

## HEALTH ECONOMICS

# The occult of efficiency: frank, and Stein's, advice for physician leaders



Jeffrey S. Hoch, PhD, and Carolyn S. Dewa, MPH, PhD

In this first article in a series on health economics, we focus on efficiency, which is an important concept for leaders deciding how to spend scarce resources, such as time, effort, and money. Efficiency, or cost effectiveness, activities should consider that progress may be a function of multiple outcomes. Simply focusing on one outcome, such as length of stay because it is easy to measure, may produce overall inefficiency according to a more comprehensive set of objectives. Value achieved, a more difficult type of efficiency, involves "smart shopping," where both costs and outcomes of options vary. Often the new way of doing something is more expensive and more effective. In these situations, a leader must decide the extra cost for extra effect is worth it.

**KEY WORDS:** leadership, efficiency, health economics, cost-effectiveness

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Over 20 years ago, in *The Cult of Efficiency*, Professor Janice Stein<sup>1</sup> argued that physicians are expected to work efficiently. They are constantly enjoined to become efficient, to remain efficient, and to improve their efficiency in the safeguarding of the public trust.

Efficiency, or cost effectiveness, has become an end in itself, a value often more important than others. But elevating efficiency, turning it into an end, misuses language, and this has profound consequences. When we define efficiency as an end, divorced from its larger purpose, it becomes nothing less than a cult.

In this article, we describe various types of efficiency and offer insights for physician leaders considering (or reconsidering) their relationship with the cult of efficiency.

"If you don't know where you want to go, then it doesn't matter which path you take."

– Lewis Carroll, *Alice in Wonderland*

## Background

There are two types of efficiency that we describe as no-brainer efficiency (NBE) and smart-shopping efficiency (SSE). NBE involves paying less for something or getting more of it for free. An example of paying less is buying something at a discounted price (e.g., using a coupon). If the good or service is the same regardless of whether you use the coupon, then using the coupon means paying less. Some people view generic versus name brand pharmaceuticals this way. NBE can also involve getting more for the same price. When you buy a standard airplane ticket at the economy price but are upgraded to first class, the upgrade is "more for free" NBE.

However, if the upgrade costs more, then there is a need to decide whether the extra perks (such as legroom and food) are worth the extra cost. Paying a little extra to get something worth much more in value is SSE. Context plays an important role in assessing SSE. A flight upgrade of \$50 for a 50-minute flight is different from getting the \$50 upgrade for a 15-hour flight. In thinking about efficiency, two key distinctions are: Will we need to spend additional resources to get more? and, if so, Will the "more" be worth it?

Satisfying NBE efficiency is predicated on the assumption of similar quality; additional baked goods might be slightly burned or stale, and the free upgrade to premium economy may be to a seat next to the lavatory or a crying baby, or to a seat without

leg room or the ability to recline. For SSE, the issue is whether the extra cost is worth it. SSE is not about saving money; it is about spending it wisely.

Consider how the two types of efficiencies manifest at work. Suppose you are hiring for a job with a pay range of \$50-60 thousand annually. It attracts two candidates, both of whom can do the job described in the ad. However, although Candidate A will do an adequate job, Candidate B would do a better job because of having additional experience and skills. The problem is that Candidate B wants a higher salary commensurate with their additional experience and skills.

Your human resources (HR) department's prohibitions about not paying more than \$50-60 thousand are consistent with NBE. Because of how the job classification is structured, both candidates appear able to "do the job"; so, the cheaper one is a more efficient choice. To HR, the protestations that Candidate B is better seem based on occult criteria. According to the job ad, both candidates meet the specified requirements; if more matters, then it must be specified. Because you can "see" the additional value of the more expensive Candidate B, that person seems like an optimal choice based on SSE. However, to HR this seems like occult efficiency (hence the title of this article), as both candidates "can do the job." Why spend more and gain nothing more (according to what is listed as important in the job specification)? An unclear objective invites trouble, even if the stated

experience?" 3. Effectiveness: "Is what you're providing going to satisfy my need or want?"

4. Costs: "What's the cost to me and my family and is it worth it?"

This shows how efficiency and what counts as progress toward the objective(s) may differ with perspective, such as that of physicians, health care administrators, and patients. Health care efficiency is not simply reducing costs. Rather, the challenge is understanding when to pay more to get higher value. In situations where the value of what you gain is greater than the additional cost, it makes sense to spend more to get a good deal or what some describe as "value for money."

Table 1 shows relative outcome in relation to relative cost. Decision-makers must decide what represents an acceptable level of cost in relation to an acceptable level of outcome. For some combinations, the answer is straightforward. For example, adopting a new way of doing something that produces the same outcome but costs more would be an "Easy no." In contrast, if a new option has a better outcome but with a decrease in costs, the answer is an "Easy yes."

In the top right and lower left cells of Table 1, we find SSE scenarios. In some cases, it may seem like a good deal to accept a poorer outcome for less cost; likewise, in some cases SSE may dictate not paying a lot more for only a little better. While we have framed this example in terms of paying with money, this concept can also be applied to other costs, such as time, energy, space, beds, labour, capital, or any other scarce resource.

**Table 1: Efficiency matrix**

	<b>Worse outcome</b>	<b>Same outcome</b>	<b>Better outcome</b>
<b>More cost</b>	Easy no	Easy no	Smart shopping
<b>Same cost</b>	Easy no	Other factors	Easy yes
<b>Less cost</b>	Smart shopping	Easy yes	Easy yes

objective is achieved in an efficient way. Think about the push for value in health care. Paul Keckly claims :

In most industries, "value" as defined by consumers is associated with four attributes:

1. Accessibility: "Can I get what I need or want from you?"
2. Service: "Is dealing with you a pleasant

### Critique

As a way of thinking about efficiency, smart shopping has a variety of potential vulnerabilities that can have disastrous consequences for leaders. Its success depends on an accurate and comprehensive definition of outcome that is relevant for the decision-maker. Often, leaders assume that there is only one

outcome or effectiveness measure that matters (and is measurable). In *The Cult of Efficiency*, Professor Stein recalls the story of how her mother had to be released from a hospital by a certain day or the hospital's efficiency ratings would be driven down, explaining that the hospital unit, "had been given seven days to discharge a geriatric patient after a fractured femur. If the patient remained in the unit for eight or ten or thirteen days, the surgical unit became less efficient than the hospital and government demanded."<sup>1</sup> Using length of stay (LOS) as the sole efficiency metric, the surgical unit would look less efficient.

In the rush to increase efficiency and reduce LOS, it is important for leaders to ask whether other things matter. Does the patient return to the hospital soon, with complications? Are adequate homecare supports in place to ensure healing and recovery? Whether contemplating an individual's or an organization's efficiency, it is important to recognize that there may be multiple objectives that leaders want to optimize. Depending on the leader's experiences and advisors, some outcomes are obvious, but others are less so. To be useful in real-world decision-making, it is critical that leaders think of efficiency as meeting multi-dimensional objectives and ask themselves, "What key factors should be considered?" In addition to outcomes, other attributes may also contribute to achieving a leader's goal(s). Patient and caregiver experiences might be key to uncovering some of the most important dimensions.

Sometimes a leader may not be ready to divulge a strategic direction and, as a result, make decisions based on a rationale that is unclear. Some of the most important value components may be kept hidden by leaders, representing either a strategic decision not to share this information or a missed opportunity to communicate all that is of considerable value. This sends confusing signals about what the organization is trying to achieve in terms of efficiency.

A Forbes article, "The Soul-Sucking Side of Efficiency,"<sup>2</sup> considers that "it may seem inefficient to spend time asking your team about their weekend (and, by the way, actually caring about their response) rather than jumping into the project at hand." If the purpose is just to solve a particular problem, shorter meetings are more efficient. However, if we consider

multiple purposes for meetings (such as building team collaboration and strengthening work culture), the extra time spent socializing could produce additional value. This is an especially important consideration as workplaces decide how to optimize the hybrid workplace. It also has implications for how meetings are led. If people do not feel included<sup>4</sup> or are included in a way that is uncomfortable for them,<sup>5</sup> in-person meetings may not be considered efficient. Team members will be wondering, "Could this meeting have been an email."<sup>3</sup>

## Take-home lessons

Health care leaders often seek to achieve multiple objectives. This means that progress is likely a function of multiple outcomes. Efficiency is related to the productivity of resources expended for these multi-faceted gains. Simply focusing on one outcome to monitor (such as LOS because it is easy to measure) may produce overall inefficiency according to a more comprehensive set of objectives. Hospitals discharging everyone with a hip replacement after a one-day stay may seem efficient, but only on an initial LOS scale.

Considering the concept of efficiency can help leaders reflect on the "why" of their organization. Critically thinking about a proposed measure of efficiency, can help detect deficiencies. For example, what if we had a 100% immediate fatality rate for every procedure at the hospital? Does this zero LOS produce the type of efficiency for which we want to be known?

Even when the metrics are worked out and data have been collected, incentives must be aligned so that there is some benefit to the organization and its leaders for being the right kind of efficient. When incentives are not aligned, leaders and their organizations head in directions that may be efficient for them but not optimal for the system. Once we have an outcome or a set of outcome measures, we can embrace "easy" efficiency by looking for ways to accomplish the same results with fewer scarce resources or ways to accomplish better results with the same set of resources.

A somewhat more difficult type of efficiency involves the concept of value achieved through

smart shopping. In this case, both the costs and the outcomes of different options vary. Often the new way of doing something is more expensive and more effective. Whether the new investment is economically attractive or represents good value for money depends on a health care leader's priorities, context, values, and more.

At the highest levels, there are often competing priorities that must be judged in a non-transparent manner. Sometimes small decisions that seem suboptimal on a small scale may create openings for bigger payoffs in the long run. It is not uncommon for public health care payers in Canada to decide to reimburse a drug after the review process that they designed recommends against funding it at the current price; while this process may not seem efficient, it may be efficient for meeting a variety of other priorities.<sup>7</sup>

## Conclusion

One leader's "wasting resources" may be another leader's "investing resources." It is acceptable for leaders to emphasize inefficiency on a single metric as long as their organization's mission is advanced in other areas of strategic importance. Spending resources inefficiently (for no conceivable gain in value) is a dereliction in a leader's duty of stewardship of scarce resources (punishable by a course or two in economics). However, leaders cannot proceed all the time with their heads down. They must look around to ensure they are traveling in the proper direction at the proper pace, hopefully avoiding or reducing unwanted impact. Going is not the goal; getting to the goal is the goal.

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## Authors

**Jeffrey S. Hoch**, MA, PhD, is a professor in the Department of Public Health Sciences at the University of California Davis (UC Davis). He is chief of the Division of Health Policy and Management and associate director of the Center for Healthcare Policy and Research at UC Davis.

**Carolyn S. Dewa**, MPH, PhD, is a professor in the Department of Psychiatry and Behavioral Sciences and the Department of Public Health Sciences at UC Davis.

Correspondence to: [jshoch@ucdavis.edu](mailto:jshoch@ucdavis.edu)

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