergency Departments), 93-94
 - enhancing patient perceptions, 570-572
 - imaging responsiveness
 - case study: MRI wait time reduction at Windsor Regional Hospital*, 415-416
 - improvement policies*, 403-415
 - nature of problem*, 396-397
 - relevant management principles*, 397-403
 - improving sequencing, 568-570
 - improving synchronization, 566-567
 - increasing capacity, 563-566
 - nurse shift handoffs, 224-226
 - reducing variability, 567-568
 - reducing workload, 563
 - table of generic options, 573
 - resuscitation units (ED)**, 35
 - retractors**, 259
 - retrospective analysis**, 103
 - revenue metrics**, 46, 559-560
 - Reves, Miguel Serveto de**, 251
 - reworking the process**, 555
 - risk prediction, genetic testing for**, 350
 - RME (Rapid Medical Evaluation) carts**, 63
 - RNs (registered nurses)**, 38
 - Robot Chemist**, 349, 352
 - Roemer's Law**, 162, 590
 - Roemer, Milton**, 162, 590
 - Roger of Palermo**, 250
 - Rohrer, Heinrich**, 353
 - roles, future of**, 485-494
 - rounding physicians**, 148-151
 - routine biochemistry analyzers**, 361
 - Röntgen, Wilhelm**, 345, 353, 356-357
 - Ruska, Ernst**, 352
- S**
- safe systems**, 102
 - "safety net" hospitals**, 11

- safety rounds, 104
- safety. *See* patient safety
- Sanger, Frederick, 349, 353
- satisfaction metrics
 - patient satisfaction, 557
 - staff satisfaction, 560
- satisficing, 96
- Satisfied Customers Tell Three Friends, Angry Customers Tell 3,000* (Blackshaw), 542
- scheduling
 - diagnostic units, 376
 - nursing units
 - intermediate-range scheduling*, 159
 - long-range capacity planning. See long-range bed and nurse capacity planning*
 - nurse scheduling. See nurse scheduling*
 - short-term scheduling*, 159-160
 - operating rooms
 - intermediate-range scheduling*, 268-269
 - short-term scheduling*, 269-271
- Schwann, Theodor, 351
- scientists, 362
- “scoop and run” ED policies, 124
- scrub nurses, 259
- scrub rooms, 257
- Seaberg Hospital, capacity planning at, 173-178
- self-care, 486
- Self-Interest principle, 543-544
 - nurse scheduling, 185
 - reporting of errors and near misses, 315
- self-service systems, 468
- Semmelweis, Ignaz, 252, 351
- sensitivity of tests, 294, 528
- sentinel events, 125
- sequencing, improving, 568-570
 - EDs (Emergency Departments), 52-53, 70-72
 - imaging postexam time, 414-415
 - imaging preexam time, 410
 - laboratory TAT, 392
 - nurse scheduling, 192
 - nurse shift handoffs, 226
 - operating room scheduling delays, 282-283, 287
 - postlab TAT, 393
 - prelab TAT, 390
 - principles
 - Critical Ratio Sequencing*, 520-521
 - explained*, 519
 - SPT (shortest processing time) Sequencing*, 521-522
 - optimizing
- sequencing principles
 - Critical Ratio Sequencing*, 520-521
 - explained*, 519
 - SPT (shortest processing time) Sequencing*, 521-522
- service-line forecasting
 - explained*, 172
 - Seaberg Hospital case study, 175
- set-up rooms (OR), 257
- sharing resources, 483-484
- sharp end of treatment process, 81
- shift auctions, 216-220
- shift handoffs. *See* handoffs
- shift reports, 135, 220
- short-term scheduling, 47
 - for diagnostic units, 376
 - for nursing units, 159-160
 - for operating rooms, 269-271
- shortest processing time (SPT) sequencing, 53, 81, 274, 521-522
- shotgunning, 96
- Shouldice Hospital (Toronto), 475
- Shouldice, Earl, 475
- sick/not sick dichotomy, 96
- simplifying
 - decision process
 - EDs (Emergency Departments)*, 97-98
 - ORs (operating rooms)*, 302
 - laboratories*, 426-443
 - execution process
 - EDs (Emergency Departments)*, 101
 - ORs (operating rooms)*, 304

- Simpson, James, 252
- Sisters of Charity, 138
- Skeggs, Leonard, 352
- Social Security Act (Public Law 92-603)
 - Section 1122, 590
- social workers, 39
- Sones, Mason, 358
- Sort, Straighthen, Sweep, Standardize, Sustain, 125
- Spartanburg Regional Medical Center (SC), 218
- SPDAs (State Health Planning and Development Agencies), 591
- specialized care, 486
- specialized resource sharing, 483-484
- specialty hospitals
 - physician ownership, 12
 - stakeholders' perspectives, 1-2
- specificity of tests, 294, 528-530
- speed of treatment in EDs (Emergency Departments), 79-81
- Spiral CT, 359
- SPT (shortest processing time) sequencing, 53, 81, 274, 521-522
- St. Agnes Hospital (Philadelphia), 418
- St. Mary's Hospital, nurse scheduling case study, 196
 - analysis, 200-202
 - cross-training and cooperative staffing model, 203-206
 - flexible nursing capacity, 202-203
 - nurse staffing costs, 196-197
 - patient rotation system, 198-200
 - traditional patient placement, 197-198
- staff changing rooms (OR), 257
- staff flow in operating room, 262
- staff perceptions, enhancing
 - nurse scheduling, 193-194
 - staff satisfaction metrics, 46, 560
- staffing levels, 163-164
- stakeholders, 547
- stakeholders' perspectives
 - future hospitals, 463-466
 - on diagnostic units, 339-344, 450-457
 - on ED (Emergency Department), 21-29, 112-116
 - on hospital operations, 1-2
 - on nursing units, 127-136, 235-239
 - on operating rooms, 243-248, 333-336
- standard bed-to-population ratios
 - development of
 - central planning initiatives, emergence of, 590-591*
 - Hill-Burton Act of 1946, 589-590*
 - national health planning goals, 591-592*
 - references, 593*
 - explained, 171
 - Seaberg Hospital case study, 174
- standard work procedure, 69
- standardizing
 - decision process
 - EDs (Emergency Departments), 97-98*
 - ORs (operating rooms), 302*
 - execution process
 - EDs (Emergency Departments), 101*
 - nurse shift handoffs, 227*
 - ORs (operating rooms), 304*
 - learning, 323, 583
- starving, reducing, 566
- State Health Planning and Development Agencies (SPDAs), 591
- "stay and play" ED policies, 124
- step-down beds, 145, 257
- steps, eliminating, 563-564
- sterile zone, 255
- sterilizing rooms (OR), 257
- Stone Age, evidence of surgery in, 248-249
- strategic planning
 - for nursing units
 - intermediate-range scheduling, 159*
 - long-range capacity planning. See long-range bed and nurse capacity planning*
 - long-range strategic planning, 158*
 - nurse scheduling. See nurse scheduling*

- short-term scheduling*, 159-160
- for operating rooms
 - intermediate-range scheduling*, 268-269
 - long-range strategic planning*, 266-268
 - short-range scheduling*, 269-271
- A Study in Hospital Efficiency** (Codman), 326
- sunk cost bias, 534
- surgeons, 37, 259
- surgery, history of. *See also* operating rooms
 - control of bleeding, 250-251
 - infection control, 252-254
 - knowledge of human anatomy, 249-250
 - pain control, 251-252
 - Stone Age evidence, 248-249
- surgical patient safety. *See also* operating rooms
 - case study: medical decision making, 307-309
 - improvement policies, 297-307
 - relevant management principles, 294-295
 - Fatigue*, 296
 - First Impressions*, 296
 - Foolproofing*, 297
 - Handoffs*, 296-297
 - Intuitive Information*, 297
 - Redundancy*, 296
 - Test Quality*, 295
 - Value of Information*, 295
- surgical technicians, 259
- Swiss cheese model of system failure, 85-86
- Sydenham, Thomas, 345
- synchronization, improving, 566-567
 - EDs (Emergency Departments), 65-67
 - nurse scheduling, 189-190
 - nurse shift handoffs, 225
 - imaging postexam time, 411
 - imaging preexam time, 410
 - laboratory TAT, 391
 - operating room scheduling delays, 281-286
 - postlab TAT, 393
 - prelab TAT, 388-389

- System Capacity principle, 51, 500-502
 - long-range bed and nurse capacity planning, 166
 - OR scheduling, 273
- system degradation variability, 556
- system errors, 293
- system protection and mitigation, 305-306

T

- task assignments, improving
 - laboratories*, 425
 - nurse scheduling*, 192
- task complexity, 514-515
- task efficiency principles
 - Critical Path, 518-519
 - Task Simplification, 515-516
 - Task Standardization, 516-518
- task parallelism, increasing, 565
- Task Simplification principle, 52, 515-516
 - in ED (Emergency Department), 80, 85
 - imaging responsiveness, 399
 - laboratory error reduction, 422
 - laboratory turnaround time, 379
 - nurse shift handoffs, 222
- Task Standardization principle, 52, 516-518
 - imaging responsiveness, 399
 - in ED (Emergency Department), 80, 85
 - laboratory error reduction, 422
 - laboratory turnaround time, 379
 - nurse shift handoffs, 222
- TAT. *See* turnaround time
- TB (tuberculosis), 471
- Technicon Corporation AutoAnalyzer, 349
- technological errors, 293
- telepathology, 484
- teleradiology, 368, 484
- telesurgery, 484
- Test Quality principle, 536-537
 - laboratory error reduction, 422
 - surgical patient safety, 295
- test sensitivity, 294, 528

test specificity, 294, 528-530

theory

combining with practice, 13-14

definition of, 14

time

increasing time allocated to learning, 320

time metrics, 46, 553-554

turnaround time

improvement policies, 381-393

nature of problem, 377-378

relevant management principles,
378-381

University of Michigan Hospital System
(UMHS) case study, 393-396

tissue processors, 361

"To Err is Human" (IOM 2000), 292

total TAT, 377

Toyota Motor Corporation, 8, 111

training, improving, 575-576

EDs (Emergency Departments), 96-100

nurse shift handoffs, 226

ORs (operating rooms), 301

laboratories, 425-442

transcriptionists, 363

transformative shifts, 474

transfusions, history of, 251

trauma surgeons, 37

trepanning, 249

triage

history of, 29

triage areas, 34

triage systems, 40-41

tuberculosis (TB), 471

turnaround time

improvement policies, 381

reducing laboratory TAT, 390-392

reducing postlab TAT, 392-393

reducing prelab TAT, 387-390

table of, 382-387

nature of problem, 377-378

relevant management principles, 378-381

Batching, 380

Buffer Flexibility, 379

Critical Ratio Sequencing, 380-381

Handoffs, 381

Task Simplification, 379

Task Standardization, 379

Utilization, 378

Variability, 378

Variability Buffering, 379

Variability Buffering in Service
Systems, 379

University of Michigan Hospital System
(UMHS) case study, 393-396

U

UAEMS (University Association for
Emergency Medical Services), 30

UAN-NNOC (United American
Nurses-National Nurses Organizing
Committee), 141

ultrasound technology, 356, 362

UMHS (University of Michigan Hospital
System), reduction of laboratory turn-
around time, 394-396

understaffing cost management, Mescalon
Hospital Trauma-Burn Center (TBC) case
study, 210-212

unit secretaries, 39

United American Nurses-National Nurses
Organizing Committee (UAN-NNOC), 141

University Association for Emergency
Medical Services (UAEMS), 30

University of Michigan Hospital System
(UMHS), reduction of laboratory
turnaround time, 394-396

urgent (triage), 40

Utilization principle, 502-503

definition of, 50-51, 500

ED (Emergency Department), 79

imaging responsiveness, 398

laboratory turnaround time, 378

long-range bed and nurse capacity
planning, 166-167

OR scheduling, 273-274

preexam time, 409

V

Vallebona, Alessandro, 355
value added time, 588
Value of Information principle, 535-536
 laboratory error reduction, 422
 nurse shift handoffs, 222
 surgical patient safety, 295
value stream division, 71
values-based behavior versus profit
 maximization, 9-13
Van Slyke, Donald, 348, 352
variability
 definition of, 588
 principles
 Buffer Flexibility, 511
 explained, 507
 Little's Law, 511-513
 Pooling, 513
 Variability, 507-510
 Variability Buffering, 510-511
 Variability Buffering in Service Systems, 511
 quality variability, 556
 reducing, 567-568
 EDs (Emergency Departments), 51-52, 67-70, 79
 imaging responsiveness, 397-398
 laboratory TAT, 378-379, 392
 nurse scheduling, 185-192
 postexam time, 412-413
 postlab TAT, 393
 preexam time, 410
 prelab TAT, 389
 operating room scheduling, 274, 281-282, 287
 system degradation variability, 556
Variability Buffering in Service Systems
 principle, 511
Variability Buffering principle, 510-511
Variability principle, 507-510
variability principles
 Buffer Flexibility, 511
 explained, 507

Little's Law, 511-513
 Pooling, 513
 Variability, 507-510
 Variability Buffering, 510-511
 Variability Buffering in Service Systems, 511
variable-cost assets, 155-156
variety, product variety, 470-472
variolation, 347
Versalius, Andreas, 250
Veto Power principle, 547
 nurse scheduling, 185
 OR scheduling, 276
Victoria (Queen of England), 252
Virchow, Rudolph, 351
Visual Information principle, 422
volume metrics, 46, 552-553

W

waiting room (ED), 34
waiting room (OR), 256
Waiting Time Psychology principle, 53-54, 541-542, 570-573
 imaging responsiveness, 402-403
 OR scheduling, 275-276
Walsh, Alan, 352
Wassermann, August von, 352
waste reduction, 553
Watson, James, 349, 352
Western Hospital, D&C (Death and Complication) conferences, 326-332
white space, 404
whiteboards, 98
Widal, Georges-Fernand, 352
Wiegenstein, John, 30
Windsor Regional Hospital (Ontario), MRI
 wait time reduction at, 415-416
workload
 balancing, 63-64, 564-565
 reducing, 563
 ED (Emergency Department), 60-62, 84
 nurse scheduling, 187
 nurse shift handoffs, 224

imaging postexam time, 411
imaging preexam time, 408
laboratory error reduction, 422-423
laboratory TAT, 390
operating room scheduling, 278-279, 285
postlab TAT, 392
prelab TAT, 387

Workload principle, 538-539

Workload principle, 538-539

written sign-out templates, 99

X-Y-Z

X-ray equipment, 361

x-ray technology, history of, 354-355

XDR-TB (extensively drug-resistant tuberculosis), 496

y-me.org, 468

Yalow, Rosalyn, 352

Yerkes-Dodson Law, 538