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The role of business in pharmacy practice

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Learning objectives

The objectives of this chapter are to assist you to be able to explain:

- the misconceptions about the role of business in pharmacy practice
- why a business perspective is important
- challenges for community and hospital pharmacies
- how to integrate different managerial functions
- the functional areas of business.

Key terms

Accounting function
 Controlling
 Directing
 Finance function
 Human resources
 Human resource management function
 Input–output system
 Marketing function
 Material resources
 Monetary resources
 Operations management function
 Organizing
 Planning
 Remaining competitive
 Staffing
 Utilization of resources

Changes in the demography of the USA

Many factors have helped to bring about an evolution in the practice of pharmacy. Among the more important ones from a business perspective are the changes in the demography of the USA, healthcare usage and providers, and attitudes toward the traditional role of the pharmacist and pharmacy.

One of the most important factors affecting modern healthcare is the changing demography of the USA. Most notably, there has been a massive distortion of the age distribution of the population, a general aging of the population, and a changing racial composition.

Age distribution of the population

The effects of the “baby boom” period following World War II coupled with the “birth dearth” in the early 1970s, when fertility rates declined dramatically, caused a pronounced shift in age distributions. The effect has often been called a “pig in a python,” similar to what happens to the shape of a large snake after it swallows a whole pig. As the pig moves through the snake’s body, it distorts the shape of the snake in much the same manner as the baby boom group has altered the demography of the USA as it moves through its life cycle.

The change in the distribution of the population can be seen in Table 2.1. The 25- to 44-year-old age

group is declining as a percentage of the total population starting from 1990, while 45 and older is increasing as baby boomers move through this category.

For pharmacy managers, it is difficult not to target the baby boom group as it heads toward senior status. No doubt, it will be a major concern for businesses and insurance companies in their formulation of policies for payment of their prescription drug costs. As described later in this chapter, the costs of healthcare have grown significantly in recent decades, and as more of the baby boomers begin to reach age 65, drug costs and usage could skyrocket. Pharmacies can expect a restructuring of their payment systems as government and the private sector try to cope.

Additional implications of the distortion of the demography are the fact that healthcare services will be refocused on the 45- to 65-year-old age group. The types of services and products they need will take on greater importance with the sheer increase in numbers of people. Competition among pharmacies for their business will become more intense, not only because of the immediate dollar potential but because loyalties developed now may extend into a time when the baby boomers become seniors.

The aging of the population

The aging, or “graying,” of America is also quite evident. Within the population group aged 65 or more years, those 80 and older are making up a larger percentage. This is shown in Table 2.2. From 1980 through the year 2009, the percentage who are 85 or older increased from 8.8 to 14.2 percent.

People are living longer, and this aging process is expected to continue further. As shown in Table 2.3, life expectancies for both females and males have risen by 8.6 years from 1970 to 2010, and are expected to increase even more by the year 2020.

As would be expected, the healthcare implications of this are quite significant. Seniors have more and different needs for health services than do other members of the population. They visit physician offices more frequently, require more hospital stays, use more prescription and non-prescription drugs, and have a greater number of multiple medical problems.

In addition, seniors require different services. Many have hearing or sight impairments, diminished cognitive skills, are physically limited, etc. A community pharmacy targeting an elderly market, for example, may need wider aisles, larger signs, improved

Table 2.1 Age distribution of the US population

Age group	Unit	1980	%	2000	%	2005	%	2009	%
	1,000	226,546	100	282,172	100	295,753	100	307,007	100
9 years and under	1,000	33,048	14.6	39,679	14.1	40,116	13.6	41,909	13.7
10–24 years	1,000	60,729	26.8	60,022	21.3	63,038	21.3	63,051	20.5
25–44 years	1,000	62,716	27.7	84,995	30.1	83,257	28.2	83,096	27.1
45–64 years	1,000	44,503	19.6	62,402	22.1	72,638	24.6	79,379	25.9
65 years and older	1,000	25,550	11.3	35,074	12.4	36,704	12.4	39,571	12.9
Median age	Years	30.0		35.4		36.2		36.8	

From US Census Bureau. *Statistical Abstract of the United States: 2011. Resident Population by Sex and Age: 1980 to 2009.*

Table 2.2 Population age 65 years and older

Age group	Unit	1980	%	2000	%	2005	%	2009	%
65–74 years	1,000	15,581	61.0	18,375	52.4	18,666	50.9	20,792	52.5
75–84 years	1,000	7,729	30.3	12,429	35.4	13,176	35.9	13,148	33.2
85 years and over	1,000	2,240	8.8	4,271	12.2	4,862	13.2	5,631	14.2
TOTAL		25,550		35,074		36,704		39,571	

From US Census Bureau. *Statistical Abstract of the United States: 2011. Resident Population by Sex and Age: 1980 to 2009.*

Table 2.3 Life spans

Year	Total	Male	Female
1970	70.8	67.1	74.7
1980	73.7	70.0	77.4
1990	75.4	71.8	78.8
2000	76.8	74.1	79.3
2005	77.4	74.9	79.9
2010	78.3	75.7	80.8
2020 (projection)	79.5	77.1	81.9

From US Census Bureau. *Statistical Abstract of the United States: 2011. Resident Population Projections by Race, Hispanic-Origin Status, and Age: 2010 and 2015.*

lighting, and a staff that understands how to cope with the mannerisms of seniors. Similarly, the types of prescription drugs and non-prescription products are different from those needed to care for a younger group of patients. And pharmacies in the future will likely target more of their efforts and resources on the over-65 market.

Changing racial composition of the population

A third major change that is taking place within the American population is the shift in racial

composition. Non-White populations are expected to grow rapidly, and much of the growth within the “White” category is Hispanic. This can be seen in Table 2.4.

The implications of the changing racial composition of the marketplace are quite pronounced. For some groups, there are differences in culture, language, and product and service needs. Historically, however, it has not been economically feasible for pharmacies to target their efforts partly or completely on a particular ethnic group. In the next several decades, however, some ethnic groups will be sufficiently large and geographically concentrated that it will become financially attractive to do so. This means, for example, ensuring that pharmacy staff can speak a language other than English, the pharmacy carries non-prescription merchandise that is desired by the particular ethnic group, and signage in the pharmacy is in a second language.

Aside from the possible growth of specialty pharmacies, nearly all community and hospital pharmacies need to become more attuned to unique cultures, languages, etc. Having staff that can speak Spanish or some dialects of Chinese, carrying a range of non-prescription merchandise used predominantly by an ethnic group, and understanding a group’s attitudes toward the administration of drug products is

Table 2.4 Population of USA by race

Race	2000	2006	2008	2009	Percentage change 2000–2009
Total	282,171,957	298,593,212	304,374,846	307,006,550	9.1
One race population total	278,239,086	293,768,055	299,216,154	301,683,044	8.7
White	228,602,436	239,046,846	242,685,070	244,298,393	7.1
Black or African American	35,807,824	38,260,797	39,204,596	39,641,060	11.0
American Indian and Alaska Native	2,675,900	2,978,564	3,095,246	3,151,284	18.3
Asian	10,687,312	12,941,849	13,665,386	14,013,954	32.3
Native Hawaiian and other Pacific Islander	465,614	539,999	565,856	578,353	25.0

From US Census Bureau. *Statistical Abstract of the United States: 2011. Resident Population by Sex, Race, and Hispanic-Origin Status: 2010 and 2015.*

likely to become increasingly important from both business and healthcare perspectives.

Deciding on a role for pharmacy

Perhaps ironically, concerns about the interface between pharmacy practice and business were not an especially significant issue during much of the twentieth century. The “drugstore” was a business. It was engaged in many activities in addition to dispensing prescriptions. The pharmacist and his or her employees did everything from dispensing prescriptions to selling household wares to making ice-cream sodas.

To be sure, there were some who considered all non-clinical activities to be unprofessional. Yet, while clinical functions have always been an integral part of the business, most recognized the fact that the drugstore owner–pharmacist served in many varied roles (Table 2.5).

During the latter part of the twentieth century, greater concerns about the role of business in the practice of pharmacy became evident. It was the likely result of a profession that had become more specialized owing to the complexity of the products and services it provided.

Whatever the cause, however, there are many misconceptions about what role, if any, business should play in the profession. Among the most important misconceptions are the following:

- The practice of pharmacy is ethically inconsistent with good business.
- In business, quality of care is secondary to generating profit.

- Business is not a profession guided by the same types of ethical standards of practice that apply to pharmacy.
- A good pharmacist is one who is a “clinical purist.”

The practices of pharmacy and business

One of the more common misconceptions is that the practice of pharmacy is ethically inconsistent with good business. This most likely developed from the observation of very poor business practices used by some firms. To some pharmacists, the practice of business is symbolized by high-pressure salespeople, innocuous advertisements, and sale of products of poor quality.

Questionable business practices do occur, but they are not considered acceptable by most business people. Similarly, most pharmacists frown on the quality of care provided by a few of their less capable colleagues, and on pharmacies that have been cited for filing fraudulent prescription claims. No doubt abuses do occur, but that should not be an indictment of the professions of pharmacy or business themselves.

As described later in this chapter, good business and good pharmacy practice have the same objectives: to serve the patient’s needs with the resources available. From a business standpoint, the reason for this is simple: if the patient is not satisfied, he or she will not return. And very few businesses, including pharmacies in all practice settings, can survive without repeat sales.

Table 2.5 The pharmacy as an input–output system

Inputs	Processing	Output
Pharmacist's skills	Verify eligibility	Prescription
Drug product	Check drug appropriateness	Delivery
Container	Check for possible drug interactions	Counseling
Label	Prepare label	Answer questions
Computer hardware	Fill prescription	Sell companion products
Computer software	Record prescription	Invoice payer
Pharmacist's skills	Patient consults	Advice on medication use
Pharmacist's skills	Medication therapy management	Regimen for patient behavior
Non-prescription merchandise		

Quality of care vs. generation of profits

Another misconception is that in business, the quality of patient care is secondary to the generation of profits. Understandably, the basis for this perspective comes from efforts by managers in community and hospital settings to control their costs.

The basic fallacy of this misconception relates to the previous issue—if the quality of care is poor, patients will not return and future profits will be lost. From a more mercenary standpoint, the legal implications of providing substandard quality of care would significantly place profitability at risk.

In fact, the generation of profits is closely linked to the quality of care. The real issue, however, is one of what level of quality is necessary or desirable. “Care at any cost” is no longer affordable. Because the human, financial, and material resources of every organization are limited, decisions must be made as to how they are allocated. If availability of resources were not an issue, good business practice would not consider anything less than the best quality of care.

The realities, however, are that tradeoffs must be made. Unless profits can be generated to obtain resources, most for-profit and not-for-profit organizations would cease to exist. They would not have the funds to hire pharmacists, purchase inventory and supplies, and so forth, to provide any level of service whatsoever.

Business and ethical standards

Because there have been many abuses of good business practices by some firms, the entire realm of business has been criticized as not having professional standards of conduct. In fact, numerous standards

have been established legally and by specialized trade and professional organizations.

Many laws focus on the manufacture and adulteration of products, pricing strategies used by organizations, and methods by which companies promote their products and services.

For example, there are regulations pertaining to what information must be placed on package labels, and what constitutes misleading advertising. There are also laws regulating how organizations price their products and services, and how they treat their employees.

In addition to legally mandated practices, many business organizations have their own standards of practice. For instance, accounting standards of practice are established by the American Institute of Certified Public Accountants. In advertising, the National Advertising Council has banned the use of subliminal messages on television.

The bottom line is a simple one for survival. If any business does not adhere to ethical standards it cannot survive. It may be able to get away with being unethical with a customer once, but it will not get them back again. And all pharmacies, irrespective of practice setting, need repeat customers to survive.

The role of competition

Adam Smith, in his 1776 book *The Wealth of Nations*,¹ provided the cornerstone for what has been the economic system of the USA. In a simple sense, Smith recommended a “laissez faire” public policy with respect to business. Essentially it equated to “survival of the fittest.” He argued that the resources of the country were limited, and that the best allocation

of those resources would be achieved when organizations fought among themselves. If this were to occur, he reasoned, only those organizations which operated efficiently would be able to survive.

This laissez faire doctrine has had far-reaching implications. If an organization, whether public or private, could not become efficient from a cost-benefit standpoint, and appeal to a sufficiently large group of people, it had no right to exist.

While a free-for-all fight among organizations does not exist, the fact remains that they must compete for the nation's precious human, financial, and material resources. Thus, individual community pharmacies, hospitals, skilled nursing facilities, and the rest, must fight for their survival. Inefficient organization wastes resources which could be put to better use by other pharmacies, hospitals, or other organizations.

How does an organization become efficient? How can it fight for its share of the available resources? This is the role of business and professional management.

Utilization of resources

A business focus helps to utilize the pharmacy's monetary, human, and material resources in an effective way. In the high-cost and highly competitive environment that exists, there is little room for waste and error. For example, an average independent pharmacy in 2010 generated 26.8 percent gross profit (i.e. net sales minus costs of goods sold). With operating and other expenses reaching 23.9 percent, it leaves profit before taxes on the level of 2.9 percent of net sales.² If costs rise by 3.0 percent, all profits would be lost. As shown in Table 2.6, this margin was relatively stable over time.

Financial figures for hospital inpatient pharmacies are not readily available. However, hospital profits over the years have also remained on modest level. An average hospital in 2010 generated a profit before taxes of 5.2 percent of net sales.² The margins, although somewhat higher than in the case of community pharmacies, are still thin. As described later in this chapter, the functional aspects of business help pharmacies to improve revenues, control costs, and monitor operating performances. Through the use of business tools, specific activities that are not operating profitably can be examined to determine if they can be

corrected before the pharmacy's survival is placed in jeopardy.

Remaining competitive and adapting to change

A business perspective centers on the ability of the pharmacy to compete. Every pharmacy faces competition for patients and resources. In community settings, pharmacies must fight for their share of the market. In hospitals, directors of pharmacy must compete with other organizational units for shares of the budget.

Through carefully developed marketing efforts, the pharmacy can show its "customers" (e.g. patients, hospital administrators, hospital boards of trustees) the benefits of its services. Since customers have so many choices for how and where they spend their funds, pharmacies must take the initiative in demonstrating their values.

Equally important, a business focus helps the pharmacy keep abreast of changes occurring in the environment, such as those shown in Table 2.7. Social and cultural shifts, changes in law, technological advances, shifts in economic conditions, and other variables can be monitored and assessed through a business framework. Pharmacy practice does not operate in a vacuum. As the world changes, the profession must adapt if it is to remain useful.

Deciding on roles for pharmacists

As the role of the pharmacy has changed over the past decade, so too has that of the pharmacist. During the last part of the twentieth century and early part of the twenty-first century, there have been evolutions in the profession, in the pharmacist's position within the healthcare delivery system, and in the pharmacist's role within the community. Each of these has affected the way pharmacists view their positions and the activities they engage in on a day-to-day basis.

Evolution of the profession

The pharmacy profession has made several transitions since the seventeenth century. At times, the pharmacist has been a primary source of medical information and products. The pharmacist was looked upon as a

Table 2.6 Trends in pharmacy profitability

Percentage of net sales	2006	2007	2008	2009	2010
Gross profit	25.8	24.9	26.0	25.2	26.8
Operating expenses	23.2	22.6	23.9	22.7	23.7
Other expenses	0.2	0.1	0.3	0.2	0.2
Profit before taxes	2.3	2.2	1.7	2.2	2.9

Data from RMA's *Annual Statement Studies, 2010–2011*.²

Table 2.7 Environmental forces affecting the practice of pharmacy

Environmental force	Components
Competition	Chain
	Independent
	Mail order
	Physician dispensing
	Alternative therapy (e.g. surgery)
Demographics of possible patients	Age, gender, income, employment
Geographic location	
Economic conditions	Employment
	Inflation
	Savings
Healthcare coverage	Extent of coverage
	Private pay
	Health maintenance organization
	Capitation
Political/legal environment	Discounted fee for service
	Federal and state licensing requirements
	Food and Drug Administration regulations
	Drug Enforcement Administration regulations
	Healthcare Financing Administration payment schedules
Social attitudes towards healthcare	State payment schedules
	Self-diagnosis
	Trust in providers
	Trust in healthcare services
Social attitudes towards medications	Preferences for delivery system
	Brand-name vs. generic drugs
	Self-medication
Technology	Biotech drugs
	Computer systems for delivery
Methods of claims verification and processing	Methods for monitoring patient care

healthcare specialist who often was more accessible than the physician. And the pharmacist's expertise in compounding medications was critical to good healthcare.

From being a key adviser in healthcare matters, the pharmacist at times has assumed more of a role of a provider of products than a provider of professional services. During much of the twentieth century,

for example, payments to the pharmacist were based on the provision of product—prescription drugs—to patients. Pharmacists were not compensated for their expertise. They were considered to be persons who would “count and pour, lick and stick.”

During the early part of the 1990s, however, a transformation began to take place. This was the result of the high costs of healthcare, the growing complexity of products, potentials for drug interaction, incidents of prescription errors, and other factors. The profession was looked to as a means of controlling the costs of care. These included point-of-sale activities to make generic substitutions when such actions would prove to be therapeutically appropriate and cost-effective, identification of possible drug interactions, intervention when it was proper not to dispense a prescription suspected to be erroneous, and monitoring patient drug therapy, and consulting with patients about their drug therapies.

As a result, the pharmacist’s knowledge of clinical drug therapy became a more critical component of the healthcare delivery system. Many of those involved in healthcare services, such as insurance companies and employers, recognized that pharmacists were in a key position to affect patient outcomes. Their knowledge of drug therapy plus their position at the point of service refocused the profession on the clinical aspects of practice.

To help make this possible, technicians were allowed to assist in the prescription-filling function. The concept was to free the pharmacist of routine and repetitive activities, and provide more time and opportunity to engage in the more professional activities in which he or she was trained.

These efforts served to return to the profession a major role in healthcare delivery. By separating the provision of products from the provision of professional expertise, the profession was elevated. The movement toward medication therapy management (MTM) has been advanced because of this.

The role of pharmacists as healthcare professionals

In the early years of pharmacy practice, the pharmacist was responsible for much of the manufacture and dispensing of medicines. Many products were compounded, and the pharmacist’s role was to ensure that proper medications were produced.

Over the years, the role of the pharmacist in the manufacture of prescription drugs has diminished significantly. There are relatively few instances where compounding is necessary. Repackaging medications into smaller units that coincide with appropriate days of therapy has grown but not at an exceptionally rapid rate, even though the population is aging.

There are some areas in which the pharmacist’s role in the preparation of medications is still highly significant. Examples are the preparation of intravenous (IV) solutions for home healthcare and the creation of unit doses in skilled nursing facilities and hospital settings.

While the role of the pharmacist in the manufacture of medications may have diminished somewhat over the centuries, other roles have taken its place. As the complexity of products has grown, especially with the advent of biotech drugs, the pharmacist’s knowledge of drugs and drug therapy has become more important in healthcare delivery. The same is true as more powerful drugs are converted from prescription to over-the-counter status. In some respects, then, the pharmacist has become more of a specialist who is valued for technical knowledge of drug therapy.

This also can temper the tremendous amount of information available over the Internet. As people increasingly seek information about medical care and medicines, the pharmacist can provide a professional level of expertise needed to adapt the information to individual situations.

As drugs become more complex in both their form and usage, it is likely that the role of the pharmacist as a healthcare professional will continue to grow. Both physicians and patients will need the expertise pharmacists can provide to ensure correct initial drug therapy, continued compliance, appropriate monitoring, and satisfactory therapeutic outcomes.

The role of the pharmacist within the community

Historically, pharmacists have maintained a high degree of respect within their communities. In consumer polls, the pharmacist consistently has been rated among the most, if not the most, respected professional.

There are a variety of reasons for this. First, the pharmacist is one of the most accessible healthcare

professionals. Pharmacists can be reached either in person or by telephone, and appointments have not been needed.

Second, they tend to be able to converse with patients on the patient's level. Pharmacists have experience in consulting with patients about medications, and can focus on the major issues of concern to patients (e.g. drug administration, side-effects).

Third, historically, they have not charged directly for their services. Patients believe they can ask questions of the pharmacist without being charged a fee—unlike physicians who are expected to charge for advice. This has both positive and negative implications since charging for such services as MTM has met with resistance.

Fourth, pharmacists tend to be less intimidating to patients than physicians. Patients are more comfortable in retail stores than in the physician's office, and it is not usually the pharmacist who provides the patient with bad news.

Finally, pharmacists are viewed as being members of the community to a greater extent than are other healthcare professionals. They are perceived to be both healthcare professionals and business people and employees. This makes pharmacists closer to being “regular” people who live and work within the community.

In the future, this role of the pharmacist within the community is likely to change. To the extent that pharmacists become more involved in point-of-sale activities such as MTM, intervention, consultation, monitoring, and so on, their professional activities will take on added emphasis. This will serve to alter the “regular people” perception of pharmacists. The pharmacist may be the bearer of bad news, and have more authority over the healthcare that is provided.

In addition, as payments for cognitive services increase in usage, the public perception of pharmacists will change. To the extent that patients are personally charged for cognitive services, economic barriers to accessibility will arise. Patients will no longer feel free to seek advice, and the view that pharmacists are “out to make money” is likely to grow. Overall, pharmacists will have to demonstrate the value of their advice, showing that the benefit patients receive from counseling is commensurate with the fee being charged.

The pharmacist as a clinical purist

Perhaps as a culmination of the other misconceptions, there are some who believe that a good pharmacist is one who focuses only on the clinical aspects of the profession. One reason for this perspective relates to the fact that the complexities of modern drug therapy do not allow time to be concerned about other matters. Another reason relates to questionable practices that have occurred.

As never before, pharmacists must understand the business and economic environments within which they work. Many aspects of clinical services are affected by these environments. In order to successfully practice pharmacy, the pharmacist must know how to operate within the constraints that are placed on modern healthcare by government, employers, insurance companies, and others. This applies to everything from understanding new healthcare regulations, making generic substitutions, to counseling patients on drug therapy compliance, to intervention, and to recommending companion over-the-counter products to counter minor side-effects of prescription drugs. In an era of cost management, a good pharmacist is one who can provide the best quality of care possible with the resources, and restraints, at hand.

Identifying the challenges for community pharmacies

This evolution of the profession creates both challenges and opportunities. The profession itself is not in danger, but its role in healthcare delivery is continually being redefined.

A business world orientation

Perhaps the most significant challenge facing pharmacists in all practice settings is accepting that they are operating in a business as well as a healthcare world. The days of “care at any cost” are gone and it is now “the business of healthcare.”

In its place is the recognition that the USA cannot afford unrestricted healthcare. As distasteful as this may be, government and the private sector have come to believe that there must be some balance between the costs of care and its accessibility.

In community settings for both independent and chain pharmacies, decisions about what to offer, how

much to charge, etc., are being made increasingly on a business basis. Indeed, the managers of many pharmacies are professional business people rather than healthcare professionals. Government and the private sector are simply unable and unwilling to support pharmacies in any practice setting that is operating inefficiently.

In hospital settings, administrators are professional managers who may or may not have healthcare backgrounds. Large hospital organizations are businesses that are guided by the economics as well as the clinical issues of healthcare. Within this context, the inpatient pharmacy is being viewed as a cost-conscious as well as a profit center. The attention it receives from administrators and boards of trustees will be directly related to how well the pharmacy can help the hospital increase its revenues or reduce its costs as well as improve patient outcomes.

Accordingly, the first challenge confronting pharmacists is to become more business-oriented. They need to understand the world of business and professional management. For employers, it will be absolutely essential if they are to remain competitive and viable. For employees, it will be absolutely essential if they are to cope well in their future working environments.

Challenges in community settings

In community settings, pharmacy owners and managers will face five major challenges in the early twenty-first century. These are revenue retention, preservation of market share, cost containment, legal considerations, and technological change.

Retaining revenues in an environment where the emphasis is on control over healthcare expenses will be a major challenge. The pressures to reduce reimbursement rates for prescription drug products and dispensing fees mean that pharmacies have to build volume. They can no longer rely on price increases and stable sales volume to bring more revenues into the pharmacy. The continued conversion of many prescription drugs to over-the-counter status may also influence the numbers of prescriptions being dispensed.

An offsetting consideration, of course, is the aging of the USA. Since the elderly tend to use more prescription drugs, this will help to support prescription volume. Nevertheless, pharmacies will continue to be confronted with the evolution from “low

volume, high margin,” to “high volume, low margin” operations.

A second major challenge will be to preserve market share. Within this area are two major considerations. First, as competition continues to become more sophisticated, there will be added pressures on independent pharmacies to become better managed. Chain pharmacies often can afford to hire specialized managerial expertise in marketing, finance, human resource management, etc. Independent pharmacy owners and managers have to develop their own skills in these areas.

A second consideration in market share retention will be the exclusive and preferred provider networks that have evolved. Maintaining market share when contracts for services are provided to only a select few pharmacies (whether chains or independents) requires creative and sophisticated management skills.

A third challenge will be cost control. The profitability of any pharmacy will be highly dependent on controlling its costs of goods and operating expenses. As expensive new medications, such as biotech drugs, continue to come into the market, the pharmacy’s management will be challenged to keep inventory costs to acceptable levels. In addition, it will be difficult to manage labor and other service-related costs while increasing the quality and amount of services provided to patients and physicians.

A fourth major challenge concerns potential legal problems. While pharmacists have always been held accountable for errors in dispensing, their expanded roles in the delivery of healthcare will increase their exposure. Patient counseling, MTM and other forms of patient monitoring, drug therapy, intervention, and managing technicians are but a few of the areas where legal issues can arise.

Finally, pharmacists will face the challenge of keeping up with a rapidly changing technology. The computerization of the dispensing function, much more complex drugs and their potential interactions and side-effects, on-line patient insurance verification, and claims adjudication are changing the world in which the pharmacist operates. The technological advances that might arise over the next 10–20 years may significantly alter the way in which drug therapy is made available. While this type of change has always been occurring, it tends to do so at an ever-accelerating pace.

Challenges in hospital settings

The challenges facing pharmacists in hospital settings are no less significant than those occurring in community settings. Some of the major challenges will be to remain effective and efficient in an eroding economic climate for hospitals, coping with hospital management that is more business-oriented, becoming more involved in assisting the hospital in strengthening its market position, controlling costs of goods and operating expenses, and gaining and retaining an acceptable share of the hospital's financial resources.

One of the more difficult challenges facing directors of pharmacy and staff pharmacists will be to remain focused and efficient if hospital profits continue to deteriorate. Opportunities to improve and expand the services of the pharmacy will be increasingly difficult to justify unless hospital pharmacists can demonstrate that their services can either generate additional revenues or reduce operating costs. Pharmacists in hospital settings may find it challenging to maintain the quality and volume of care under these conditions.

Closely related to this will be the challenge to work within a more business-oriented environment, and directly for business-oriented managers. While quality of care will remain an important consideration in daily operations, so too will the economic issues. In some instances, management will be focusing predominately on how the hospital can survive economically. Pharmacists will need to show how high quality of care and use of their professional services can contribute to this survival.

This need to contribute to the economic survival of the hospital may necessitate pharmacists being more actively involved in building the hospital's image and market share. Outreach programs, such as drug information and drug abuse lectures, can enhance the hospital's marketing efforts.

As in the case of pharmacists in community settings, there will be a major challenge to control operating costs. As costs of goods and labor rise, it will be difficult for the pharmacy to keep its expenses within budgetary limits—especially when budgets are likely to remain somewhat stable.

Finally, directors of pharmacy will face significant challenges to retain appropriate budgets for their operations. Hospital administrators will remain under continuous pressures to focus their attention on recruiting physicians and maintaining their affiliation, keeping the hospital's equipment and facilities tech-

nologically advanced, and maintaining a market presence.

Accordingly, a majority of hospital budgets will be allocated to these endeavors. A director of pharmacy will have to compete for funds with others who may be in better positions to have the administrator's attention. Demonstrating the contributions the pharmacy can make to the hospital's quality of care and its economic well-being will be critical.

How to integrate different managerial functions

Bringing all business functions together into a unified whole, and integrating them with the clinical activities of the pharmacy is a complex process. It requires a focused, organized effort that can be sustained over the long term. This is what “managing” a pharmacy is all about: bringing together all of the resources available and uniting them in such a way that, collectively, they achieve the goals of the pharmacy in the most efficient manner possible.

Managing an organization effectively is more difficult than it may initially seem. With limited resources, tradeoffs must be made in terms of how they will be used. Furthermore, given the uncertainties in the environment, it is hard to accurately project whether the use of the resources will achieve all that is intended. Finally, as was indicated earlier in the chapter, some activities tend to work in opposite directions (e.g. increasing sales while controlling costs).

As an example, again consider a community pharmacy that is trying to generate more sales, but this time wants to increase its cash position. To do this, it may lower prices in the hope of bringing in more patients to purchase private pay prescriptions and non-prescription merchandise. Telling people that prices have been lowered will take advertising, and there is an expense to that. Assuming that the advertising is successful—and there certainly are no guarantees that it will be—the pharmacy's volume increases. Accordingly, an additional part-time pharmacist and another sales clerk are hired to ensure that patients do not have to wait too long for service.

What has happened here? Sales have increased, but so have the costs of advertising, and wages and fringe benefits. If the pharmacy's lease is based on a percentage of sales, its rent also will rise. Since prices have been reduced, there is less gross profit on each

sale—the difference between the selling price and the cost of the merchandise.

Will the incremental gross profit cover the additional expenses? The answer is maybe. But, what happens if most or all of these patients charge their purchases? The pharmacy has had to spend more dollars, but does not receive the inflow of cash until the patients, the private third-party payers, or the governmental agency pays. Is it possible for the pharmacy to find itself in a worse cash position than it had prior to doing this? The answer is yes.

A manager cannot always determine in advance what will be the final consequences of decisions pertaining to the activities of the pharmacy. But a very good manager will prepare plans, organize the resources at his or her disposal, staff the pharmacy in such a way as to bring together those persons with the talents necessary to achieve desired objectives, direct their activities, and control their actions. While management is as much an art as a science, many potential mistakes can be avoided if the process of managing is undertaken correctly. Thus, as shown in Table 2.8, planning, organizing, staffing, directing, and controlling form the core of the management process.

This text considers these management processes in this chapter. The business functions of accounting, finance, marketing, organizing and staffing, and operations management were used as the format for the remaining sections of this text.

Planning

The most critical element of the management process is planning. Without a business plan, the pharmacy's operations will have no purpose and no direction. As a result, it will be nearly impossible to achieve any efficiency in its daily activities.

As described in Chapter 4, developing a business plan can be a rather time-consuming and tedious process. What makes the planning process so difficult is the fact that it focuses on an unknown future. Planning for the next 1–3 years requires assumptions that may or may not come true. Despite this problem, however, plans establish a basic structure for guiding the pharmacy. Plans can be changed as conditions warrant, but part of the objective of a plan is to influence conditions and turn them to the pharmacy's advantage.

Planning requires the pharmacist to take an introspective look at the pharmacy's current strengths and weaknesses. It also requires an evaluation of the environment within which the pharmacy operates, and the strengths and weaknesses of its competitors.

Based on all of these and other considerations, the manager or owner will have to decide on a set of objectives. Given the state of the pharmacy's internal and external environments, what can and should it achieve? This decision should be made for both the short and long term, with achievement of the short-term objectives moving the pharmacy closer to its longer term goals.

The planning process is essential to pharmacies in all practice settings. For example, the manager of an inpatient pharmacy must assess what its resources are, and what the pharmacy is and is not capable of doing. How many prescriptions can it dispense per hour? To what extent are staff pharmacists available to counsel patients, physicians, and nurses? Does the pharmacy have adequate equipment to prepare complex medications for innovative drug therapies? With respect to the “competition,” what other organizational units will be vying for the hospital's funds and space? What are the strengths and weaknesses of their arguments for additional funding or space? Based on all of these considerations, what should the pharmacy try to achieve for the next year, and for the next 3 years?

The most valuable part of business planning is the process itself. It forces the manager to examine a wide range of issues that tend not to be considered on a day-to-day basis. It also requires the manager to develop a set of strategies, using the business functions and clinical activities that can be put in place to achieve established goals.

Organizing

Once objectives have been established, and the resources of the pharmacy delineated, they must be organized in some fashion. Typically, this is done by identifying all of the tasks to be performed within the pharmacy, and then grouping them in some logical way. The process of organizing the pharmacy is described in Chapter 12.

There are, of course, many ways of organizing the financial, human, and material resources of the pharmacy. And no single organizational structure is

Table 2.8 The management process

Planning	Assess internal resources
	Establish goals
	Develop general policies and procedures
	Develop business strategies
Organizing	Identify tasks to be performed
	Arrange tasks in logical order
	Combine tasks into appropriate groups
	Assign employees to groups
	Designate employees to manage groups
	Provide authority and responsibility
Staffing	Define methods for evaluation, accountability
	Determine position to be filled
	Prepare job description
	Identify sources of potential applicants
	Search for applicants
	Interview applicants
	Select applicant(s)
	Orient new employee to job
	Train new employee
	Evaluate new employee's performance
Directing	Set personnel goals
	Establish work standards
	Develop leadership style
	Motivate personnel
	Train and retrain personnel
	Evaluate personnel
	Discipline and dismiss personnel as necessary
	Promote personnel
Controlling	Establish points for periodic monitoring of pharmacy
	Measure pharmacy performance
	Examine strategies and recommend changes as appropriate
	Evaluate annual performance of pharmacy

best for all pharmacies. Much depends on what is to be achieved and how it is to be accomplished.

The key to successfully organizing, however, is to divide the tasks to be performed as clearly as possible, assign personnel to manage and undertake the tasks, and then to hold them accountable for their achieving the tasks in an efficient manner. This process is essen-

tial in both large chain and hospital inpatient pharmacies as well as independent community pharmacies.

A common mistake in smaller pharmacies is for the manager to assume that, because there are only a few employees, everybody knows the tasks for which he or she is individually held accountable. Unless the pharmacy is formally organized, some tasks

invariably will not be assigned to employees and will not be completed.

Staffing

One of the more difficult management processes is staffing the pharmacy. As is described in more detail in Chapter 12, this involves determining the human resource needs of the pharmacy, identifying sources of possible employees, screening applicants, and selecting the one(s) most qualified.

While there are many steps that can be taken to minimize the errors in selecting personnel, this is an inexact process at best. Many factors affect how well the manager matches the needs of the pharmacy with the talents of the potential employee. Even the most exhaustive staffing process may result in mistakes.

For example, while a manager can quantitatively measure the speed at which a pharmacist fills a prescription, he or she cannot precisely evaluate the quality of the counseling process for every type of medication and every type of patient. In addition, the evaluation of a job applicant during an interview does not provide adequate information on how well the person will fit into the overall work environment. Will he or she relate well to other employees? Will he or she be able to cope with the pressures of the job, or with difficult patients or physicians?

In many respects, staffing is a highly qualitative process. As such, the manager must have both technical knowledge of the jobs to be performed and a feel for the “human” element of how people will fit into their work environments.

Directing

Planning and organizing the pharmacy, and acquiring a good labor force are essential to the management process. But, no pharmacy will be successful if the resources are not directed properly on a daily basis. Directing involves keeping personnel and other resources focused on the goals of the pharmacy and ensuring that they are used in a manner consistent with the policies established by the owner.

While planning, organizing, and staffing are management processes undertaken periodically, directing goes on continuously. Consequently, most managers spend the bulk of their time involved in this management process.

As is described in Chapters 13 and 14, directing personnel and other resources (e.g. cash) is especially difficult because it must be undertaken from both short- and long-term perspectives. For example, a director of pharmacy in a hospital inpatient setting can keep staff pharmacists focused on what is to be accomplished for a day or a week through a variety of positive (e.g. compliments) and negative (e.g. threats of dismissal) actions. But, how can this be accomplished over long periods of time? How can morale and productivity be maintained if pharmacy budgets are tightly restricted for successive years?

Finding different ways to keep personnel productive and motivated to achieve the goals of the pharmacy is a challenge. For this reason, directing is one process that often separates the highly competent from the less skilled managers.

Controlling

The most often overlooked management process is controlling clinical and business activities. It is commonly assumed that the directing process is sufficient to ensure that the pharmacy is operating effectively and efficiently. However, this simply is not the case. Embroiled in day-to-day activities of the pharmacy, it is easy for even the most skilled manager to lose an overall perspective of whether the objectives are being accomplished and whether the strategies developed during the planning process are still appropriate.

Accordingly, the controlling process involves periodic assessments of the status of the pharmacy. Is it achieving its goals? Are the business strategies working properly? Would changes in the organization, staff, or method of directing provide better operating results?

There are a variety of ways in which control can be maintained over operations, and these are described in Chapters 4, 7, 16 and 17. Some are quantitatively based, such as reviews of financial statements to determine if revenues and expenses are within budgeted limits. Others are more qualitative, as with evaluating levels of patient satisfaction and employee performance.

The most important consideration in the control process is to monitor the pharmacy’s progress as it moves through the fiscal year. It makes little sense to wait until the year is over to determine whether the pharmacy achieved or did not achieve its goals. By then, it is too late.

A common example of the control process relates to monitoring revenues. In both community and hospital settings, it is critical that the manager periodically determine whether revenues are progressing in the planned manner. If they are below expectations, what corrective actions in marketing strategies can be taken to increase them? In hospital settings, it would be important to determine if reductions in the volume of prescription activity were due to a lower census, a change in the mix of patient admissions for which drug therapy is appropriate, lower utilization of drug therapy which might have improved patient outcomes and reduced hospital stays, etc.

If it is found that revenues cannot be increased, then steps may need to be taken to reduce costs so that the profitability is preserved. Similarly, if revenues are well above projections, what is the cause? Can revenues be increased even more? What changes are necessary in the budget to ensure that sufficient resources (e.g. staff, inventory) are available to preserve the quality of patient care?

When used properly, the control process is the manager's "fail-safe" mechanism. It identifies problems and opportunities in their early stages so as to provide time to take appropriate actions. In this way, many problems can be eliminated or at least alleviated, and opportunities can be taken advantage of while they still exist.

Recognizing the functional areas of business

If the input–output process illustrated in Table 2.5 were to be examined under a microscope, the analyst would be able to identify a rather wide range of activities. In some respects the various activities are like pieces of a jigsaw puzzle. Unless they all fit into their proper places, the picture will not make sense. Similarly, if all of the functions that must be performed in a pharmacy are not meshed perfectly, the operations will be inefficient at best.

A pharmacy, however, is much more complex than even a very large puzzle because some facets of its operations do not blend smoothly. In fact, they often work in opposite directions.

This was described previously, but this example is worth another look. If a community pharmacy wanted to increase profits, it might try to lower some prices on merchandise and advertise in a local news-

paper. The objective would be to bring in more customers and sell in higher volume but at lower profit margins. But if the advertisements are effective and more people come in, the pharmacy will need more sales personnel, incur more credit card or charge sales, have more wear and tear on the equipment, etc. Newspaper advertisements are expensive; additional personnel means more labor expenses; credit card sales cost the pharmacy a percentage of the selling price; and equipment may have to be repaired sooner than normal.

The effort to increase sales also results in higher costs of operations. How can the manager balance the effects of efforts to increase sales with the countervailing pressures on additional expenses? In this example, it is possible to increase sales but reduce profits.

To manage these sometimes divergent variables, the manager must understand the various functions of business and how they interact. While the functions of business can be categorized in many ways, those most important for the pharmacy can be grouped as accounting, finance, human resource management, operations management, and marketing. These are illustrated in Table 2.9.

Accounting function

One of the more important functions of business involves monitoring and reporting on the pharmacy's financial resources. Every pharmacy is involved in some manner in the purchase and sale of materials, products, and services. In community settings, this is accomplished through the transfer of products and services for cash or promises to pay (i.e. accounts receivable). In hospitals, purchases are made with cash, and the sales are made through hospital billings to patients or their insurance companies.

As is described in Chapters 6 and 7, the accounting process is used to keep track of the inflow–outflow process in dollar terms. When designed properly, the accounting system can keep the manager abreast of the current status of the resources and what is available for use. In particular, it will monitor the pharmacy's cash position so the manager will know how much can be purchased. The system also will show how well the pharmacy is controlling its expenses, collecting its accounts receivable, and achieving its profit goals.

Table 2.9 The functions of business

Accounting	Develop set of financial “books”
	Record business transactions
	Prepare financial statements for internal use
	Prepare financial statements for external use (e.g. bank)
	Compute federal and state tax liabilities
Finance	Determine financial needs
	Identify sources of borrowed funds
	Identify sources of equity capital
	Develop operating budgets
	Invest excess funds
	Evaluate financial position
	Manage current assets (e.g. cash, accounts receivables)
	Manage fixed assets (e.g. computer, dispensing equipment)
Human resource management	Prepare job description
	Hire personnel
	Train personnel
	Manage personnel
	Evaluate personnel
	Determine compensation levels
	Terminate employment (e.g. retire, dismiss)
Operations management	Determine pharmacy layout
	Define jobs to be performed
	Define work flow
	Purchase inventory and equipment
	Complete work flow (e.g. dispense prescriptions)
Marketing management	Assess internal strengths and weaknesses
	Identify competitors and their respective strengths and weaknesses
	Identify possible target markets
	Evaluate and select target market(s)
	Product strategy development
	Distribution strategy development
	Price strategy development
Promotion strategy development	

Financial function

Some people consider accounting and financial functions to be the same. In fact, they are highly interrelated but separate activities. While accounting focuses on monitoring the state of the pharmacy’s resources expressed in dollar terms, finance seeks to get the maximum benefit from those that are or could be converted to monetary units.

Included in the financial function are such activities as obtaining needed capital for the pharmacy, managing cash, managing receivables, and investing in inventory. As described in Chapters 6 and 7, the pharmacy may need funds to make major purchases of equipment and fixtures, compensate for inequities when cash inflow is less than outflow, and support special projects (e.g. begin durable medical equipment sales or rental).

In addition, financial activities relate to the use of excess cash through short-term investments. This may be to purchase bank certificates of deposit, invest in inventory, etc. And financial management involves controlling the level of accounts receivable, and ensuring that private patients and insurance companies pay for pharmacy services.

Human resource management function

Perhaps the greatest deficiency in accounting and finance functions is that they do not take into consideration the most important asset of the pharmacy—the personnel it employs. The human resources are not shown in the financial statements. But they are critical because they usually have the most direct contact between the pharmacy and the patient, and because they are a very expensive part of the pharmacy's operations. In an average community pharmacy, labor costs consume from 15 to 40 cents of every sales dollar generated.³ In both hospital and community settings, labor expenses are second in magnitude only to cost of goods.

Managing this most precious asset is essential if the pharmacy is to provide a high quality of care and control its cost of operations. The critical question facing a manager is how to find, develop, motivate, and retain people who will work in the pharmacy's best interests over the long term.⁴ Getting a group of people who have diverse personal objectives and professional skills to focus on achieving goals other than their own is no simple task. The complexity of these tasks is described in detail in Chapters 12, 13 and 14.

Operations management function

The internal operations of the pharmacy center on the process of converting inputs into outputs. It involves everything from purchasing inventory and equipment to the actual collection of accounts receivable. As such, it closely interacts with the accounting, finance, and human resource management functions.

Developing an efficient method for purchasing and converting inputs into outputs that benefit the patient involves a wide variety of tasks. Not only must the proper medications and supplies be available, but the equipment needed to make the con-

version must be right. And these all need to be spatially arranged to allow the conversion to take place efficiently. The implications of a poorly designed internal operation are significant: wasted time adds to the costs of labor, excessive inventory reduces cash resources that could be invested or used elsewhere, and inefficient conversions cause delays in serving patients.

Portions of the operations function are treated in several chapters. However, Chapter 16 focuses on specific aspects of internal operations.

Marketing function

Even the most efficient pharmacy will be of little consequence if it has no patients. The marketing function is the pharmacy's primary and most direct link to the "outside." It is through the marketing efforts that patients, physicians, hospital administrators, and others are targeted for pharmacy services.

Unfortunately, marketing is the most often misunderstood business function. Usually equated with advertising or personal selling, marketing involves a far more diverse set of activities. To ensure that the pharmacy satisfies the needs of patients, marketing activities include identifying and assessing possible target markets, developing an appropriate mix of products and services to satisfy the needs of selected target markets, ensuring that those products and services are made available conveniently, pricing products and services, and promoting the pharmacy to target markets.

In many respects, the marketing function is like a conductor. If the pharmacy is to serve its patients well, it needs direction with respect to what to do, when to do it, etc. As the pharmacy's link to the patient, the marketing function provides the necessary guidance to what must be done to achieve the objective of customer satisfaction.

Marketing efforts are not only focused on patients. They also are targeted to physicians and hospital administrators. Marketing plays a crucial role in building physician relations for referrals and improving patient care through drug therapy. In addition, marketing is useful in targeting hospital administrators to demonstrate the value of the pharmacy in improving therapeutic outcomes and thereby reducing the length of the hospital stay. The many activities associated with marketing in all practice settings are described in Chapters 8, 9, 10 and 11.

Summary

- In the most basic sense, every organization is an input–output system. It takes monetary, human, and material resources, and converts them into an output that is useful to a target group of people.
- In a very simplistic sense, the role of business and the function of management are to ensure that this input–output system operates smoothly.
- There are many misconceptions about the role of business vis-à-vis the practice of pharmacy.
- One of the more common misconceptions is that the practice of pharmacy is ethically inconsistent with good business. Good business and good pharmacy practice, however, have a common objective: to serve the patient’s needs with the resources available.
- Another misconception is that in business, the quality of patient care is secondary to the generation of profits. In fact, the generation of profits is closely linked to the quality of care. The real issue, however, is one of what level of quality is necessary or desirable.
- Because there have been many abuses of good business practices by some firms, the entire realm of business has been criticized as not having professional standards of conduct. But many laws and trade and professional standards of practice regulate business activities.
- There are some who believe that a good pharmacist is one who focuses only on the clinical aspects of the profession. However, pharmacists must understand the business and economic environments within which they work.
- The laissez faire doctrine developed by Adam Smith established a public policy that, by allowing organizations to fight for available resources, the best utilization of those resources would be achieved.
- The role of business and professional management is to help an organization become efficient and fight for its share of available resources.
- A business focus ensures that the pharmacy’s monetary, human, and material resources are used most effectively.
- Through carefully developed marketing efforts, the pharmacy can show its “customers” the benefits of its services.
- Without some guidelines that direct the pharmacy’s activities, consistency will suffer, and there will be no direction to the pharmacy’s efforts.
- While the functions of business can be categorized in many ways, the most important for the pharmacy can be grouped as accounting, finance, human resource management, operations management, and marketing.
- The management process involves planning, organizing, staffing, directing, and controlling.

Questions for discussion

- 1 Why can a pharmacy be viewed as an input–output system?
- 2 How did the various misconceptions about the role of business in pharmacy practice arise?
- 3 What are the benefits to pharmacy practice of having an interrelationship with business?
- 4 Why is it important for pharmacists to have a business perspective?
- 5 How does the doctrine of laissez faire influence pharmacy practice?
- 6 What are the functions of business, and why is each important?
- 7 How do the functions of business interrelate? Why do they sometimes work at cross-purposes?
- 8 What are the elements of the management process, and why is each important?
- 9 How do the elements of the management process interrelate?
- 10 Why is planning so important?

Self-test review

True/false statements

- 1 A pharmacy should not be considered an input–output system because of its clinical functions.
- 2 Good business and good pharmacy practice have the same objective: to serve the patient’s needs with the resources available.

- 3 There are many laws regulating business, but no self-regulation by trade or professional organizations.
 - 4 One benefit of having a business perspective, remaining competitive, has little application in a hospital inpatient pharmacy.
 - 5 Business plans provide the vehicle for establishing rules of conduct with respect to pharmacy operations, and help keep them focused on the goals.
 - 6 In both hospital inpatient and community settings, labor expenses are second only to costs of goods in magnitude.
 - 7 Developing an efficient method for purchasing and converting inputs into outputs is a finance function.
 - 8 The most often misunderstood business function is accounting.
 - 9 The management process that occurs on a daily basis is planning.
 - 10 The most often overlooked management process is controlling.
- (C) Survival of the fittest generates the best utilization of the nation's resources.
 - (D) None of the above.
- 3 Which of the following is not a benefit of having a business perspective in the practice of pharmacy?
 - (A) A business focus ensures that resources are used effectively.
 - (B) A business perspective helps the pharmacy remain competitive and capable of adapting to change.
 - (C) A business focus ensures a continuity of purpose and organization.
 - (D) All of the above are benefits of having a business perspective.
 - 4 Which of the business functions is the pharmacy's primary and most direct link to the outside?
 - (A) Accounting.
 - (B) Finance.
 - (C) Human resource.
 - (D) Marketing.
 - 5 Which element of the management process is the most critical?
 - (A) Planning.
 - (B) Organizing.
 - (C) Staffing.
 - (D) Controlling.

Multiple choice questions

- 1 Which of the following is not a misconception about business?
 - (A) The practice of pharmacy is ethically consistent with business.
 - (B) Business cares more about profit than the quality of care.
 - (C) Business is not guided by a set of standards of practice.
 - (D) A good pharmacist is a clinical purist.
- 2 The laissez faire doctrine can best be equated with which of the following?
 - (A) Quality care at any cost.
 - (B) Regulation of business is important to ensure proper conduct.

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