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Managing for change: April 11, 1989

BOSTON UNIVERSITY MEDICAL CENTER

The University Hospital

Managing for CHANGE

A Publication for the Managers of the University Hospital April 11, 1989

The Change Project: How it aims to reduce costs and improve productivity

The Hospital's Change Project, the bundle of initiatives adopted by senior management following the recent Touche Ross diagnostic study, has resulted in numerous actions to increase productivity and to ease the impact of cost-reduction measures. Some 18 projects of various complexity and size have been targeted for action over the next six months by management's Institutional Review Committee (IRC).

The IRC is composed of UH President J. Scott Abercrombie Jr., M.D., Executive Vice President Jacqueline Dart, Senior Vice President and Chief Financial Officer Michael Blaszyk, Senior Vice President for Nursing Karen Kirby and Vice President for Human Resources Susan Hancox.

The cost-reduction/productivity improvement approach embodied in UH's Change Project is unusual in that it seeks to brings about fiscal reductions only after hospital-wide self-study with the close involvement of middle management and through the phasing-in of cost-cuts, rather

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How the Change Project process works

1. Dr. Abercrombie, acting for the Institutional Review Committee (IRC), assigns package of cost-reduction projects to Change Project Committee (CPC).
2. For each proposed action, the CPC assigns a project leader, who forms a work group from key affected departments. The project leader works closely with the administrator responsible for the proposed cost-reduction.
3. The DA and CPC project leader work with Touche Ross consultants to sharpen figures and pinpoint possible impacts. The DA then presents the project to the CPC work group, which examines the proposed actions, gathers reaction from other departments and looks at ways to minimize impacts.
4. The work group sends its recommendation on the proposed action to the CPC, which reviews it before sending it on to Dr. Abercrombie for IRC review. Once approved by the IRC, the project is implemented.
5. The Change Project Committee monitors effects of the various projects once they are implemented, provides cross-departmental coordination to deal with problems, and provides feedback to IRC, through Dr. Abercrombie.

Has the "freeze" helped?

When the Hospital initiated a restriction on capital spending last summer, and followed that in December by suspending staffing expenses—new hires and overtime and agency hours—the aim was to control spending during this time of financial strain.

The term "freeze"—often used to describe these measures—actually is an erroneous label. More appropriately, these expense-control methods are part of the Hospital's overall expense-reduction effort, which involves a "flexible freeze."

The Hospital is still spending capital, but only on strategic items intended to improve operations, such as the Baxter health information system and the Ambulatory Care Center construction on level 2 of the Atrium Pavilion. UH also is hiring employees to fill certain vacant positions, but only those approved by senior management. Further, overtime and outside agency pay are still being utilized, but only on an "immediate-need" basis to help compensate for severe staffing shortages in certain areas.

"It would be illogical for us to think that we can actually freeze spending altogether and continue operating at the same level of efficiency," says Senior Vice President and Chief Financial Officer Michael D. Blaszyk. "However, we are being very thoughtful in how we expend capital, and we are seeing some positive results."

How effective has this expense-reduction effort been? Through Period 5 in FY 89, the Hospital has seen a marginal-but-notable reduction in its expenses. Using year-to-date figures and current trends, Blaszyk projects a year-end expense reduction for FY 89 that could range between $1 and $3 million.

"The expense-reduction effort is working," says Blaszyk. "Any reduction in expenses is helpful, but we also have to be somewhat flexible, since we do not want to compromise productivity and, ultimately, patient care."

Michael Paskavitz
Publication Services

Period 6 LOS lowest in more than six years

Associate Director of Financial Planning Jeff Jenkinson recently reported a dramatic drop in the Hospital's average length of stay (ALOS) for Period 6 of FY 1989,.

The Period 6 average of 9.67 days marks the lowest average LOS recorded at UH for a fiscal period dating back to 1982. Jenkinson's research found that only three other times has a fiscal period's average dipped below 10 days—Period 10 of FY 88 (9.90), Period 9 of FY 88 (9.84), and Period 10 of FY 87 (9.98).

More than six months ago, senior management initiated a comprehensive Length of Stay Reduction Effort as a means of lowering the Hospital's ALOS.

While Chief Financial Officer Michael Blaszyk has lauded the efforts of UH physicians and all employees whose jobs affect ALOS, he also has pointed out that the year-to-date ALOS is still high (10.67) and exceeds the budgeted figure of 10.18 days.

The Legislative Front: UH taking a leadership role

Hospital managers attending the March 16 OM/DA/GA meeting were briefed on the fiscal outlook for hospitals at the State House and in Congress. Elizabeth Stengel, director of Government Relations at Boston University School of Medicine and an interpreter of legislative activities, spoke to UH managers about how Boston University Medical Center could be affected by legislation and what we are doing to respond.

Stengel opened her remarks on a sobering note, stating that the "political climate is a big question mark. There is not much good news about legislation in this state or at the federal level."

Of immediate concern to Bay State hospitals is the elimination of several budget items that the legislature considered essential to hospitals less than a year ago, which would translate into $7.7 million in payments to UH alone. The Massachusetts Hospital Association (MHA) has filed a lawsuit against the state to recover $37 million previously appropriated but sequestered by the Governor, charging that impounding committed funds is unconstitutional.

In addition, funding that was to be allocated to cover hospital participation in the Universal Health

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Legislation

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Care Act (Chap. 23) is not likely to be provided in future budgets.

Both Stengel and Ellen Lutch, of UH Health Systems Services, acknowledge that the fate of hospital financing in Massachusetts currently lies with the State Senate.

"It is a difficult situation," says Lutch. "Both the government and the health-care industry are facing major deficits and thus, both have their own agendas. It's hard to get money from the state if it doesn't have it, but there has to be a working relationship between the two, rather than an adversarial one, if this situation is to be reconciled," adds Lutch.

According to Lutch, "these fiscal issues are not contrived; they are very real. Most hospitals have already resorted to spending freezes and cutbacks and in some cases, layoffs." The MHA has already estimated that if the state doesn't take action to help its hospitals, it is conceivable that 15 to 20 Massachusetts hospitals could close in the next year. Considering that health care is among the state's top employers and is the second largest industry (in terms of dollars), the potential ramifications are grave.

Unfortunately, the public does not seem to understand the crisis the hospital community now faces. A recent statewide public-opinion poll revealed that health care is not among the public's top concerns in this state. Translation: Massachusetts residents have not yet realized how this crisis will affect them as health-care consumers.

In response to this polling data, the MHA has embarked on a major, multitiered public-awareness campaign—via television, print and radio advertisements—to inform Massachusetts residents about how they could be affected, and how they can help preserve the high-quality health-care that they have come to expect as citizens of Massachusetts.

A short time ago, UH President J. Scott Abercrombie Jr., M.D., asked UH employees to take action against the proposed budget cuts by directly calling their legislators. "At several junctures, we have asked our staff and employees to get involved in these issues, and their response has been overwhelming and very helpful," Abercrombie says. "There is strength in numbers, and we will continue to ask for their active involvement. We must hope that, eventually, the message will get across."

UH encouraging a federal effort

Stengel points out that when President Bush's budget was submitted, it lacked any mention of health-care financing; thus, she says it follows that he will not alter ex-President Reagan's previous health-care package, which contained large cuts in Medicare funding and curbed funding for graduate medical education. As a teaching hospital, UH stands to be greatly affected by these cuts.

"Today, we are being paid $11 million less in Medicare reimbursements for the same number and type of admissions three years ago," says Senior Vice President and Chief Financial Officer Michael D. Blaszyk. "Given the increase in technology and supply costs over that time, as well as inflation and other factors, we have been put in a very difficult position. And as a teaching hospital, we obviously will be greatly affected by any cut in graduate medical education funding, which is now before the U.S. Congress."

Abercrombie and Blaszyk have encouraged the formation of a consortium of Boston's major teaching hospitals to mount a lobbying effort in Washington D.C., on behalf of teaching and research institutions. The Boston consortium was recently joined by several New York City teaching hospitals; teaching hospitals in several other U.S. metropolitan areas are also being solicited to join. It is hoped that a national consortium of major teaching/research institutions may result. An outside consulting firm has been hired to lead this lobbying effort in Washington.

In addition, the consulting firm of Coopers & Lybrand has been hired to study the potential impact of current health-care financing and reimbursement standards on the major Boston teaching hospitals.

Michael Paskavitz
Publication Services

Dealing with Change

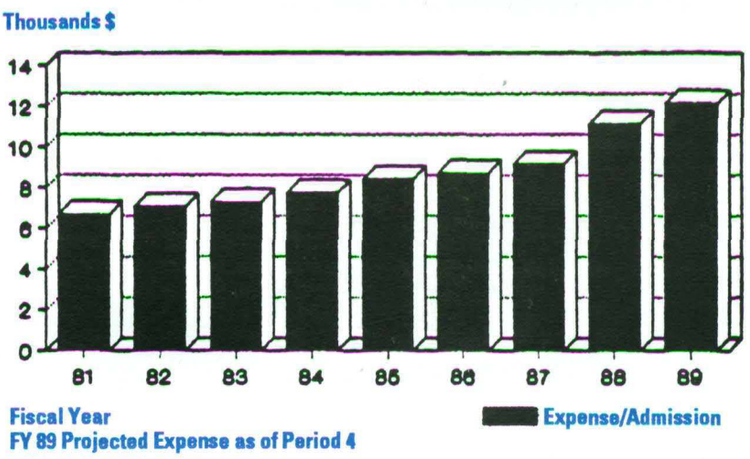
Young parents can often be heard talking about changes in family life that come with each stage of their children's development. Each change disrupts the more comfortable patterns of the previous stage and sometimes causes a crisis. That's part of what's happening here at UH; old patterns are being disturbed as the institution develops.

When we manage for change, it is important to understand that something like the Operations Review is the result of change; that is, we're already well into the process. The environment has changed and it wasn't really anyone's fault. It just is, and we've got to manage the consequences.

Most UH managers probably know that the Chinese symbol for "crisis" is made up of two characters. One represents the idea of "danger," and the other "opportunity." The "danger" is that we will keep trying to manage the old way (work harder), while the "opportunity" is to develop new approaches (work smarter). Instead of blaming ourselves or others and cracking the whip and saying "work harder," this crisis is our opportunity to work together, work smarter and work more effectively.

Larry Burton
Pastoral Services

Leading Indicators: Expense-Per-Admission



Depicted above by Jeff Jenkinson, associate director of Financial Planning, is the nine-year trend in the total cost of caring for patients at the University Hospital—known as Expense-Per-Admission. The Expense-Per-Admission figures are formulated by dividing the total number of admissions over a given period of time into the cumulative Hospital expenses during that same time period. Hospital operating expenses include salary, fringe benefits, interest, depreciation and "other" direct and indirect patient-care expenses.

Over the past few years, the Hospital's annual growth in expense has outpaced the national rate of inflation. Most of these increases are due to additional expenses associated with the new Atrium Pavilion complex.

The moral of this story is: As the hospital works to reduce its expenses (the numerator in the Expense-Per-Admission equation) and increase the number of admissions to the Hospital (the equation's denominator), the cost of caring for patients will decrease and the Hospital will strengthen its financial standing.

Managing for Change is published biweekly by the Office of Publication Services, Department of Marketing Communications & Public Affairs, Donald R. Giller, director. Story suggestions may be addressed to Giller at x8149, or to Owen McNamara, Mike Paskavitz or Paula Gilligan of OPS at x8482. The publication's Advisory Board is made up of David Browne, Planning; Larry Burton, Pastoral Affairs; Trip Folland and John Moran, Environmental Services; Lynn Gaertner and Susan Hancox, Human Resources; Jeff Jenkinson, Financial Planning; Cass Ladd, Rehabilitation Medicine, and Nancy McAward, Nursing.

Change Project

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than through the more commonly employed "across-the-board" percentage cuts.

Dr. Abercrombie in January asked for the Management Council's involvement in a number of the cost-reduction projects, noting that the impact of many of the actions will require closely integrated middle-management activity to ensure success. While the IRC can vertically lead the Change Project through its General Administrators, Abercrombie noted, the Management Council is the best means of assuring horizontal coordination thoughout the Hospital.

The Council, in response to Abercrombie's charge, proposed a process for dealing with the cost-reduction efforts, with the key ingredient being the creation of a Change Project Committee (CPC) to made up of Council members. When the IRC assigns a project to the CPC (as it has done in six instances to date), a member of that committee takes on the project, and is briefed on it by the department manager who is responsible for the specific cost reductions.

The project leader and departmental manager then form a working group by identifying departments that could be affected by the proposed cost reductions and they seek the involvement of key managers from those departments. Before this work group meets, the responsible department manager and representatives of Touche Ross have gone over the cost-reduction proposal item by item, setting specific goals and identifying possible areas of negative impact on other departments or service levels.

When the plan is considered ready for CPC involvement, the work group comes together for a full briefing on the proposed plan and the possible impacts it might have. The work group examines the plan, seeks input from other Hospital managers and then identifies ways to lessen any negative impact of the cost reduction. The final plan of the work group, therefore, is composed of the responsible manager's cost-reduction action plan, the organizing framework provided by Touche Ross staff, and the input of the work group and other managers who have been consulted.

When the project is refined and key issues are addressed at the work-group level, the project leader brings the proposal to the CPC for its input. It is understood that there may be instances in which some issues cannot be resolved at the work-group level, or even at the CPC level. However, in all cases, the CPC adds its input and forms a recommendation that accompanies the project plan back to the IRC, where the final determination is made on outstanding issues, and the project—fine-tuned to best achieve its goal—is put into action.

The CPC is headed by Cass Ladd, chairperson of the Management Council. Vice-chair is Nancy McAward, and advisors are Larry Burton and Miriam Pollack. The balance of the committee is made up of the leaders designated for the projects that to date have been given to the CPC by senior management's IRC. The project leaders (and their projects) are as follows: Debbie Heath-Maki (Purchasing authorization), Bob Sartini (Materials Management), Linda Viano (Environmental Services, cost vs. service), Ed Stedman (Environmental Services, hazardous waste), Gail Delaney-Woolford (Plant Operations, utility cost and service), Owen McNamara (Security), and Chriss Robie (Nutrition).

Each work group, and the parent Change Project Committee, will monitor the effects of the cost-reduction projects after they have been implemented, providing cross-departmental coordination and problem-resolution.

As the projects are completed and the timetable advances, Dr. Abercrombie will bring still other projects to the CPC, and other members of the Management Council will take their place as work-group leaders.

Owen McNamara
Publication Services

Training for Change

"Re-Creation" Lunchtime Games

Play games to reduce stress, diffuse tension and increase activity. Facilitator: Lynn Gaertner, manager of Training & Development. Wednesday, April 19, noon-12:45 p.m., and 1:00-1:45 p.m., Dining Pavilion Conference Room.