BARRIERS TO ENTREPRENEURSHIP IN HEALTHCARE ORGANIZATIONS

FRANK S. PHILLIPS

Synapse Global Marketing Resources, Seattle, WA
& Department of Health Services Administration
University of Alabama – Birmingham

ANDREW N. GARMAN

Department of Health Systems Management
Rush University

ABSTRACT

Entrepreneurship has received little attention in the healthcare industry, perhaps in part because of barriers inherent in the structure and culture of healthcare organizations. Eliminating barriers can help promote entrepreneurial activities to drive continuing innovation and identify new sources of revenue.

INTRODUCTION

Entrepreneurship has received enormous attention in the business literature over the past couple of decades. Within the academic community, most graduate business programs now provide courses in entrepreneurship, and many have dedicated programs for formal training of entrepreneurs or providing an entrepreneurial perspective. Given this trend, it is surprising how little attention has been focused on entrepreneurship within America's largest industry, healthcare.

The question of why entrepreneurship is perceived as less important or developed in the healthcare arena is deserving of study and analysis. This paper considers barriers within the healthcare industry that may impede entrepreneurial activity. That is not to say that there are not examples of entrepreneurship at work within healthcare settings, or that the industry is hostile to entrepreneurship.

It is simply an acknowledgement that entrepreneurial activities are less visible and recognized within traditional healthcare settings than they are in other industries as diverse as information technology, communications, and computer sciences.

DEFINING ENTREPRENEURSHIP

"Entrepreneurship" has uniformly positive connotations, implying initiative, innovation and opportunity recognition. Actually defining the concept is more difficult. Entrepreneurship has economic as well as behavioral dimensions, but a good general definition that focuses on the managerial aspects of entrepreneurship is that it is "the pursuit of opportunity without regard to resources currently available" (Stevenson, 1999: 10). This definition serves well to define intrapreneurship, the pursuit of opportunities within an existing organization, as well as entrepreneurship, which commonly refers to the pursuit of opportunities through formation of new ventures.

Entrepreneurship involves identification of opportunities, analysis of risk and rewards, strategic pursuit of resources and implementation of a plan of action. Barriers to such activities can be economic, organizational, or behavioral. The healthcare industry presents inherent challenges in each of these dimensions as observed below.

STRUCTURAL AND ECONOMIC BARRIERS

In the post-World War II era, healthcare advances and services in the United States set a standard for innovation and quality. It is widely acknowledged that many of these advances have been possible because of the complex linking of education, service and research with a mix of revenue sources from private and public payers

combined with public and private grants and philanthropy (Aaron, 2001).

It may be the very success of the complex U.S. healthcare system that presents the most significant barrier to entrepreneurial activity. The mission of most hospitals, particularly academic medical centers, is firmly rooted in service, education and research directed at patient care as a priority (Commonwealth Fund, 2003). This mission has been set externally by societal and governmental consensus and regulation and is accepted by most institutions as the "price of admission" for participation. For this reason, activities that are perceived as deviating or detracting from that mission are unlikely to find receptive audiences. The structure and methods of operation, and thus pricing, are driven in large part by the demands of the payers, rather than the provider. Allocation of resources is controlled far more by external forces than is typical for other types of enterprises. Finally, roles and responsibilities of the providers and their employees are subject to a complex web of regulatory, professional and historical factors that impede expansion or changes in those roles, and limits competition among participants.

Thus the very structure and development of our healthcare system may be in conflict with the conditions that traditionally provide environments that are fertile for entrepreneurial activities. Entrepreneurship is most likely to flourish in environments where the primary emphasis is on opportunities for individual achievement and reward, as contrasted with carrying out a larger societal mission; where there is a focus on financial rewards or profits, as compared to a primary concern with delivering pre-defined services; and where there are strong competitive pressures to succeed or disappear, rather than "owning" a place within the system (arguably the situation with many healthcare providers because of the services provided, or the population served) (Stevenson, 1999).

In contrast to industries in which entrepreneurship has received greater attention, the bulk of the revenues derived from the economic activity of healthcare organizations are obtained primarily from third parties (insurance companies and government), rather than from those receiving the services. Because the vast majority of these funds are targeted for specific services, healthcare organizations have little discretion to divert revenues to activities not directly related to the services for which payments are received (Robinson, 2001).

The missions of healthcare organizations are driven by historical roles and present-day economic realities. Patient care is the overriding priority, and those activities typically have the first call on resources, from whatever sources. Unlike most other industries, which have more internal control over the allocation of their externally-derived revenues, healthcare organizations have a more difficult time identifying risk capital to allocate to the development of newly identified opportunities, particularly when those activities carry a high degree of failure.

Traditionally, the most immediately identifiable source of risk capital has been grant support for new or expanded programs, whether from government or private sources. However, most of the available funds are directed toward the central mission of the particular organizations, and not toward expanding that mission. For example, the National Institutes of Health (NIH) is the major source of external funding for research and development within the healthcare industry, excluding pharmaceuticals and technology. However, most NIH programs support medical research, rather than operations, such as technology transfer to the commercial sector (Lewin, 2001).

In contrast, the U.S. Department of Commerce's Advanced Technology Program (ATP), one of several analogous federal support mechanisms for non-healthcare research and development, has large and diverse programs

related to commercializing and transferring technological advances beyond the developing institution (Feldman and Kelley, 2003). The lack of significant sources of risk capital to develop and test innovations without risk to institutional core activities is a significant challenge to all healthcare organizations.

ORGANIZATIONAL BARRIERS

Health care organizations represent both microcosms of, and reactions to, many of the barriers previously described. The healthcare industry is organized in a fragmented and complex matrix, with most organizations having a relatively narrow mission, depending on other organizations for support, and behaving in a complementary rather than competitive stance with others with similar missions.

Where there is a competitive environment, most often in larger metropolitan areas with multiple academic medical centers, competition for scarce resources discourages collaboration and cooperation between organizations with similar capabilities, and further discourages activities competitive with those it has support relationships with (Kastor, 2001). For example, hospitals tend to avoid activities that compete with the medical practices making patient referrals. Similarly, those medical practices are often reluctant to provide services that are competitive with the services provided by affiliate hospitals. The complexity of these relationships act as a deterrent to seeking opportunities outside an organization's existing mission.

In some respects, healthcare organizations have a structure and culture that is more akin to military organizations than to commercial enterprises. Like the military, the mission of a typical hospital is clearly and somewhat narrowly defined. Although individuals within

the system are expected to understand the overall mission, the expectation is that they will primarily focus on their even more narrow responsibilities to carry out that mission.

Further complicating this situation is the fact that the roles and responsibilities of most professionals within healthcare environments are defined, regulated or restricted by a myriad of private and governmental regulations, standards, and traditions. Traditionally, healthcare organizations have been very hierarchical, with physicians exercising disproportionate influence and authority over all aspects of the organization's operations. Although somewhat lessened in recent years, this continues to greatly influence the operations of most patient care organizations (Meliones, 2000; Shuck, 2002).

Another significant issue with respect to commercial entrepreneurial activities in non-profit healthcare is concern about mission conflict and financial conflicts of interest. Not-for-profit healthcare's legal basis for existence is grounded in the charitable missions of patient care, research and education (The Commonwealth Fund, 2003). A good deal of attention has been given to the potential conflicts that arise when not-for-profit healthcare organizations develop collaborative relationships with for-profit entities (Johns, Barnes, and Florencio, 2003). Because entrepreneurial activities are most often motivated by a desire to maximize financial rewards, potential for conflict between those divergent missions can present a significant barrier to healthcare organizations pursuing entrepreneurial opportunities.

BEHAVIORAL BARRIERS

What are the identifiable characteristics of entrepreneurs and what are the conditions within an organization that promote entrepreneurial activity? There are no easy answers, but it is clear that certain patterns of

behavior and attitudes can be described as "entrepreneurial" as opposed to "managerial" and that these patterns of entrepreneurial behavior are somewhat at conflict with the culture and expected behaviors within established organizations, which are certainly the norm within the healthcare industry.

Hisrich and Peters (1989:6) have defined entrepreneurial behavior as the "process of creating something different with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks, and receiving the resulting rewards of monetary and personal satisfaction." This definition assumes a high degree of comfort with risk, uncertainty and the need for personal initiative and reward. These characteristics are often at odds with a "managerial" perspective expected in many mature organizations in which the control of risk, a focus on organizational rather than personal objectives, and maximizing certainty are considered priorities (Hisrich, 1990).

The many surveys of career motivations and job satisfaction among healthcare professionals suggest an inherent incompatibility with entrepreneurship. The importance of job security and stability of employment have consistently been cited as important motivating factors in the choice of a healthcare career. This is to be expected, because healthcare has consistently been one of the most stable industries in terms of job security and predictability of career paths (see e.g., Dwore and Murray, 1997; Lawrence, Poole, Diener, 2003; Manojlovich and Laschinger, 2002).

Professional autonomy has been cited as an important value by healthcare professionals, particularly physicians and nurses, but this has not necessarily translated into a feeling that the professional can effectively impact the goals and operations of a healthcare

organization (Kassirer, 1998; Manojlovich and Laschinger, 2002).

Institutional culture and policies also can adversely affect the ability to promote entrepreneurship, impairing innovation. Within most healthcare organizations, little consideration has been given to the commercial possibilities of technology, innovation, and services; there has thus been a commensurate lack of concern with "capturing" the value of these innovations. It has only been in recent years that the leading academic medical centers have actively sought to identify and consider exploiting the economic value of technology and innovation developed at those institutions (Robinson, 2001). Although identification of opportunity is a prerequisite to any entrepreneurial activity, it is also imperative that the opportunity's value be captured for the institution's benefit.

TOWARD A MORE ENTREPRENEURIAL APPROACH

Identifying and pursuing entrepreneurial activities present challenges in any environment. As discussed above, there are unique challenges within the healthcare field. Because of these challenges, there are few institutional characteristics promoting identification and pursuit of opportunities for change and innovation when resources cannot be readily identified.

More than in many economic sectors, change and innovation in healthcare have been driven by external forces, including external entrepreneurial activities. Christensen, Bohmer and Kenagy (2000) make a compelling argument that because of the barriers discussed above, the most powerful force for change within healthcare organizations is disruptive innovation—that is, "cheaper, simpler, more convenient products or services that start by meeting the needs of less demanding

customers." Disruptive change provides the opportunity for new entrants or ideas to challenge existing stakeholders within the healthcare system. Those challenges may come from new ventures, in the form of entrepreneurial enterprises, or may be generated internally, from intrapreneurial activities within existing organizations.

Intrapreneurial activities are more likely to succeed if they are related to and consistent with the perceived mission of the organization. Issues involving the conflict between commercial objectives and the service mission of most healthcare organizations are less likely to be an impediment in such cases. Improvements and innovation in how services are delivered or how an organization operates must still overcome many of the barriers discussed above, but it is easier to accomplish change when the objectives are viewed as consistent with an existing institutional mission (Meliones, 2000).

Activities that are less clearly related to the existing mission of a healthcare entity may have a greater opportunity for success if they are separated from the institution's activities. Entrepreneurial ventures can help healthcare organizations create or transfer technology or innovation outside the institution. The greatest impediment will often relate to the relationship between the entrepreneurial venture and the sponsoring institution (Moses, Braunwald, Martin, & Thier, 2002). It is not an easy task to resolve those potential conflicts, but the development of partnerships between the largely not-for-profit healthcare services industry and the profit-oriented sectors of the industry will become increasingly important as financial pressures increase on patient care activities (Johns, Barnes, and Florencio, 2003).

There are issues unique to healthcare when considering models for entrepreneurial or intrapreneurial activity. Aside from those discussed above, there are significant issues related to how to reward initiative in a

way that is consistent with the personnel policies of healthcare organizations, how to break down barriers to professional collaboration and minimize role conflicts, and how to ensure that pursuing opportunities does not present unacceptable risks to the core activities of the enterprise. In addition, healthcare organizations would do well to consider models in other industries for allocating opportunity funds to encourage and seed intrapreneurial activities (Kuratko, Ireland, and Hornsby, 2001; Stevens, 1998).

CONCLUSION

Healthcare organizations are under tremendous pressure to control costs and continue to deliver high quality care, education and research. The need for alternative revenue sources compels those organizations to consider how to promote entrepreneurial activity that is compatible with the traditional missions of the healthcare industry. The barriers to entrepreneurial activity include economic, organizational and behavioral components. An institutional focus on encouraging initiative, identifying opportunities, and developing appropriate alliances and mechanisms for exploiting opportunities that extend beyond the perceived strategies or missions of the entity can help healthcare organizations leverage their resources and take advantage of the benefits of entrepreneurship.

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