Operational Review: The London Health Sciences Centre Experience

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The anticipation of an independent operational review of any organization once brought expectations of exposing the failures of management and gross operating inefficiency. This is no longer the case.

The operational review has become a strategic tool that leaders can initiate in order to better understand the immense economic challenges that health service organizations face today. This tool, if properly used, can lead to solutions that will advance the healthcare system in this country.

In March 1999, the Board of Directors of London Health Sciences Centre (LHSC) invited the Ontario Minister of Health and Long Term Care to undertake a comprehensive operational review of our organization. This bold move was initiated in order to address the unrelenting financial challenges confronted by our corporation. In taking this step, the Board was looking for assurance that all possible remedies were exhausted before they made the difficult decision to reduce access to patient care for the residents of southwestern Ontario and potentially compromise the academic mission of our enterprise. The Minister agreed to proceed with LHSC in an operational review commencing September 1999. For the next six months, the LHSC underwent a comprehensive analysis of all aspects of our caring business. By March 2000, the operational review recommendations were received and the Board of Directors reached a four-year agreement with the Minister of Health and Long Term Care.

This review required the maximum commitment and attention of our senior leaders and Board of Directors. It was a process that needed to be effectively managed both strategically and operationally. Our successful outcome required the development of respect and understanding in our working relationships with government. A year later, we have begun the renewal process and have reinforced our commitment to provide regional, academic healthcare services to the residents of southwestern Ontario. We believe others may benefit from what we have learned through this defining experience.

Background

The London Health Sciences Centre is one of Canada's largest academic healthcare centres, with the most comprehensive array of specialized acute care tertiary and quaternary services in the province of Ontario. LHSC is a regional referral centre situated in the heart of southwestern Ontario, supporting a referral base in excess of 1.5 million residents. Unlike teaching hospitals in metropolitan areas such as Toronto, London is an urban centre located within rural Ontario. The healthcare needs of over 96% of the residents of southwestern Ontario are met within the region. Given that access to alternative specialized tertiary care services would be at significant distance, the residents of our region look to London to provide the full range of care.

LHSC was created in September 1995 as a result of the voluntary merger of University and Victoria Hospitals, embracing three acute care teaching hospital campuses in London, Ontario. A key consideration in contemplating a merger was the realization that the economic sustainability of the two distinct and competitive organizations was at risk.

Financial support for hospitals in the province was decreasing at the same time that costs were continuing to escalate. Provincial funding formulas were evolving to give preference to those institutions that could manage their costs most efficiently. Significant opportunities were identified that could be realized by a merger, with most of the benefit accruing to patient care. Through concentration of clinical expertise and resources, single access to programs and services, economies of scale and redesigned facilities, it was believed that the merger would better position the organizations to meet the challenges of the future.

In the first full year of operation (1996/97), LHSC achieved an operating surplus of $5 million despite a $20 million funding reduction by the Ministry of Health and Long Term Care (MOHLTC). A second year of funding reductions in excess of $20 million (1997/98) proved more daunting, with LHSC ending the year in a deficit position. The hospital was feeling the tidal wave of changes occurring throughout Canada, including the inflationary impact of technological advances, new pharmaceutical agents and labour adjustments. This was occurring before the full benefit of major clinical program and facility consolidation, as dictated in large measure by the Health Services Restructuring Commission (HSRC), could be realized.

By September 1998, it was clear to the Board of Directors that the hospital could no longer balance its budget without significantly limiting access to care. In addition to the operating challenge, the LHSC debt position was deteriorating as a result of the recurring deficits and an unprofitable utility business investment made in 1986. Discussions with the MOHLTC resulted in an agreement to undertake a comprehensive financial review, completed in early 1999. This review confirmed that the hospital faced serious financial challenges and that no immediate remedy was evident. The full benefit of program redesign and site consolidation was several years away; thus, the financial health of the organization required urgent attention.

The Board of Directors, on receiving the financial review and a preliminary forecast for the 1999/2000 operating plan, realized that a balanced budget could not be achieved through operational and clinical efficiencies alone and that significant reductions would be required in patient care services and academic programs. The Board decided to approve an interim budget with a projected deficit of $27 million for the fiscal year 1999/2000 and to pursue a full operational review to find a solution to the financial challenge. This was the first defining step in what became a full year of intensive review and analysis.

Understanding Our Dilemma

The LHSC did not enter into this process blindly. Extensive clinical and operational benchmarking and analysis of experiences in other jurisdictions had already been undertaken. The apparent quick fixes had been exhausted. Clinical utilization reviews had demonstrated performance at or better than benchmark levels in many program areas. Administrative services had been consolidated. Management ranks had been significantly reduced by 40% and supporting infrastructure severely limited. Selected support services had been outsourced and others consolidated city-wide in areas such as materials management, food services and laundry.

All reasonable possibilities had been exhausted with the exception of divesting tertiary care programs to another academic centre and reducing access to patient care.

Further consolidation of our three clinical sites was not possible until the $330 million city-wide capital redevelopment project would be completed in 2003. Operating dollars were being spent on servicing accumulated debt. Issues related to the long-standing utility business venture that contributed to the majority of this debt were not progressing to resolution. We also knew that current funding formulas did not recognize unique patient care issues such as the incremental expenses associated with the provision of an array of comprehensive specialized paediatric services within LHSC or diagnostic support provided to the London Regional Cancer Centre, one of Ontario's largest cancer facilities.

All reasonable possibilities had been exhausted with the exception of divesting tertiary care programs to another academic centre and reducing access to patient care. The Board was not prepared to take this last step without a clear understanding and agreement from government that this was the only alternative. An appropriate remedy was not apparent without assistance from the MOHLTC.

To further exacerbate our challenge, the HSRC had issued directives to London in June 1997. LHSC was to provide all inpatient acute care services in the city and transfer existing programs, with the exception of low-risk obstetrics and several surgical subspecialties, from St. Joseph's Health Centre, London's other acute care teaching hospital. The estimated cost impact of these moves and the revenue that would be provided were not equal. The cost pressures of interim moves to facilitate construction plans, human resources impacts and other transitional costs were expected to be significant. These pressures, along with wage settlements in excess of funded levels, were going to make the challenges of tomorrow even more difficult than those we faced today.

Concurrent with managing our operational challenges, we had embarked on a $330 million building redevelopment

initiative for the London hospitals as a result of the HSRC directives. Our share of the capital campaign was in excess of $120 million. This concentrated focus for fundraising would limit our capability to rely on our foundations to fund ongoing capital equipment needs that had accumulated over the past decade. Choices had been made in recent years to forgo equipment purchases because of our cash constraints and debt position. This could not continue as aging equipment was now creating operational inefficiencies. Investments in the enabling technology of information systems that would assist us in meeting our operational challenges had been delayed. Our dilemma was more than operational. Our capacity to secure necessary financing of capital was restricted.

The impact of these and other similar challenges was evident across the province in both academic and community hospitals. This was not an issue unique to LHSC. Within southwestern Ontario alone, operational reviews were concluded or proceeding in Windsor, Chatham, St. Thomas and Huron-Perth. Within the academic centres in the province, Kingston had recently been reviewed while the Children's Hospital of Eastern Ontario was in the midst of a review. Other centres such as Hamilton and Ottawa would undoubtedly follow.

The Board and management anticipated this review would be a complex and consuming undertaking. The LHSC is a proud organization with a wealth of clinical and administrative talent and expertise. We understood that the scrutiny we were inviting on ourselves brought risk for our Board and leadership team. We felt confident, however, that given a fair and reasonable review process we could lead our organization through this challenge to develop solutions that would ensure the future viability of our healthcare centre. That became our commitment and our cause.

Describing a Successful Outcome

The LHSC described our objectives from the outset:

- To achieve a common understanding with the MOHLTC of the complex factors that have contributed to the deficit and debt.
- To develop a practical approach to eliminating the deficit and reducing the debt.
- To identify the other cost pressures that will challenge the hospital in balancing the budget in the future and identify solutions to these pressures.

To be successful in meeting these objectives, we believed an independent review must result in what would be perceived to be a fair representation of our operational performance. This would include a balanced approach to measuring outcome, one in which not only the bottom line was being measured. We believed timely access to care and services, patient satisfaction and clinical outcome were also important measures of performance. We believed that solutions from other jurisdictions needed to be considered within the environment of southwestern Ontario. The need to develop a realistic plan that could be supported and achieved by the LHSC was critical to our success. The balance between short-term fix and long-term sustainability would need to be achieved.

It was anticipated that recommendations emanating from an experienced and respected team would have the best chance of being seen as credible to LHSC leaders and physicians.

It was also our desire to strengthen our relationship with the MOHLTC. We recognized that collaboration and cooperation would be most effective in sustaining our outcome. Recent leadership and staff changes at the Ministry meant that we would be developing new relationships. This was an opportunity to develop a better appreciation of our respective perspectives, our issues and our needs and come to a common agreement on solutions.

The operational review was to become a corporate priority for fiscal 1999/2000. It was decided that the review process would need constant attention and vigilance in order for LHSC to reach its objectives. In July 2000, the Vice-President, Operational Performance, was appointed to "quarterback" the review on behalf of LHSC. The Vice-President would become the primary interface to the MOHLTC operational review team, the consultants and LHSC leadership and staff. This focused effort proved to be a wise investment.

Selecting a Consulting Team – A Critical First Step

The MOHLTC and LHSC began the process together, formulating the request for proposal, conducting bidder's meetings and interviewing consultants. The President and CEO, Vice-President of Operational Performance and senior Ministry staff achieved consensus on the preferred consulting team. This decision was heavily influenced by the approach proposed by the selected firm and the capability of the senior team of experienced consultants, administrators and clinicians. The consultants recognized that traditional solutions such as clinical utilization improvements would be insufficient to address the complex issues facing LHSC. They presented a proposal that would look to applying successful outcomes from their experience in other settings and adapting these to our environment. We were confident that this approach had the greatest likelihood of success. It was anticipated that recommendations emanating from an experienced and respected team would have the best chance of being seen as credible to

LHSC leaders and physicians. A good fit between the consultants and our senior staff was believed to be essential to achieving a successful outcome.

The Operational Review Steering Committee – A Pivotal Role

The operational review process in Ontario is generally led by a Steering Committee appointed by the Ministry and representative of both the MOHLTC and the hospital. The appointment of the LHSC representatives was seen to be a strategic next step in our process. We believed that we needed to represent key constituents, including:

- Board of Directors – Board Chair and Vice-chair/Chair Finance Committee were appointed.
- Senior Leadership – President and CEO and four Vice-Presidents – Operational Performance, Finance (CFO), Patient Care Systems, Medical and Academic.
- Medical Advisory Committee – Vice-Chair.
- University of Western Ontario – Dean Medical/Dental Faculty.
- St. Joseph's Health Centre (SJHC) – President and CEO.

Including representatives from the University and SJHC was to become a valuable addition to the team, as issues related to our academic mission, patient referral patterns and professional human resources issues in the region were addressed. The Board members, as volunteer representatives, were able to bring the perspective of the community and offer a business orientation to the discussions. Their commitment and unique contribution to the review process became critical to the outcome. It was through their determined leadership that LHSC would reach a final agreement with the MOHLTC.

The MOHLTC appointments included three Assistant Deputy Ministers, three senior staff appointees, three Southwest Area Team members and support personnel. The attention from senior Ministry officials to this initiative was significant and unprecedented, which served to further underline the importance that this review held within government.

LHSC was invited to offer names of individuals to sit as Chair of the Steering Committee. In considering alternatives, the primary objective was to appoint an independent Chair who would ensure both the LHSC and the MOHLTC received fair representation on issues and debate. An individual with experience in the acute care, academic hospital sector, respected in leadership capacity and familiar with current healthcare issues was identified. By invitation from the Minister of Health and Long Term Care, Dr. Alan Hudson, President and CEO of University Health Network, was appointed as Chair. Dr. Hudson filled a vital role in the review process.

The Steering Committee was the forum for presentation of key deliverables from the consultants, review and critique of their findings as well as discussion and consensus building on key issues and outcomes. The commitment required of members was extensive. At a minimum, monthly full-day meetings were held. Reading of written materials and preparation for meetings required significant time and effort. The role of the Committee and the contribution of those that served in this capacity were key to the successful outcome of the review.

Preparing the Organization

The terms of reference for this operational review encompassed all aspects of hospital operations, including governance and leadership, clinical and operational efficiency, financial analysis and forecasting and review of the academic mandate. Preparing the organization for the intense review was a critical next step in our process. The expectation that this review was to become an organizational priority was clearly communicated from the outset. The Vice-President, Operational Performance, was positioned to guide the organization through an intensive two months of consultant interviews, documentation and data analysis. A number of processes were set in place to assist and support individuals and teams.

The Vice-President provided coaching and support to leadership and clinical teams, advising on preparation of written materials, preparing for interviews, positioning key messages and validation of data. Following each encounter with the consulting team, individuals were debriefed and the lessons learned or insights were shared with colleagues for their benefit and preparation. Board and community members who were scheduled for interview with the consultants also sought guidance in their preparation and shared their experiences and impressions openly with one another. This exchange of knowledge and experience was most valuable and resulted in a sense of shared commitment to a successful outcome.

The preparation and planning for Steering Committee meetings was another important step in our process. The LHSC members met prior to each meeting to discuss the agenda, issues and review content of key deliverables. This enabled all members of the team to share their observations and anticipate the best positioning of their messages. Following each meeting, we would discuss our observations, plan for the next phase of the review and anticipate any action or communication that was required.

As part of the review process, extensive operational and clinical data analysis was undertaken. In order to validate the outcome and ensure the appropriate application of this information to the analytic findings in this review, a core team of content experts from among the LHSC staff was assembled. The team undertook parallel analysis, provided critical appraisal of methodology and validated any data that were presented by the consultants. Clinical and administrative data, while now commonly available in our industry, have not yet met exacting standards. Variation in reporting of MIS data

among hospitals within Ontario created significant limitations for benchmarking performance. The role of our data specialists in understanding and validating these variances proved to be an essential component of the analytical phase of the review and a wise investment on our part. Achieving consensus among the LHSC, the consultants and the MOHLTC was an exhausting but critical process.

Communication strategies were essential features in our preparation and the evolution of the review process. Regular presentations and discussions were conducted at the Board, weekly senior team meetings, leadership councils and the Medical Advisory Committee. This served to keep our key leaders engaged in the process.

Another key component in preparing for this review was anticipating and responding to the needs of the consulting team for information, key documents, access to individuals and groups and scheduling of site visits. A welcoming and accommodating approach on the part of the LHSC staff assisted in ensuring the consulting team was facilitated in fulfilling their mandate.

Facing the Challenges

No amount of preparation can guarantee a smooth process or the desired outcome. Challenges will and do abound in any operational review. Among the most daunting for LHSC was the nature of the review itself. Operational reviews have tended to be primarily retrospective in focus. Insufficient attention to anticipated future issues might limit the value of a review. The economic pressures and challenges that would impact LHSC into the future needed to receive attention in our Steering Committee discussions and in the outcome of the review process. With the Ministry focused on current issues and the events of the past, the LHSC had to repeatedly position the message of future financial challenges before the Steering Committee. The consulting team demonstrated a strong appreciation of the future economic issues and was effective in documenting these in their report. However, strategies for managing these new costs out of the system were not offered. The impact became immediately apparent when operational planning for fiscal 2000/01 proceeded on the basis of submitting a balanced budget.

The second major challenge was the limitation inherent in administrative data, as described above. Limited evidence to support the conclusions and recommendations reached by the consultants became a concern. Healthcare practitioners seek, whenever possible, a sound scientific and/or economic basis for decisions. This was sometimes not the case in the operational review. Judgment, observations, intuition and experience of the consultants in other jurisdictions often formed the basis for many of the conclusions and recommendations. The challenge then came in accepting the recommendations and engendering confidence in our capacity to succeed in implementation and capturing economic benefit.

Another challenge for the LHSC was in accepting the premise that we would not succeed on all fronts despite our best efforts. We needed to be strategic with respect to those issues or outcomes where we would need to compromise, those we would want to negotiate and those on which we would vigorously challenge. Steering Committee meetings proved to be very intensive sessions requiring concentrated effort and attention of our team. Finding common ground in that environment proved to be difficult. The final agreement with the MOHLTC was reached in subsequent meetings among senior government representatives, the CEO and members of our Board of Directors. The contribution of our Board leadership was integral in our achieving a final outcome that both the LHSC and the MOHLTC could support.

The detailed recommendations of an operational review can be either enabling or restrictive. It was our objective to ensure that the LHSC retained maximum flexibility and discretion in achieving the outcome. This required that we minimize overly prescriptive recommendations. With each subsequent draft report, the LHSC was able to influence the process to some extent and retain a degree of autonomy in defining how we would realize the outcomes. This compromise was based on the trust of the MOHLTC that we were both capable and committed to finding a solution that worked best for the LHSC and our local community.

At the end of the day, an agreement was reached between the Board of Directors and the Minister of Health and Long Term Care. Our Board, in accepting the challenge of balancing the competing priorities of budget, debt recovery, patient care and academic expectations and access to healthcare services, reached an agreement that would assist the LHSC in meeting the financial challenges we were currently experiencing. The agreement involved an infusion of dollars to address accumulated debt and negotiated base funding. In turn, the LHSC would be expected to meet benchmark levels of performance in operational and clinical efficiencies and partner with other providers in our region to ensure care is provided closer to home for those services not requiring intensive, specialized care. It was recognized that a multi-year solution would be necessary. Consequently, a four-year Renewal Plan was developed and endorsed by management, medical staff and the Board. The challenge of implementation and delivering on the expected outcome became the challenge for management. The impact was immediate. Within one month, the future economic pressures were front and centre as the 2000/01 operating plan was developed. This was also the point at which we launched our Renewal Plan strategy and began the transition to economic sustainability.

Lessons Learned

Throughout this article, we have identified the learning and experiences that have shaped our thinking and reflection over the period of the operational review. In summary, we offer the following advice to other organizations that are considering or anticipating a review of this nature:

- Know what you intend to accomplish and be aware of the risks inherent in a review of this nature.
- Be selective in your choice of consultants with particular attention to the culture of your organization and the capability of the consulting team to deliver a reasonable outcome.
- Ensure you are constantly vigilant throughout the process and invest senior leadership time and resources to leading the effort.
- Consider your representation to the Steering Committee with a view to ensuring the presence of governance, senior leadership, medical and key stakeholders, balancing strategic capability with operational content knowledge.
- Seek a Steering Committee chair who will bring fairness and knowledge of the environment.
- Keep in close touch with your leadership team and physicians by sharing knowledge, coaching, providing support and anticipating findings.
- Build a trusting relationship with the Ministry staff and consulting team.
- Understand your own data and anticipate the outcome, validating all findings yourself.
- Keep your Board leadership firmly positioned in this process, as their contributions and influence will be invaluable.
- Support one another, as the process is intensive and consuming and you need to survive and succeed together.

Did the Board of Directors make the right decision in March 1999 when they invited this review? Absolutely. We have no doubt that this was the right decision. We believe there were no other viable choices that would have brought us to the outcome we have achieved today. The objectives LHSC established from the outset were met through the process. What is perhaps unfortunate is that, because of the absence of any workable process to seek financial relief to address accumulated extraordinary financial pressures, the operational review had to occur.

As we move forward, it is our commitment to stay ahead of the issues, communicate effectively with our partners and invest in our relationships with the Ministry of Health and Long Term Care. It is our resolve that the Operational Review will have been a once in a lifetime event for the London Health Sciences Centre. HQ

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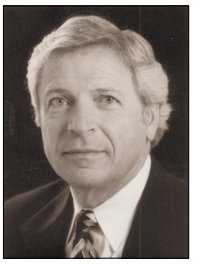

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