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Changing Relationships in the Health-care Market

In the health-care market, the allocation of scarce resources is not the mere result of the match between supply and demand. Instead, the functioning of the market depends on the behaviour of various parties, the formal and informal rules and the availability of information about the different options to choose from [1]. An appropriate concept for the health-care market is the social-political view that considers the market as a network of interrelated and interdependent parties. Managing health-care markets is then developing the rules of the game for these relationships. The parties that play a dominant role in this vary from country to country, with at one extreme the government as the “big rule-maker” and at the other extreme market parties (health-care providers, third-party purchasers, consumers) determining how the game is to be played. An interesting development is that “health-care systems at both extremes of the public-private spectrum tend to move towards each other” [2]. As a result of this convergence, regulated competition – a mix of government regulation, self-regulation and market forces – might prove to be the predominant structuring mechanism of health-care markets in many Western countries in the coming years.

Confronted with the (announced) reforms, health-care organizations (especially in countries with a system dominated by government regulations so far) show a growing interest in their market environment. They are increasingly aware of the changing relationship with the environment and especially of the need to be more responsive to consumers. At the same time they are increasingly confronted with the interdependencies in their interorganizational networks. Managers of health-care organizations are searching for concepts and methods to handle the new challenges and to form adequate relationships with other parties in the environment. As a result, marketing receives more and more attention. At the same time there are many misconceptions about marketing and especially about the applicability of marketing in health care. This article aims to clarify the key concepts of marketing and to investigate whether these concepts are applicable in health care.
The Key Concepts of Marketing

Marketing is often associated with influencing (potential) clients in order to maximize a company’s sales. This image, often with a negative connotation, stems from the period between circa 1930 and 1950 when companies, faced with growing competition, strongly expanded their advertising and selling investments[3]. In this stage of selling orientation in the marketing philosophy, little attention was paid to the preferences of customers. Organizational policies were based on internal criteria and goals. This view has made way for the so-called marketing orientation. Preferences and needs of (potential) clients became the starting point for the development of products and the structuring of organizations. The idea was that products that really conform to the wishes of consumers sell themselves. Or, in the words of Peter Drucker, “…the aim of marketing is to make selling superfluous”[4].

The transition from a selling orientation to a marketing orientation can be characterized as a major shift in the attitude of organizations, in the sense that externally formulated demands began to influence the organizations’ strategies. Nevertheless, the background notion about the relationship between an organization and its environment remained the same: organizations were conceived as open systems that try to sell their outputs and aim to optimize the “fit” with the environment. This is in fact a Darwinistic view, according to which organizations can only survive by adjusting themselves to their environment (“survival of the fittest”). In the last few decades this view has made way for the notion that, to a certain extent, organizations are able to create their own environments[5]. A commonly accepted approach now is the network concept that considers the organization as an actor within a complex of other interrelated and interdependent actors. In the network, two opposite forces are continuously competing for priority: the search for autonomy of the distinct organizations on the one hand, and the notion of interdependence - the feeling of organizations that they are more or less “condemned” to each other - on the other[6]. Organizations’ strategies are aimed at achieving a maximum amount of freedom in as many linkages in the network as possible. As a result of the intertwined linkages within the network, influencing one relationship affects the other relationships in the network and this intensifies the dynamism in the network[7].

The network concept has had important consequences for the study of marketing. Trying to achieve a strong market position is no longer a sufficient organizational strategy in the eyes of marketing experts. Instead, organizations should focus on the key market parties, i.e. consumers and competitors, and at the same time consider their position in “society at large”[8]. As such, the marketing orientation has developed into the so-called strategic marketing vision, encompassing the relationships with all salient parties in the environment. In doing so it provides a basis for network management. At first sight this approach seems rather similar to strategic management. There are, however, three distinctive characteristics.
First, strategic marketing does not consider the existence of organizations as self-evident. Instead, organizations are in a constant dialogue with their environment, searching for the affirmation of their raison d'être. The legitimacy of the organization is deliberately being made dependent on the environment. The question “what business are we in?” – common in strategic management – is not the primary guideline for strategic behaviour, but the question “what business should we be in?”. Moreover, “business” is not to be defined in terms of products that the organization has to offer, but in terms of benefits, i.e. the outcomes as defined by consumers (and other parties concerned). For example: elderly people do not want “nursing homes” (product), but a solution for their needs of social contact, safety, preservation of vital functions, etc. These solutions can take various forms and it is quite possible that nursing homes do not belong to the best solutions. In short, an important issue in strategic marketing is the sensing, detection and analysis of needs and demands (in terms of benefits) that should be directive for the organization’s strategy. Subsequently, products and services have to be offered that meet (or, even better, exceed) the benefit expectations.

Consumers are the first network party that organizations have to take into consideration. Another salient party consists of competitors. According to the strategic marketing philosophy, attaining maintainable advantages compared to competitors is an important means for guaranteeing the independence of organizations. Distinctive competence is seen as a prerequisite for building up an authentic and discernable reputation which, in turn, is important for the development and reinforcement of the relationships with consumers and other relevant network parties[9]. This distinctive competence can be achieved not merely by the product (and the accompanying price, place, promotion, the so-called four Ps), but also in several other ways inside and outside the organization. Optimizing the internal organization, e.g. by creating a flexible organizational structure, a responsive organizational culture is one step. Taking advantage of the interdependencies in the network – for instance by means of attractive contracts with suppliers and financiers, joint ventures with competitors, vertical integration – is another option for the organization to create possibilities to serve the market in a better way. Moreover, working on broad societal support (e.g. by lobbying decision makers, building relationships with interest groups) can help to strengthen the organization’s position in society at large. In other words, organizations that try to become “excellent” have several options to choose from[9].

A third important characteristic of strategic marketing is its notion about building and maintaining relationships between the organization and its environment. The central concept is that organizations benefit from enduring relationships, as they are a basis for the organizations’ continuity[8]. A prerequisite for the endurance is that both the organization and its consumers have an interest in their mutual relationship, in other words there should be a win-win situation. Cheap selling tricks – perhaps effective at short notice – often have a negative effect on the organization in the long run and are not
acceptable for modern marketing experts. Instead the relationship is conceived as an exchange relationship with both parties having something that is of value for the other party and with exchange as a means for making both parties better off. The exchange concept is well known in the literature of strategy forming[10,11]. In the strategic marketing field, however, it is seen as a predominant principle as exchange reinforces the interdependence, intensifies the mutual respect and consolidates the relationships between the organization and its clients[12-14]. Moreover, the creation of enduring “mutually-beneficial exchange relationships”[15] is becoming increasingly important for other relevant network parties. Consumer satisfaction is considered to be of limited value, unless the organization has environmental control as well. By building up communication networks between the organization and its environment “...management can convert uncontrollable environmental forces into controllable relationships”[15].

Therefore, influenced by the changing views on the relationship between organization and environment, marketing has developed into a strategic marketing vision with specific notions about the raison d’être of an organization, the achievement of distinctive competence and the creation of relationships with the environment. Starting from this vision, strategic marketing offers a “technology” – a series of guidelines and instruments – for network management, aimed at optimizing the relationship between the organization and its clients and the environment in a broader sense and at reaching an optimal balance between autonomy and dependence in the interorganizational network.

Strategic Marketing for Health-care Organizations

In order to gain insight in the applicability of strategic marketing concepts for health-care organizations, we will start with a closer look at health-care networks. A health care providing organization will be considered as the focal organization in the network (see Figure 1). The autonomy/interdependence balance in its (intertwined) relationships with various stakeholders and the implications for applying the strategic marketing vision and concepts will be examined. Although this network is primarily based on the Dutch health-care system, it is representative for many other health-care systems under regulated competition.

The Relationships with Consumers

The primary focus of marketing is on the relationship with consumers. From a strategic marketing point of view, the answer to the question “what business should we be in?” is to be dictated by the consumers in terms of their “benefits”. Subsequently, by making these benefits visible for the consumers, the health care providing organization can distinguish itself from other organizations. When applying this approach to health-care organizations, one meets several problems: the heterogeneity of consumers, different (and perhaps even
contradicting) requirements with respect to the services, and the fact that it is not easy to make the benefits visible to the consumers.

Consumers and customers. In the profit sector there is a clear exchange relationship between providers and consumers: the first delivers a product and the latter uses it and pays for it. In health care, however, such a direct exchange relationship is usually missing, as third parties (health insurers, regional health authorities, budget-holding general practitioners) pay for the services. A distinction can be made between consumers as the individuals who actually use a service and customers, the individuals or organizations who pay for it[16]. In fact, the relationships are even more complex: in many health-care systems (Netherlands, UK, Denmark, Germany), a patient can only be admitted to certain services (hospital, consultants) with a referral from another health-care provider (usually a general practitioner). These referrers having influence on consumers’ choice of other health-care providers[17,18], can also be considered as customers, so in fact there are three groups of consumers/customers. We will first have a closer look at consumers and referrers with their respective expectations. Third parties will be discussed separately.

Benefits which are required and how to meet them. The benefits consumers require when visiting a health care providing organization can broadly be described in terms of reduction of uncertainty, relief of pain and discomfort, a return to the “normal” situation as soon as possible, etc. In order to create long-lasting relationships with consumers, the organization needs to know how the requirements can be met in such a way that faith in the organization increases and that consumers will (continue to) select the organization. It is assumed that this selection process is influenced by consumers’ expectations and previous
experiences with the service quality, which has two dimensions: the technical quality (the actual result) of the service delivery and the so-called functional quality, i.e. the way the service is delivered (e.g. ambiance, waiting times, courtesy)[19]. Making a judgement about the technical quality is rather complex, as (health-care) services are usually intangible, invisible and technically complex[20,21] and “test reports” like those in the product sector are not available. It is assumed then that consumers consider the technical quality of health services more or less as self-evident and that they – as long as the technical result of the service is not below a perceptible acceptable level – form their opinions about the service quality on the basis of the functional quality[22].

The question is whether the same considerations apply to referrers. What about their demands and their selection processes? It is widely assumed that general practitioners consider medical, technical quality of the service delivery as the most important service aspect. As it is easier for them (being professional peers) to judge medical technical quality than it is for consumers, one could expect this aspect to be decisive in the selection of hospitals and consultants. However, this is only partly the case. Several studies have shown that GPs’ preferences are also influenced by their (personal) relationships with consultants[23,24]. Therefore, mutatis mutandis, one could state that for GPs, as for consumers, not only technical aspects count, but also functional aspects. Nevertheless this does not necessarily mean that GPs appreciate the same functional aspects as consumers. For GPs, personal contacts with consultants are important because they are a means for creating mutual understanding and consensus about the division of tasks, which – according to several authors – in turn are prerequisites for the continuation of the referral relationship[25,26]. Communication, respect, courtesy and reciprocation are then the key conditions in the referral-based relationships with consultants.

Implications. The expectations of consumers and referrers and the ways they come to opinions about the service quality have implications for the strategic marketing policies of health-care providers. Health-care providers which really want to define their business in terms of benefits for the consumer and which do so by continuous improvement of the technical service quality, run the risk of overleaping themselves, unless they pay special attention to functional quality aspects as well. At the same time it is important to stimulate and maintain referral relationships, especially by means of personal contacts with referrers.

Relationships with Third Parties
As third parties can also be considered customers of a health care providing organization, relationships with them deserve separate attention in terms of interdependence and possibilities for influencing these relationships by the health-care provider. In the Netherlands, for instance, relationships with third parties (sickness funds and private insurers) have been rather stable and secure for a long time, as all legally certified providers were qualified for contracts.
Providers and insurers met each other in annual budget negotiations and their relationship was of a mainly administrative nature. The system of obliged contracting is ending now, so providers will have to compete for contracts with insurers. At the same time consumers will be free to choose from different insurers, picking the insurance policy they like the most. In their competition for clients, insurers are being stimulated to be selective in purchasing health-care services in order to be able to offer insurance policies at an optimal quality/cost ratio. The administrative relationship between providers and insurers will turn into a genuine provider-purchaser relationship. Negotiations will take place not only about the costs of health-care services which has been the case until now, but also about the nature, place, price (not fixed anymore) and quality of the service delivery.

The extent of mutual dependence of providers and purchasers varies according to the amount of alternative options for both parties (for example, a provider in a region with a shortage of providers has a rather strong negotiation position). The interests of both parties will partly be parallel to each other: providing services that lay the foundation for long-lasting relationships with consumers respectively insured. They can also be conflicting, for example when insurers want to purchase services at the lowest prices and do so by playing off health-care providers against one another. In a more general sense, conflicts can arise due to differences in orientation. Insurers will partly take over the directing role from the government and will receive more influence on the amount, nature and geographic distribution of services, so they will have a broader orientation on service delivery than the individual provider. Their purchasing policies will be dominated by requirements with respect to the efficiency and effectiveness of the service delivery, and it is possible that these requirements do not correspond with those of the actual service consumers.

Implications. The health-care provider is likely to face a dilemma whether to be consumer oriented or to be more responsive to the insurer. In the latter case the aiming at “donor satisfaction” could be at the expense of the consumers, and in the long run even alienate the provider from its consumers[27].

The Relationships with Other Health-care Providers

According to the strategic marketing philosophy, attaining distinctive competence compared to competitors is an important means for guaranteeing the independence of organizations. This brings us to questions like: do health-care providers consider each other as competitors? How do they handle their mutual relationships (for example are they really trying to attain distinctive competence with respect to each other)? In the health-care sector, the phenomenon of interorganizational relationships between providers is very common. There are, broadly speaking, three explanations for this phenomenon[28]. The first one lies in the service technology itself: if one organization is no longer able to provide the needed services for a particular client, the individual is referred to another service provider. A certain amount of information exchange and co-ordination is needed in order to prevent a client
from falling “between the cracks” of the referring set of organizations[29].

External pressure is a second explanation: for obtaining their resources, health care providing organizations are dependent from government and third parties who often demand (by threats of financial sanctions) interorganizational co-ordination for reasons of efficiency. The third explanation focuses on the fact that the relationships are often characterized as co-operative by the health-care providers themselves. This is explained by the so-called “interorganizational culture”, a set of normative prescriptions about the ideal behaviour of organizations towards each other with at one extreme the “competitive mode” and at the other extreme the “cooperative mode”[30]. Health-care workers prefer to present themselves as unselfish, hard working professionals, who put the interests of their patients first. An interorganizational culture of competition does not fit with this altruistic ideology.

Despite the emphasis on co-operation in health care, one cannot deny the elements of competition, especially when the geographic service areas and/or the tasks of different organizations show an overlap. In these cases, health-care providers usually tend to accentuate the differences in their professional orientations (for example, the GP with his/her general expertise opposite to the specialized consultant). However, overt competition is rather rare, especially when the providers are dependent on referrals to each other.

One can draw the conclusion that a certain ambiguity - interdependence, externally forced co-operation and competition at the same time - is characteristic for relationships among health-care providers and this has consequences for their strategic marketing policies. Working on distinctive competence means balancing between autonomy and interdependence and taking into account the boundaries prescribed by the interorganizational culture.

Relationships with Authorities

So far we have spoken about the relationships with consumers, customers and competitors, but as we saw earlier, strategic marketing has a broader scope than these market parties. An important network party is the government on different levels in society. In many countries, health care is considered as a “merit good”, something which is so important for society that the government considers itself responsible for guaranteeing it at a basic level. Despite the reforms in many countries with a government dominated health-care system so far, the government will continue to play a significant role in health care. “Regulated competition” implies deregulation and market mechanisms and at the same time government control of the nature and degree of competition, so the government will go on playing a role in health-care networks by influencing the rules of the game. Moreover, in many countries the local, regional and national authorities will continue to influence the planning and financing processes. Governmental influence implies that health-care providing organizations will not be entirely free in, for instance, choosing product-market combinations, in forming strategic alliances (anti-cartel legislation) and in
developing selective market policies aimed at attractive market segments. As the government continues to be a significant party, health-care providers will have to work on relationships with government representatives. Lobbying is one way of doing this, but from a strategic marketing perspective, it is just as appropriate for organizations to show their contributions to health care and their importance for society at large. This working on distinctive competence is especially important when several health-care providers compete for scarce resources and/or strong positions in the health-care market.

Relationships with Other Stakeholders
According to the strategic marketing philosophy, organizations can obtain strategic advantages by paying attention to the relationships with stakeholders in the network who influence the preconditions under which the organizations have to work. Confronted with the transition from a stable, predictable (public) financing system to a more market-driven system with opportunities for entrepreneurial behaviour, health-care organizations tend to consider attractive contracts with suppliers and financiers as a means of creating possibilities to serve the market in a better way and to guarantee the organizations’ continuity. More and more organizations concentrate on their core business and contract out the catering, linen and sterile services. As in some countries (the Netherlands, Germany) the government is no longer prepared to guarantee the investment loans for health-care institutions, banks have heightened their requirements with respect to the creditworthiness of the organizations and the quality of their management. Bargaining abilities of the management become increasingly important. Building relationships based on mutual trust and demonstrating the viability of their organizations in the long run are some of the new challenges for the management of institutions in which marketing concepts and methods can play a role.

Intra-organizational Stakeholders
So far in this article we have made a distinction between the organization and its environment, as if organizations were monolithic systems. Of course, this view does not do enough justice to the complexity of organizations. An organization can be considered as a conglomerate of subsystems, “loosely coupled” to one another and interacting with one another and with the subsystems of other organizations[31]. Managers are faced with the task of bringing some coherence between these subsystems in order to keep a grip on the strategic course of the organization. This can be especially difficult in health care, with its great number of professional organizations. For example, in hospitals, professionals determine rather autonomously their own market strategies[32]. In doing so they are predominantly guided by their own professional expertise and interests and the developments in their profession[33]. This often results in a service offer that is more internally than externally oriented (i.e. aimed at meeting the demands of the consumers). Moreover, the overall organizational strategy runs the risk of being no more
than an addition sum of rather autonomously developed strategies, which only by coincidence provide coherent service packages that meet the demands of the population. The implications for managers are that they will have to negotiate not only with external stakeholders but also with internal parties and that they have to involve professionals in the strategy-forming processes in order to create a more consumer-oriented service delivery.

The Applicability of Strategic Marketing for Health-care Organizations

From the above analysis of health-care networks (summarized in Table I) we can conclude that marketing in this sector means much more than trying to create long-lasting relationships with consumers alone. This does not mean that the consumer orientation – one of the basic concepts of marketing – is of minor importance in health care. More and more, society and especially organizations of patients and consumers require health-care organizations to give account of their activities. “Are we doing the right things?” and “do we do our things right?” are questions that are not just to be answered according to the criteria of the organizations themselves, but also according to those of the consumers. However, making the organization’s legitimacy dependent on the benefits it has to offer to consumers causes problems for a health-care organization. Besides the fact that the requirements are often not well known, and the demands of consumers (users of care) and customers (payers, referrers) are often different and sometimes even contradicting, it is not easy to meet the demands. This has to do with the service delivery process itself, with its limited possibilities of standardization and visualization of the service quality. Moreover, in professional organizations management has limited control with respect to the kind of services professionals offer and the way in which they are offered. Exchange, the key concept in relationships with external parties, might be a leading principle for handling the intra-organizational relationships as well. Coordination problems are then considered as issues for negotiation. The management has the important task of providing professionals with information about the strategic position of the organization and stimulating and direct initiatives for improvement of this position.

A second conclusion is that health-care networks show a more or less institutionalized interdependence between participants. As we have seen, health care providing organizations are surrounded by a great number of stakeholders with whom they – whether they like it or not – will have to do business, not only today, but also in the future. In other words: many relationships (especially with insurers, other health-care providers, government) are predetermined, particularly when there is only a limited number of alternatives. Health-care organizations face the challenge to handle these relationships in a way that an optimal balance between autonomy and interdependence is attained. The marketing concept of exchange can be very useful in this: it forces organizations to reflect on their position and the values they can offer. By doing so, relationships in health care can be made more
transparent and businesslike. Especially in the relationships among providers, this could lead to a better mutual adjustment with respect to the service delivery, to more flexibility in the service provision and, in the end, to a better match between demand and supply. Moreover, for the interorganizational culture in health care with its emphasis on co-operation, exchange can be a very suitable concept as it reinforces the interdependence, intensifies the mutual respect and consolidates the existing relationships.
In order to obtain a strong position in the bargaining processes with various stakeholders (insurers, government, other providers, banks, suppliers), it is also important for health-care providers to have a solid reputation with respect to the quality of the service delivery, the internal organization or - more in general - the significance of the organization in health care and in society at large. In other words, other parties should not be able to get around the organization. However, as we have seen, this working on distinctive competence is not as easy as it seems. The interorganizational culture can prohibit health-care providers from pushing themselves to the forefront too overtly. In fact, this makes marketing in health care a genuine management challenge and it also gives an answer to the question of whether marketing in health care is acceptable - health-care organizations will be inclined to avoid “wild” marketing initiatives, as they are aware of the opposition these initiatives will meet inside and outside the health-care sector. The web of interdependence relationships in health care stimulates the self-corrective abilities of individual organizations and the sector as a whole.

Conclusion
We can conclude that the introduction of regulated competition in health care confronts organizations in this sector with a growing need of instruments for adequate network management. Recently developed insights in marketing appear to offer clues for handling this issue. They show that marketing is more than “client orientation”. From a broader strategic perspective, marketing has developed into a specific vision on the raison d’être of organizations, the creation of relationships with relevant stakeholders and the development of distinctive competence compared to others. However, the operationalization of marketing concepts in health care makes heavy demands on the management of institutions. The emerging problems are partly linked to the limited coordination possibilities in professional organizations and the specific characteristics of the service delivery. In both fields of study much research is going on which is expected to offer results in the near future. Furthermore there is a need for research in the health-care sector itself, for example, on the intensity and durability of network relationships, the presence of exchange elements and more in general, the various ways in which different parties (health care providing organizations, insurers, patient organizations) are trying to maintain or strengthen their position. In this way, a contribution can be made to the translation of strategic marketing of the business sector to the field of health care.

References


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