



The Need for Competition between Hospitals

Chris Sherback

Chris Sherback is the President & CEO of Ormed Information Systems in Edmonton Alberta.

I am an Alberta boy, born and bred, but I simply cannot get past the super region that is now Alberta Health Services. Don't get me wrong, I think the AHS management team is doing an excellent job with what they have been given. The problem is that the business model given to them by government is flawed. It simply cannot succeed. Putting aside the obvious questions of "what do politicians know about running a healthcare system?" or "how can a government/minister in power for 2-3 years address a problem decades in the making?" or "how can any system mired in politics and dominated by unions respond rapidly to change?", let's address the more obvious question of over centralization. How did it happen? Why did it happen? Where is the empirical evidence that this business model will work better than a decentralized one?

Unfortunately, these will have to remain rhetorical questions for the time being because no business case has been put forth to support this decision. There is no ROI analysis to support this business model and therefore there will be no accountability if and when it fails – which it most certainly must. I can only speculate that the government is attempting to dummy down the system by trying to manage one healthcare organization instead of hundreds. Unfortunately, there are no simple solutions to complex problems. In Alberta, as of March 2010⁽¹⁾, AHS was responsible for 7,800 beds in 98 acute care facilities with a staff of 117,000 professionals in addition to 7,400 physicians managing almost 2 million emergency room visits and over 360,000 inpatient discharges resulting from over 2.5 million days in the hospital annually.

Am I the only person who sees that as an insane amount of business for one organization to manage? Even if the single information system AHS is moving toward could manage that volume of business transactions, I do not see how any individual could possibly comprehend the complexity of an organization that size. Take the inventory control system, for example, which is an area I am familiar with. How complex would that be for an organization the size of AHS? (Never mind the more than 59 million laboratory procedures completed last year). Almost every point of care in a hospital requires medical supplies in order to service its patients. The average hospital has 100 to 300 points of care. Let's assume a low of 100 across roughly 100 hospitals just to keep our math simple. That comes out to 10,000 possible supply locations. What is the probability that any person or group of people can adequately manage the task of making certain that each of these supply areas has the right supply at the right time and in the right quantity so we know we are not wasting any healthcare dollars in excess or obsolete inventory? How would you like to do the table

maintenance for that software package? Of course, if the inventory levels are not properly maintained we end up with excess inventory because the medical staff does not trust the supply chain. When care givers do not trust that supplies will be available when they are needed, they hoard supply by stashing it in cupboards and other unknown places, which leads to unrecorded inventory that is not being turned and eventually expires if not properly managed.

For those not aware, in a system where labour and supplies are the two largest operating costs, and the ability to manage labour cost is limited by the force of collective agreements, the primary area for cost savings in our healthcare budget is captured within the efficiency of the supply chain.

I'm sorry, but I cannot fathom how anyone can manage a system as complex as the one AHS has been charged with managing – and the inventory management system is just part of the procurement and payment cycle. What about the complexity of sourcing, procuring, ordering, receiving and paying for goods and services? AHS must manage hundreds, if not thousands of bank accounts, and process hundreds of thousands of invoices and cheques every month. I cannot begin to imagine the nightmare that must be – and that represents a small part of the overall information system that AHS must rely upon in order to drive operational efficiency and cost containment.

OK. Let's step back from the detail for a moment and look at the big picture. What about the obvious question of diversification? In any complex, sophisticated, critical, timely and uncertain environment, where no one can guarantee absolute results, the best management strategy involves diversification. If we do not know precisely what the outcome will be, we must cover our bases by spreading our risk over multiple alternatives. With Alberta Health Services all our eggs are in one basket. If AHS hurts, the entire province hurts. It's that simple.

Of course, there is the naive possibility of an all-knowing government that can foresee the challenges facing healthcare and anticipate the needs of its citizenry so the average Albertan does not need to worry about their healthcare system. A recent survey conducted by the Health Quality Council of Alberta⁽²⁾ indicates that 62% of Albertans are satisfied or very satisfied with the quality of care they received. Mind you, that is a relative question. If an Albertan is used to poor care, even a little better care might seem like a vast improvement. Perhaps we Albertans have to step outside the realm of our own healthcare system and look to other provinces or countries for adequate comparisons to the quality of care that is possible. A recent study conducted by the Frontier Centre for Public Policy⁽³⁾ (www.fcpp.org) places Canada 25th among 34 countries studied. According to the study, much to the chagrin of AHS, the problem is not money. In fact, one of the reasons

Canada is ranked so poorly is because we spend more than all but three countries in the study on a per capita basis, but we do not have the healthcare results to show for it. In the opinion of those conducting the study, our problem lies in "The Beveridge model... (which) uses a single organizational system that includes financing bodies and providers and does not offer choice between insurers. This model generally tends to create inefficiency, unwieldy bureaucracy and a general unresponsiveness to consumer needs." According to the study, the Bizmarck model is superior to the Beveridge model because it introduces competition between the insurers, which are independent from the healthcare providers themselves. The study goes on to conclude that the "...results strongly suggest that the separation of insurers from providers and the provision of consumer choice are important principles for the development of high-performing healthcare systems - especially in medium and large-sized countries" (where large bureaucracies are most ineffective).

Comparing Alberta to other provinces, FCPP recently released their 2010 Canadian Health Consumer Index⁽⁴⁾ in which they rank the Canadian provincial healthcare systems in their responsiveness to consumer needs. For the third year in a row Ontario ranked the highest among Canadian provinces, whereas Alberta continued to slip from prior rankings to 7th overall, even though our spending per patient is among the highest in the country. What is the most obvious difference between Ontario's healthcare system and the rest of Canada? Ontario is the only province that has not centralized its healthcare providers into "regions" – or "region" as is the case in Alberta.

All analyses point to the same question: is bigger better? Is it wise to remove all competition by placing all healthcare providers under one governance structure? Is there ever any wisdom in choosing not to employ a diversified strategy in a highly critical and yet volatile business scenario?

So, here is the big bomb you have been waiting for since reading the title for this piece: why not introduce competition between hospitals? And if we can assume that that will create better choice in the market, how can we introduce such competition? The answer is simple: private healthcare.

Boom! There, I said it. Are you seeing red yet? Because that is what generally happens to the average Canadian when someone mentions the "p" word. We start thinking about a 2-tier healthcare model where the rich take resources from the poor and their line ups drop to nothing while the poor are lined up out the door. This is usually where the logical, calm and passive Canadian stops listening and the intelligent debate slips into an emotional outburst. Try to remain calm. Take deep breaths and stay with me on this one. I have the same concerns as many Canadians do – despite the fact that I hail

from the Wild West.

What about a system where the care is privately provided but publically funded? That way entrepreneurs can build hospitals (or acquire existing government assets) where they believe the population requires healthcare services, and we can each choose where we receive our care based on the length of line ups and the quality of care we receive from each organization. We rid ourselves of this ridiculous bureaucracy that is growing in each province, and effectively remove government and politics from our healthcare system.

As an information systems specialist dealing in the financial side of healthcare, I think our healthcare system needs to more closely model our banking system. I think government should play a regulatory role, not a managerial one. I suggest government set the rules for how our healthcare system must operate and the outcomes it must achieve, and then get out of the way and let the professionals do their job.

Putting aside the authoritarian view that government knows all and can therefore solve this problem for us, I prefer to think that government is run by humans that are just as capable of making mistakes as any other human. Therefore we must decentralize our healthcare system in order to diversify our solution by bringing multiple players into the market. At a time when healthcare is just beginning to feel the crunch of the baby boomers' retirement, and the reduction in workforce and reduced tax revenue that will follow, this is a time when we need to attract the best and brightest to our industry and empower them to get the job done. The notion that a centralized government can run an industry better than private enterprise died with the Soviet Union decades ago. Must we suffer the same fate before we see the error of our ways?

To summarize:

1. We cannot afford to ignore this problem any longer. Our system is suffering now and we have only begun to feel the pressure of the baby-boomers moving through our healthcare system.
2. Given the risk and uncertainty in the future of our healthcare system, we need to diversify our approach to the problem since we do not know where the next great idea will come from and we therefore must cover as many bases as we can.
3. In order to diversify, we need to attract capital, human and other resources to our industry and history has shown us that that is best done with capitalism, not authoritarianism.
4. In order to determine the best solution for each healthcare problem, we must introduce choice to the market and that is best done by introducing competition among healthcare providers.
5. There is still an important role to be played by government as a regulator of healthcare to set the standards and make sure they are followed.
6. Given that this is all new to us, we have little time to set up our test models, learn from them, attract the investors we need and give them the time to grow and adapt to the new environment, so we need to move forward with change as soon as possible.
7. The longer we wait to adopt change, the more abrupt it will have to be and therefore the more hardship it will create. We need to start looking at demographically driven models showing a dramatic increase in healthcare use, coupled with a reduced tax base from a smaller working population because even if we can assume the model we are using works today, we must determine if it will continue to work for us in the future.

In short, the model that many provincial and territorial governments are pursuing – of consolidating our healthcare facilities into larger and larger health regions – will fail quite simply because it lacks diversity and therefore limits innovation.⁽⁵⁾

References

- (1) <http://www.albertahealthservices.ca/3070.asp>
- (2) <http://www.globalvocalgary.com/Patient+satisfaction+survey+indicates+majority+Albertans+happy+with/3941949/story.html>
- (3) http://www.fcpp.org/files/1/10-05-10-Euro-Canada_Index_2010_FINAL.pdf
- (4) <http://www.fcpp.org/publication.php/3521>
- (5) By the way, the notion that healthcare regions need to consolidate into single organizations in order to achieve economies of scale is false. With the use of Internet-based technology multiple organizations can come together to achieve economies of scale in procurement, for example, and other areas of information sharing without becoming a single legal entity. But that is a topic for another time.

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