

White Paper:

Performance Improvement in Canadian Hospitals: How Far Can a Rubber Band Stretch?

The current escalation of healthcare funding in Canada cannot continue. We cannot expect more so we must do things differently. This paper discusses the issues and offers a process solution called the Cycle of Transformation. A transformed system improves quality, efficiency, and responsibility. The benefits will be measured in clinical outcomes, wait times, and health economics.

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The social safety net of Canada is an intricate network of rubber bands which are being stretched toward the tolerance limit. Healthcare, education, social welfare, multi-cultural diversity are some of the things which Canadians consider to be highly valuable in our society. But, at what cost?

The recently announced 2006-2007 Budget for the Province of Ontario includes \$35 billion for healthcare which represents 46% of Provincial expenditure. A prominent public official recalls that healthcare represented 30% of expenditure in 1990.

Is 46% of expenditure appropriate? How about 60%? 70%?

It seems to me that we will reach a point, and probably already have, when we must recognize that there cannot continue to be a bailout for healthcare. We must better utilize the funds that we have in providing that universal coverage which we hold to be an absolute. "Physician, heal thyself."

The argument regarding Canadian healthcare is often misinterpreted to be one of public versus private, and not-for-profit versus for-profit. I would suggest that the argument, and there is no argument, should be universal coverage or non-universal coverage.

Not-for-profitness is not next to godliness. Compassionate, high quality care is.

In the early eighties, I spoke to an audience of about 1,500 in San Antonio, TX at the annual meeting of the American Association of Homes and Services for the Aging. I said, "Not-for-profitness is not next to godliness. Compassionate, high quality care is." My conviction remains that universality is a mutually exclusive concept from the taxation status of the provider.

Universal healthcare should be viewed to be an absolute for accessibility to essential and catastrophic services for every Canadian and Landed Immigrant. Dollar one coverage versus a deductible for services, as well as the immigration status of the client are controversial issues which must also be dealt with but in some separate forum.

Universal healthcare is an insurance program which assures that Canadians and Landed Immigrants shall receive health services to meet their essential and catastrophic needs. The vehicle through which those services are provided is not essential to universality.

Universality contains the principles of everyone, accessibility, essential, and catastrophic. The free, by whom, and where have yet to be determined.

It is my belief that public healthcare is the preferred provider or provider of choice within our system. However, to maintain that preferred status, public institutions must strive to be the best choice for services rendered. They must provide the quickest, cheapest, and best service available. Entitlement should not save

institutions with inadequate market performance. Public and private institutions alike should strive to continuously improve in the pursuit of excellence.

Some of the mission-critical issues facing hospitals today include:

- Non-compliance with Accountability Agreements (Ontario).
- Waiting times and waiting lists are unacceptable.
- Physician and nurse shortages exist in most parts of the country.
- Deficits exist or breakeven has been achieved at the risk of legitimate, essential expense deferrals.
- Working capital is low and lines of credit are increasing.
- Employees face extreme stress with associated low morale and burnout.
- Talent Progression Planning™ is on a crisis only basis.
- Health expenditure at the bedside or direct service expenditure to the patient is seriously low as a percentage of total expenditure.
- Conversely, health expenditure for non-patient care activities is seriously out of balance.
- There exists a culture of entitlement which includes both the consumer and the healthcare employee.

We must not just move the chairs on the deck of the Titanic. We need a new deck upon which to sit.

Healthcare executives must recognize that we cannot continue to receive money disproportionately to the cost of living indices. We cannot continue to have more and more money; therefore, we must use our existing resources differently. We must work smarter rather than harder. The taunt rubber band can't take much more.

A dramatic paradigm shift is necessary to transform public hospitals into competitive, entrepreneurial, growth-oriented health service companies. "We've always done it that way" must be replaced with "let's consider innovative, different, and new alternatives. We must not just move the chairs on the deck of the Titanic. We need a new deck upon which to sit."

A Canadian hospital commits to a public trust under the Public Hospital's Act and in so doing pledges to serve people without regard to economic status or station in life. Hospitals provide services as approved and mandated by their respective Ministries of Health. A hospital in Canada is a quasi-public utility with tight governmental controls over its fictional autonomy.

Hospitals earn the right to serve the community as long as services are of high quality and are offered in a timely fashion. If services are not good and quick, hospitals should lose their franchise on their customer and support base.

The new generation of hospital in the U.S., and increasingly in Canada, is often a part of a health system, which is formed by a not-for-profit holding company, serving as the umbrella of various related entities with a common vision. The holding company, by design, is not a public hospital, a public corporation, or a public utility. It is a growth-oriented sales and service organization which will survive in its future based on its ability to take the service product to market and find buyers.

Healthcare organizations rarely fail on the basis of commitment to quality service but, rather, on the basis of lack of commitment to business principles.

A public hospital normally provides quality and serves the marketplace on a business-to-consumer basis. The hospital, transformed to a sales and service company, serves the end-use consumer but also may have a growth strategy related to business-to-business transactions. The health system, through an affiliate / subsidiary, may serve patients who occupy beds which fall under the mandate of other providers. The end-

use consumer is the reason d'être; however, the associated commercial provider is in fact the customer. By definition, the customer is the one who pays. A high standard of management performance is a service commitment which is contractually provided from one health-related business to another.

I recall sitting in a strategic thinking session for a health system where a Vice President expressed with passion, "we must remember in all that we do that this organization is not a business." I thought I must have changed planets! The system was a \$700 million operation with service, employment, finance, logistical distribution, quality control, etc. Healthcare organizations rarely fail on the basis of commitment to quality service but, rather, on the basis of lack of commitment to business principles. Sustainable organizations commit to both.

The core business of a healthcare organization is to provide high quality health service within its areas of expertise to the individual consumer.

Everything which is not a part of the core business activity should be evaluated as to how and by whom that service could best be provided. Who can do it quicker, cheaper, better? Like the runner who runs against his own time, a hospital bids against itself to see who provides the best non-core services. Just because an organization is big does not mean that it is omniscient. Even large organizations can learn from others in the area of specialized service offerings.

To build the new deck of service upon which to sit, we must engage in a Cycle of Transformation. I call it a cycle because it is a never-ending continuous loop of cultural and process improvement. Down with entitlement. Up with responsive performance to meet the needs of our clients.

Peter Drucker led a wave of improvement of corporate performance by concentrating on leadership. His many best selling books, which include *The Effective Executive* and *Managing in Turbulent Times*, are among the most common on management bookshelves. Drucker's contribution to management literature and thought will be lasting over time as innovative classics.

In the 1980's and 1990's, we were deluged with books, processes, and theories regarding excellence, quality, and performance improvement. In 1988, Tom Peters gave us *In Search of Excellence*. Other theorists provided Total Quality Management (TQM), Continuous Quality Improvement (CQI), Kaisen, Economic Value Added (EVA), and others. Peter Senge brought us his concepts for improvement through his work, *The Fifth Discipline*.

One of the latest iterations of quality and performance improvement is represented in Six Sigma, the process used by Motorola, General Motors, and ServiceMaster. Six Sigma includes terms such as fact-based decision making; Design, Measure, Assess, Improve, Control (DMAIC); defining critical-to-customer and critical-to-quality attributes in order to eliminate non-critical steps and waste. In all of that, Six Sigma has not proven itself to be effective in a service environment.

Improvement of processes of manufacturing by narrowing the gaps and waste in the robotic process has its value. However, **healthcare is the service sector, the people business, and productivity is controlled by intricately designed, wonderfully made, and highly valued people.** These people must not be coerced and controlled into increased efficiency and productivity, as in the old Theory X Management. These are intelligent, committed people who have earned the honour of being placed in control of the stewardship of resources necessary to improve the outcomes.

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Emmett Murphy has concentrated his career and life on performance improvement and alignment in the service sector, specifically health service organizations. A PhD in Organizational Psychology, Murphy is an educator, best selling author, executive, and executive consultant. He gleaned much from existing theories of motivation and performance improvement but has combined theory with a successful track record of implementing improvement in the performance of healthcare organizations in the United States, Canada, the United Kingdom, and Europe. Murphy's database, which is now the database of EC Murphy Walsh, is the largest in the world with input from almost 500,000 service employees including physicians.

In 2001, Emmett Murphy and I, along with a team of colleagues, were able to improve bottom line performance for hospitals in the Bronx, NY, by \$43 million over a period of six months of intervention. In fact, as is evidenced from the process, the management and line staff did the transformation themselves with a little support from the experienced executive team. This is but an example of the positive outcomes which can be achieved by committed, capable people with minds open to innovation. We built a new deck together in the Bronx.

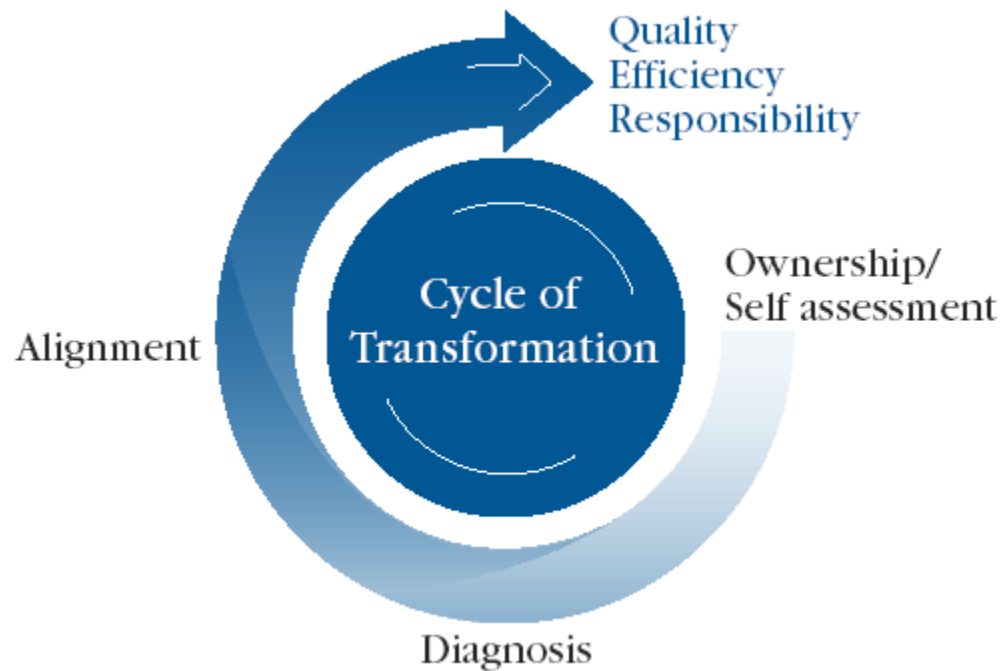
The EC Murphy Walsh Cycle of Transformation begins with ownership and self-assessment. Employees within the health system must own the crisis and create the solutions. In order for transformation to be sustainable, it must be internalized.

The second step in transformation is diagnosis. Through careful analysis of the baseline data, healthcare leaders are able to compare and contrast the current local reality with universal realities. Comparing results with the data in a mega database will help determine what approach will be optimal for each client's circumstances and what solution employees can own and endorse.

As a part of diagnosis, we examine such realities as vision, mission, strategic direction, and corporate culture. Often the problems faced by health systems involve the misalignment of systems and processes with the absolutes of strategy and culture. How can you reach your objective when you don't know where you are

going? Phase three of the Cycle of Transformation is referred to as the cultural alignment.

Finally, after ownership, diagnosis, and alignment, we are prepared to target quality, efficiency, and responsibility. The result is a new deck, an optimized rubber band, and most importantly, enhanced quality, efficiency, and sense of personal responsibility.



It is a grave error to consider that the Cycle of Transformation ends here. The word cycle is just that. We must continue to improve performance in order to earn the right to function in the ever expanding marketplace of service to those entrusted to our care. The cycle begins again. Let the transformation roll on.

Steven Covey's *The 7 Habits of Highly Effective People* is almost 20 years old. The pursuit of effectiveness was a lofty aspiration 20 years ago. Now, effectiveness is an assumed standard. In Covey's new book *The 8th Habit*, the emphasis and aspiration has shifted "from effectiveness to greatness." Covey joins Jim Collins, the author of *Good to Great*, in that ultimate pursuit of excellence, greatness. How can we shift from good to sustainable greatness?

The Cycle of Transformation is a transition from effectiveness to greatness and from good to great. Even the ship at anchor drifts with the prevailing winds. Healthcare organizations must move forward or drift backward. **The Cycle of Transformation is a self-controlled system of continuous quality improvement and sustainability.** Effectiveness and quality are not options. Consumers demand excellence in quality and immediate gratification in timeliness.

The Cycle of Transformation is a methodology deserving of broad application. Much of the diagnosis and treatment is done by the management and key leaders of the

organization; however, the best results will be achieved through the services of a quarterbacking consultant. The consultant trains, brings resources, and reviews and comments on the process.

There are appropriate and inappropriate uses of external consultants. An appropriate use is to allow new eyes to review performance and practice and bring recommendations for improvement. This is particularly useful when the consulting firm is willing to go at risk for a part of their compensation. In leadership and consulting services, performance contracting is the best method of engagement. The service firm is saying, "We eat our own cooking."

In taking the health system to the business-to-business market as a purchaser of services, it is important to recognize that there are at least three types of business relationships. They are the strategic alliance, consultancy, and vendor relationship.

A strategic alliance is a high level transaction between the CEO and/or Board of Directors and the leadership or consulting firm. The product or service of a strategic alliance is an intangible. It involves a conceptual sale where the firm identifies the challenges of the prospective client and specifically designs leadership solutions to meet those leadership challenges. Outsourced management services, performance improvement, and turnaround consulting are intangible and meet this criterion. EC Murphy Walsh, for example, makes a commitment to the highest executive level and seeks to be a member of the senior leadership team of the client organization. Ideally for both parties, this is a performance agreement relationship with high risk and commensurate high reward to the leadership consulting firm. The client's primary concern is that value is being delivered which exceeds cost, time, and effort.

There are very few ultimate executive resources that utilize senior and experienced professionals to serve senior executive clients.

Consultants are knowledge experts. That knowledge may be in strategic thinking, performance improvement, executive talent strategies, leadership intervention, turnaround and change, effective governance, etc. Successful consultants are strategic allies or partners in service and vision. There are very few high level, senior executive firms today. Most firms secure business using senior rainmakers but execute the business using inexperienced associates. **There are very few ultimate executive resources that utilize senior and experienced professionals to serve senior executive clients.**

Consultants are typically retained to provide a specific service for a specific period of time. When the prescribed assignment is accomplished, the consultancy ends. Accounting firm engagements are examples of typical consulting relationships: controlled or limited risk, fee for service.

In recent years, I have reviewed audit engagement letters and have noted that post-Enron, they have become voluminous. They remind me of an asbestos remediation contract which was presented to me in St. Louis some years ago. In essence, the remediation contract said, "we guarantee to remove all of the asbestos that we remove." How do you measure the propensity for risk in that agreement? Did it

represent a strategic alliance or a vendor relationship? That's the way that I felt about the audit engagement letter too.

EC Murphy Walsh offers a unique service to its clients in that we attempt to be rather invisible in the organization. We train the leadership of the hospital or system to serve as in-house consultants and develop their own conclusions as to the direction which the organization should go. EC Murphy Walsh trains and brings the evidence-based methodology along with an extensive database of relevant information on best practices. In-house consultants experience job enrichment and the improvements made last longer because of the ownership and internal commitment.

Several years ago, I met with the CEO of an Ontario hospital to discuss the renewal of our five year management outsourcing relationship. My assumption was that our relationship represented a strategic alliance. The CEO said to me, "the nice thing about management outsourcing contracts is that you don't grow attached to them." Wow!! I was cut to the quick! Either he really viewed my service as a commodity transaction or he was an excellent negotiator. The answer is irrelevant in that I got the five year multi-million dollar renewal. In the words of actor George Peppard on the television show *The A Team*, "I love it when a plan comes together." **Success isn't everything but it's ahead of whatever comes second.**

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A vendor business relationship involves a commodity sale. You do not form a strategic alliance with your linen distribution company or your food supplier. That is not a conceptual sale but rather is the sale of a tangible product which you might see in a catalogue or touch and feel. The decision on a vendor relationship or commodity can usually be made based primarily on price, observable quality, and contract specifications. A fatal flaw in outsourced management services is to allow the relationship to deteriorate from strategic ally to vendor. This moves the relationship from the CEO's office or the Boardroom to the Purchasing Agent's office or the loading dock.

The ideal business-to-business transaction is a strategic alliance or consultancy transaction. A vendor relationship is undesirable for professional services.

What's wrong with vendor relationships? Quite simply, there is always someone who can or will do it cheaper. If they can't today, they will figure it out while you're delivering product to the dock. The margins have been removed from most vendor transactions so that it is no longer a win / win but rather a win / survive.

Strategic alliances and consultancies do not emphasize price as the absolute priority but rather deliverable outcomes at reasonable cost to meet the strategic need. Example, EC Murphy Walsh does not pretend to be the cheapest service available although overheads are quite competitive. Rather, EC Murphy Walsh makes the claim of being the best: the ultimate executive resource. It claims and can verify more collective experience, a better database, and a passionate dedication to optimal outcomes. **I would rather explain the price than apologize for the quality.**

Redesigned processes reduce waiting times

To bring clarity, Emmett C. Murphy, PhD, identified the process which EC Murphy Walsh implements for a client in need of performance improvement. The Cycle of Transformation process includes:

- First, the firm brings targeted information for each role, process, and department on how they can be redesigned to simplify the actual work, reducing overlap so that expensive people do not do inappropriate work.

Redesigned processes reduce waiting times and simplify departmental and other internal structures. These improvements are based on research gleaned from 8 Canadian hospitals, over 200 U.S. hospitals and medical centers, and the Hospital Corporation of America (HCA) hospitals at Cambridge University and in Rome. The total database, from which EC Murphy Walsh draws insights, is based on the input of nearly 500,000 service employees including physicians.

EC Murphy Walsh begins an assignment with an understanding of where to look and with the evidence-based data that raises legitimate questions to be answered. Experience of the Principals and accurate research data do make a difference in outcomes.

- To answer the questions raised by our experience and data, the firm examines the work being done within the organization using very simple, proven proprietary instruments which are administered by on-site management trained as in-house consultants.

- The transformation of each client hospital is led and performed by in-house management plus rank and file team leaders. **We have found through experience that the only real cost savings**

EC Murphy Walsh's significant accomplishment is to refocus the entire organization, with its management and rank and file, on responsibility versus entitlement.

that hold are those undertaken by in-house personnel. This is one of the unique differential advantages of EC Murphy Walsh.

- EC Murphy Walsh's significant accomplishment is to refocus the entire organization, with its management and rank and file, on responsibility versus entitlement. Stewardship is everyone's responsibility. Protecting the community, patients, and jobs is accomplished through effective stewardship of limited resources. The question is not "How can we get more money from the government," but rather, "How can we use our limited resources more effectively to serve our community and our patients?"

Several years ago, I met with senior executives of a healthcare system to discuss the deficit dilemma. The issues were excessive volumes with a deficit of approximately 5% of revenue. The CEO offered this

solution to the problem, "In order to eliminate the deficit, it will probably be necessary to reduce quality." He further stated that, "Canadians will need to reduce expectations in order that we may live within our funding."

I thought that I must have changed planets again!! **Imagine the CEO memo to staff, "The crisis dilemma which faces our hospital is that we have a deficit of 5% of revenue. I am therefore requesting that all personnel be willing to reduce quality and customer expectations by 5%. I know that this will be difficult for you to accomplish but it is only through reduced quality that we are sustainable. I am so proud of the commitment that each of you is making to lowered quality."**

Unfortunately, that CEO's suggestions are not fictitious. This perspective is expressed in spite of a trend in our society toward expected excellence and immediate gratification in timeliness.

EC Murphy Walsh is not a proponent of quality reduction in healthcare. **Experience shows that the proper alignment of responsibility and duties reduces cost and improves quality.** Employees also appreciate being valued and trusted to perform at a higher level of duty. The results are improved quality and morale as well as reduced cost and administrative time.

- **EC Murphy Walsh de-emphasizes the external experts and emphasizes evidence-based self-assessment with on-site led transformation.** Another differentiator among leadership consultants is implementation speed with beneficial outcomes. EC Murphy Walsh's experience is that an engagement goes from assessment to decisions regarding change in 8 to 16 weeks. Implementing change is tailored to each unique situation. It is imperative to get the diagnosis on the table, stifle the gossip, and keep the conversation focused on how we fulfill our stewardship responsibility.

EC Murphy Walsh's overall focus is on on-site responsibility and evidence-based change.

EC Murphy Walsh's overall focus is on on-site responsibility and evidence-based change. The key to ownership is prompt evidence-based self-diagnosis that offers the maximum opportunity for positive implementation. The methodology allows an efficient non-crisis oriented process.

EC Murphy Walsh has many features which may serve as the resource pool from which a client may select. A parallel analogy is to consider the firm as a reference library where one elects to check out books. All of the books are available to the client; however, only those books are removed by the client which seem appropriate for the client's needs. The clients' needs and wants are the number one priority.

The features (resources) available through EC Murphy Walsh include, but are not limited to the Cycle of Transformation, strategic thinking, Talent

Progression Planning™, performance improvement, leadership intervention, and turnaround and change.

There are four primary benefits of forming a strategic alliance with EC Murphy Walsh:

- ***Quality is improved.***
- ***Expenses are reduced.***
- ***Employee morale is improved.***
- ***Administrative time is reduced.***

Besides these reasons for engaging EC Murphy Walsh, there is another personal, private, and confidential reason. A benefit to the decision-maker is that EC Murphy Walsh will exert its best efforts to enhance the credibility and image of the decision maker. In a volatile environment, of Accountability Agreements and short term CEOs, having a personal resource committed to your success is a strong motivator.

EC Murphy Walsh has an extensive base of resources available to its clients. **Business success is determined not only by doing things right but by doing the right things. Our personal fulfillment and success is measured in the improved lives of people.**

A disciplined, evidence-based approach to service is the hallmark of EC Murphy Walsh. Our commitment is to meet the needs of our clients with a very high level of client satisfaction. Benjamin Disraeli has said, "The secret of success is constancy to purpose."

For more information regarding EC Murphy Walsh, contact Grant B. Walsh, Managing Partner and CEO at gwalsh@ecmurphywalsh.com or by phone at 905-332-2334 (Canada) or 716-626-3536 (USA). Also, visit the website at www.ecmurphywalsh.com.