

Navigating Through the Economic Turbulence & it's Impact on IT

David S. Hefner

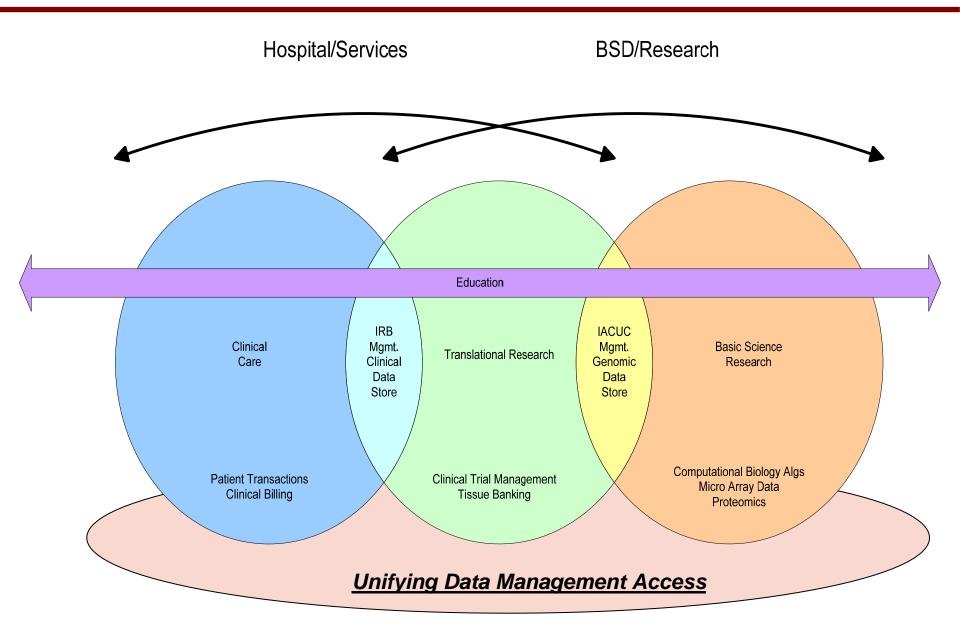
President
University of Chicago Medical Center

Eric Yablonka, in absentia

Vice President and Chief Information Officer University of Chicago Medical Center& Biological Sciences

AAMC GIR-UHC CIO Council Conferences
Atlanta, GA
April 25, 2009

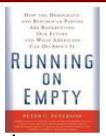
We could have spoken to you today about our successes...



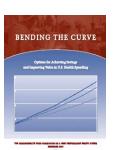
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Part 1: An informed consent process: Where I stand

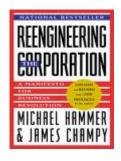
- 1. We have a wholly unsustainable "system"
- 2. Universal Coverage + Financing ≠ Reform
- 3. Pre-occupation with the Revenue Curve (which we are incredibly parochial and protective of)
- 4. Real reform lays under the Cost Curve by eliminating the waste, duplication, redundancies, inefficiencies, unnecessary variations (\$650B of \$2.0T)
- 5. The Pathway to Quality is Through the Doors of Cost
- 6. Our core processes require fundamental reengineering <u>enhanced by Information</u> <u>Technology</u> & <u>Leadership Development</u> for sustainability
- 7. "Culture eats strategy everyday from lunch (and breakfast and dinner)". If we don't have the courage to lead a state change, then we should stop



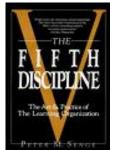












Part 2: An informed consent process

- 8. In addition to Academic Medicine, we will cover many disciplines → Wall Street, zoology, geology, astronomy, philosophy, Hollywood
- 9. Balanced view of reality which is not intented to be heartwarming nor has a "happy ending"
- 10. Audience participation is required
- 11. *WARNING* due to the graphic nature of this presentation, viewer's discretion is advised

WARNING!! GRAPHIC PICTURES MAY NOT BE SUITABLE FOR SOME VIEWERS!

Every story needs a villain and hero

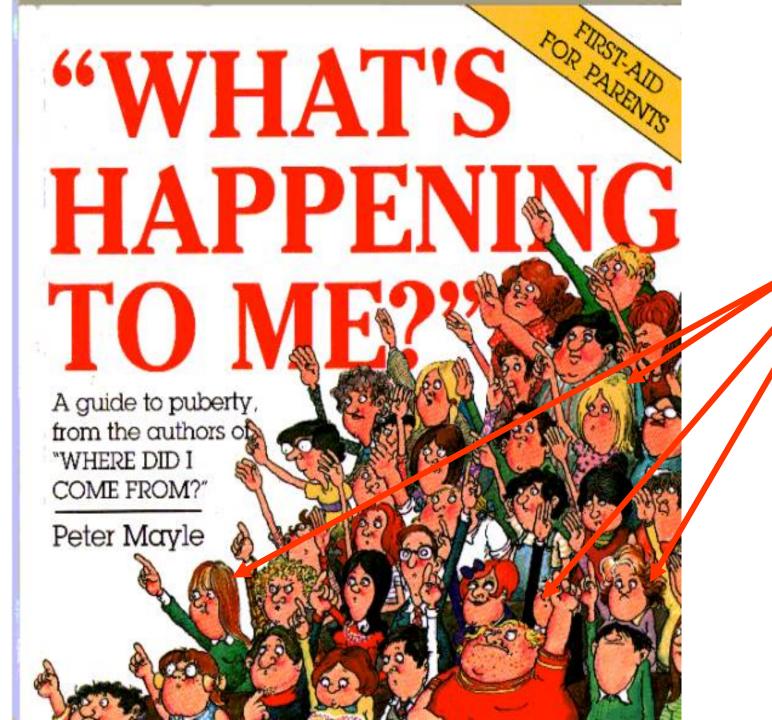


What is the Diagnosis?



Seven Predictions

- Prediction #1: We (AMCs & Higher Ed) are under tremendous economic stress which the fragmented structures only exacerbate ..
 - ...where the pressures differ but overlap, and are not well understood ...
 - ... and will lead to bad behaviors (esp in non-integrated AMCs)...
 - ...and engender more bad behaviors throughout the ecosystem.
- Prediction #2: These bad behaviors will escalate and lead to a decimation of the ranks.
- <u>Prediction #3</u>: The magnitude of the turbulence is bigger than we suspect.
- Prediction #4: We are undersizing our responses to the situation at hand.
- Prediction #5: The fundamental disconnects will be even more exposed.
- Prediction #6: "Death is not necessarily imminent".
- Prediction #7: If we do not find the courage to lead, then it will be a "Back to the Future" experience.



<u>Prediction #1</u>: We (AMCs & Higher Ed) are under tremendous stress which the fragmented structures only exacerbate ...



Source: Robert Petersdorf, "The Four Horsemen of the Apocalypse", 1982.

... where the pressures differ but overlap, and are not well understood ...

Endowments



 Underfunded pensions



Philanthropy



- Patient volumes & reimbursements
- **Malpractice funds** & pensions

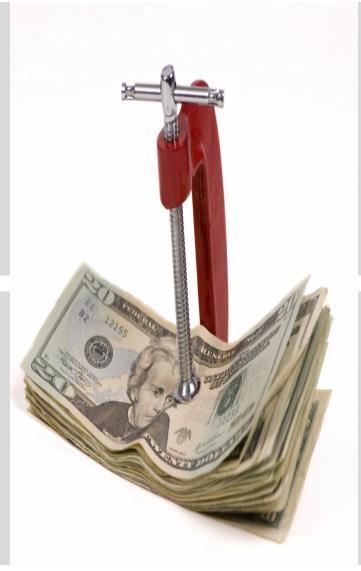


Cheap borrowing costs & cash flow



GME under attack





 Endowments & gift funds



Funded research



State monies



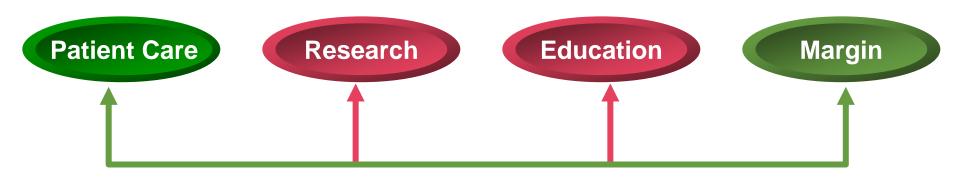








A Fundamental Rule in our Ecosystem (though not well understood)



Clinical Enterprise cross-subsidies to Academics:

"80/20" Exceptions

- Secure large corporate sponsorship (e.g., Wash U)
- Grow renewable patent streams (e.g., NYU)

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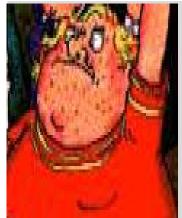


...and will lead to bad behaviors (esp in non-integrated AMCs)...

- → Cut transfers to the medical school
- → Increase internal tax for central services to School & Health System



UNIVERSITY President



 Hold a gun to the Health System's head

- → Increase the tax to the Practice Plan
- → Increase "deals" to specific Departments
- → Hunker down and fend off the Dean, the Chairs, and the Practice Plan



Health
System
President or CEO



Practice Plan or Chairs

- Hold a gun to the....
 - → Dean's head
 - → Health System's head
 - → Practice Plan's head
 - → Other Chair's heads

...and engender more bad behaviors throughout the ecosystem

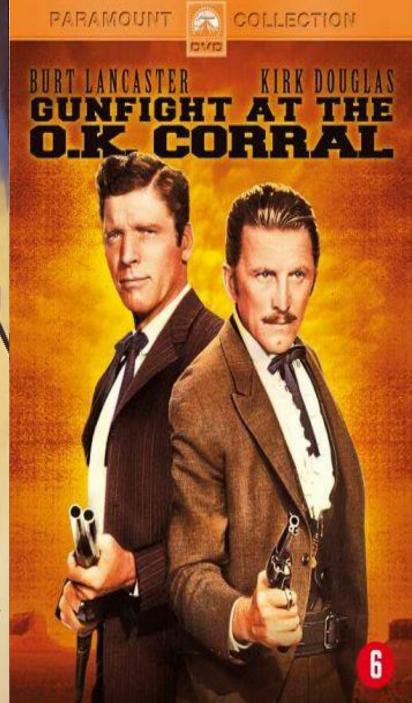
Pressures of "Us versus Them" played out at the next level:

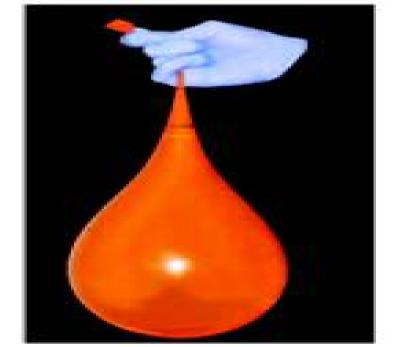
- Dean vs Chairs/Departments
 - Chair vs Chief vs Chiefs
 - Chair vs Chair
 - Basic Sciences vs Clinical
- Hospital VPs vs Hospital VPs

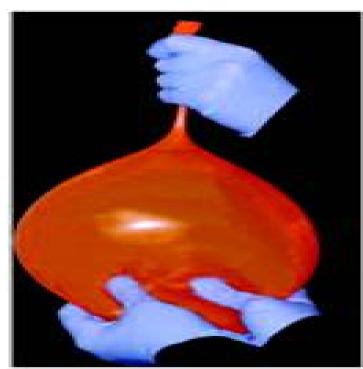
(and I don't have to tell you)

Everyone and Everything Else vs. Information Technology









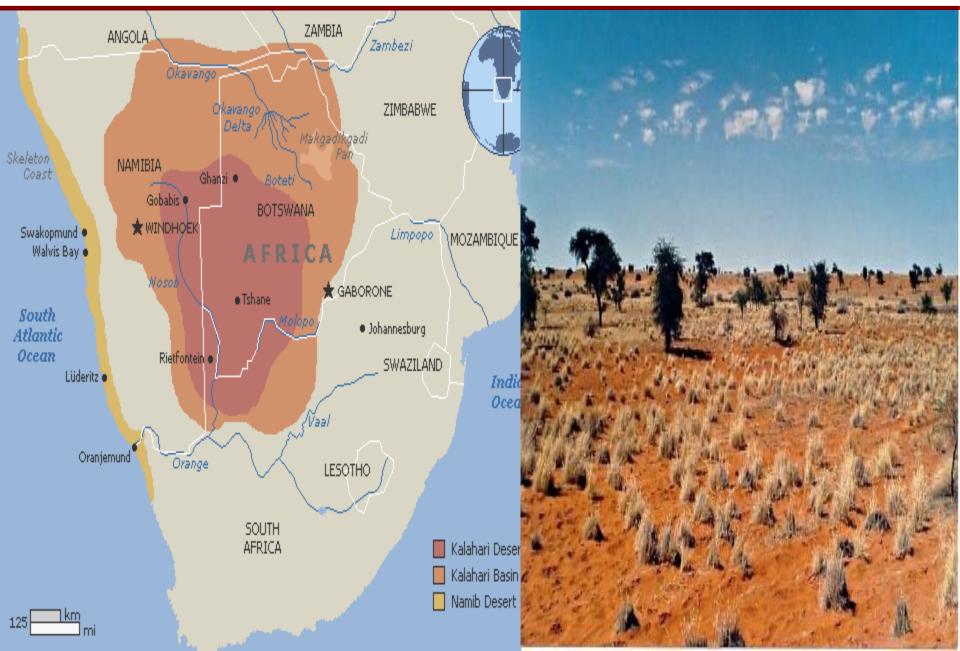


<u>Prediction #2</u>: These bad behaviors will escalate and lead to a decimation of the ranks



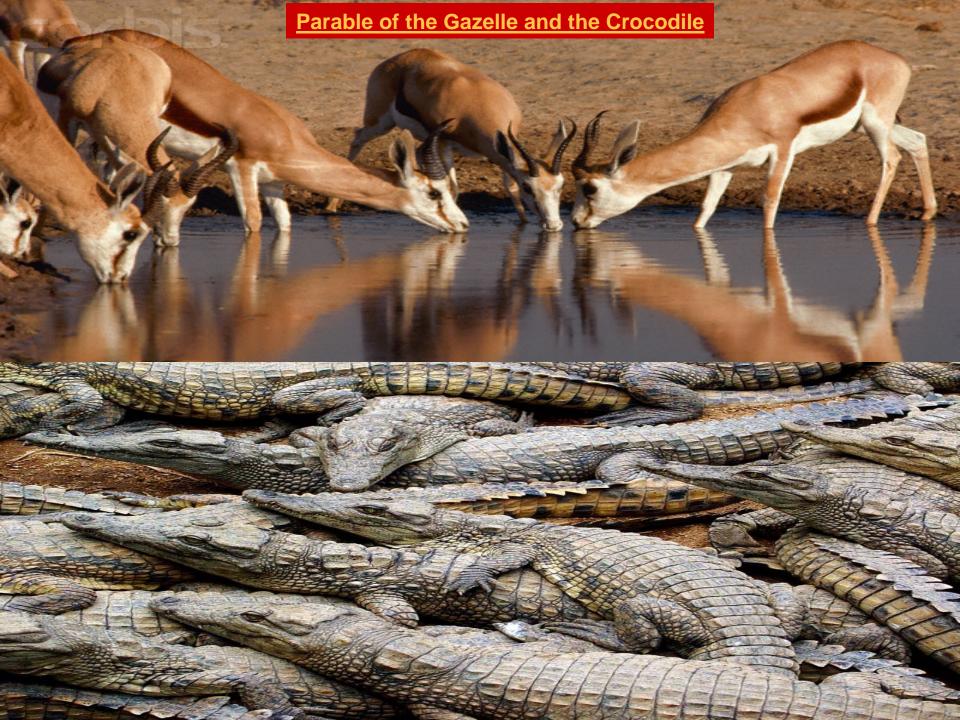
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The Kalahari Desert in drought conditions...



The Kalahari during the rainy season...





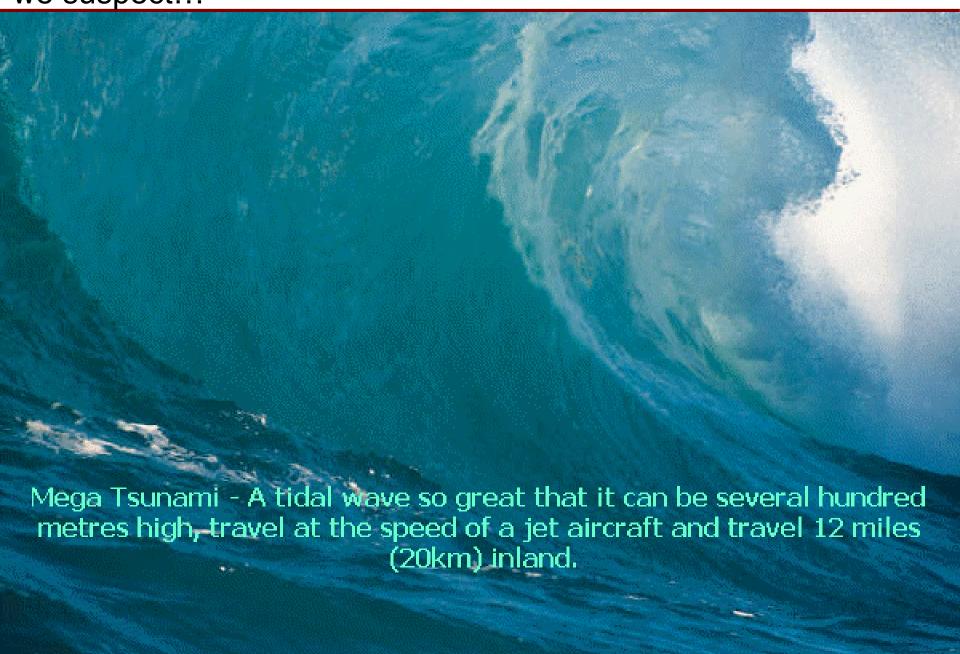
But when the droughts return, an interesting phenomenon occurs:



...the crocs turn on each other

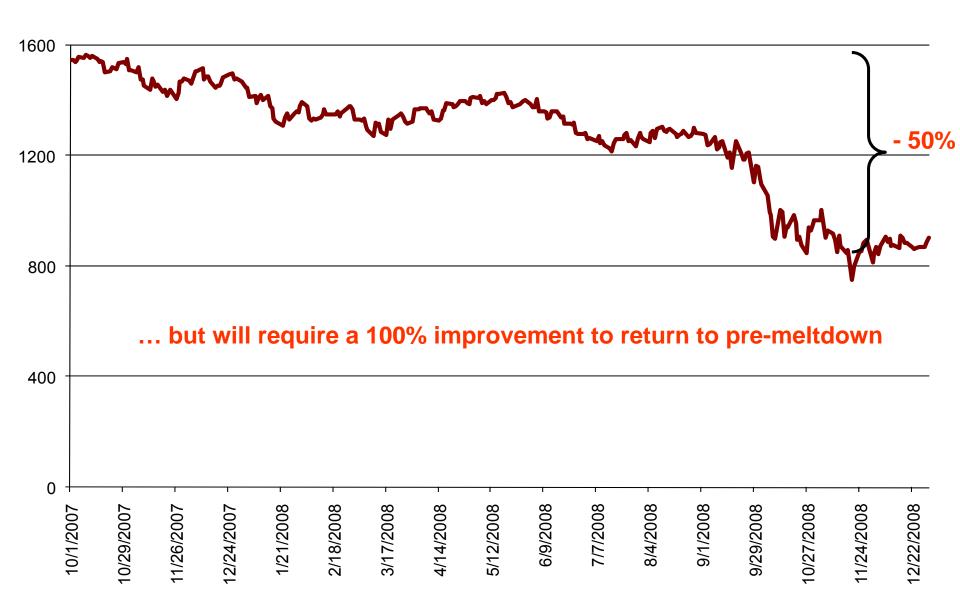


<u>Prediction #3</u>: The magnitude of the turbulence is bigger than we suspect...

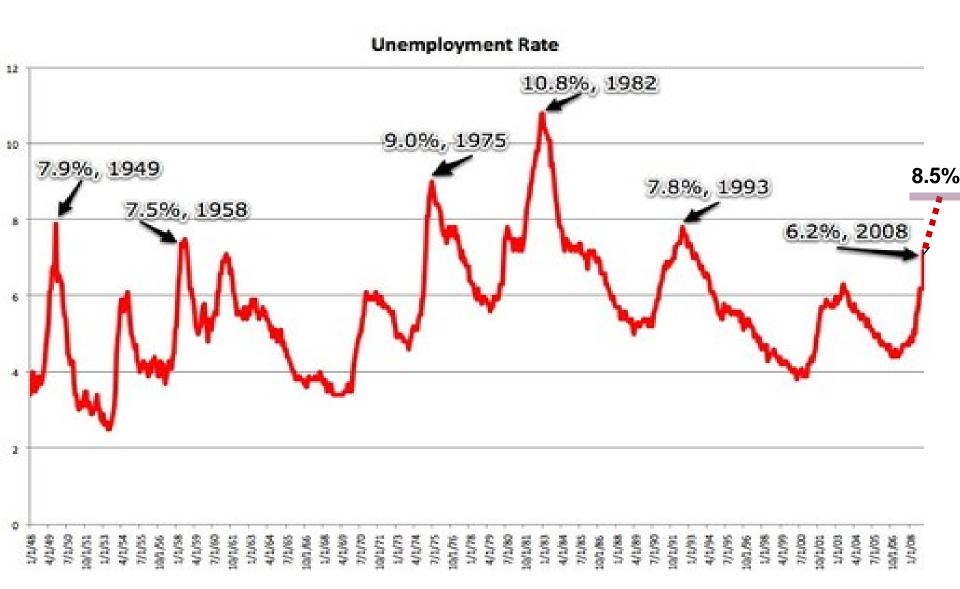


U.S. Stock Market Down 40%+ Over 15 Months



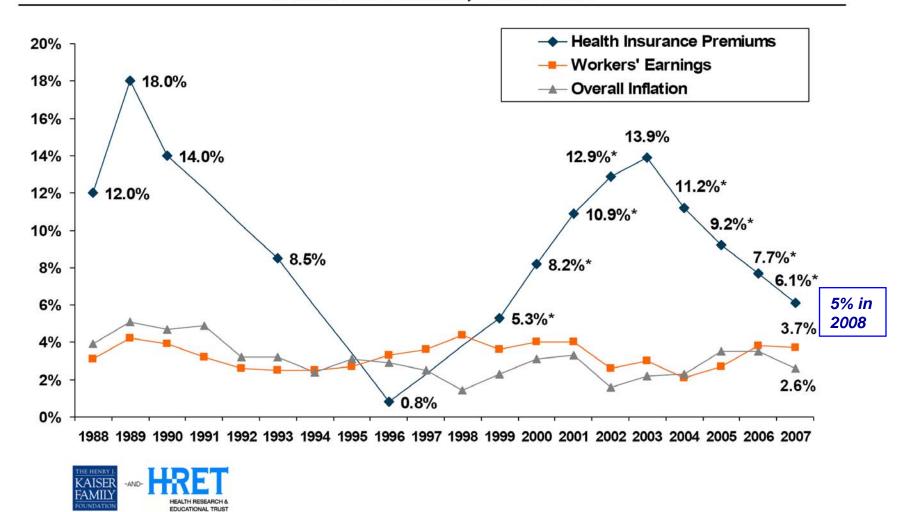


Unemployment Rising But Still Well Below 1982-83

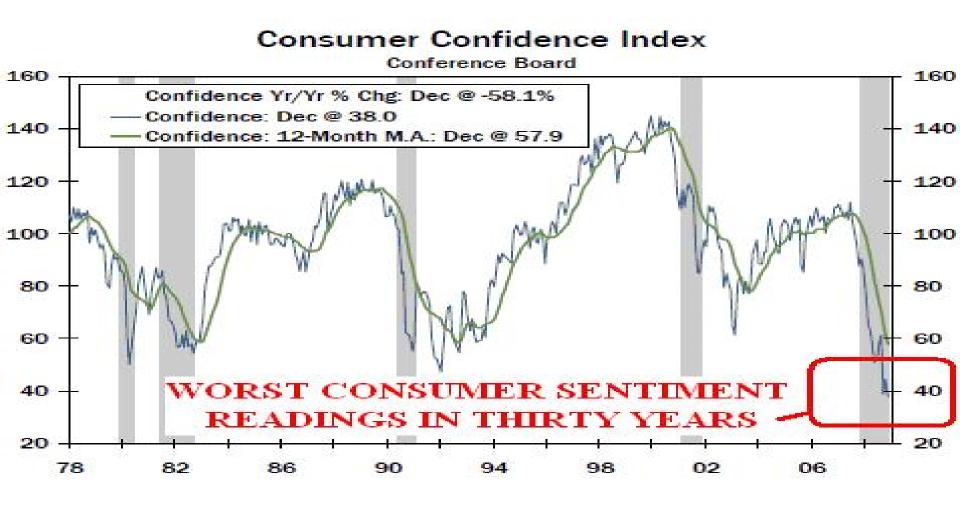


Employer Health Premiums Already in Down Part of Cycle

Exhibit 1: Increases in Health Insurance Premiums Compared to Other Indicators, 1988-2007

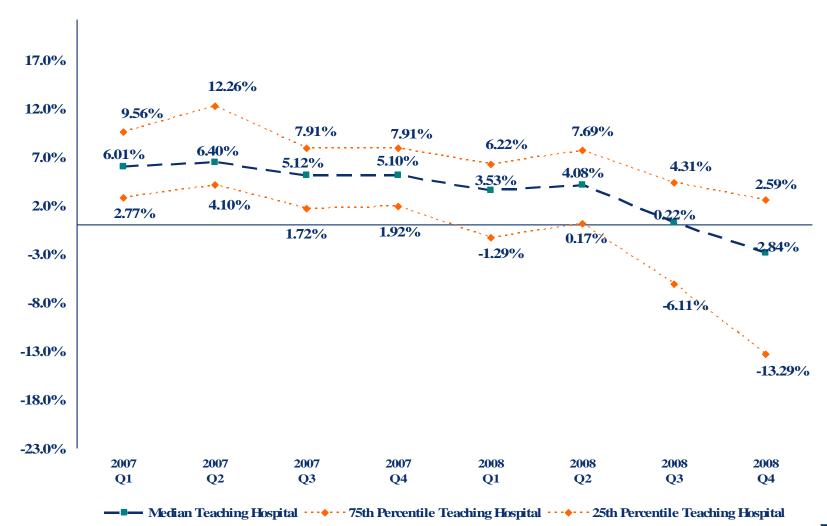


Consumer Confidence at Lowest Point on Record



Total Margin

Benchmarked against Median Teaching Hospital •Eight Most Recent Quarters



Source: AAMC•COTH Quarterly Survey of Hospital Operations & Financial Performance

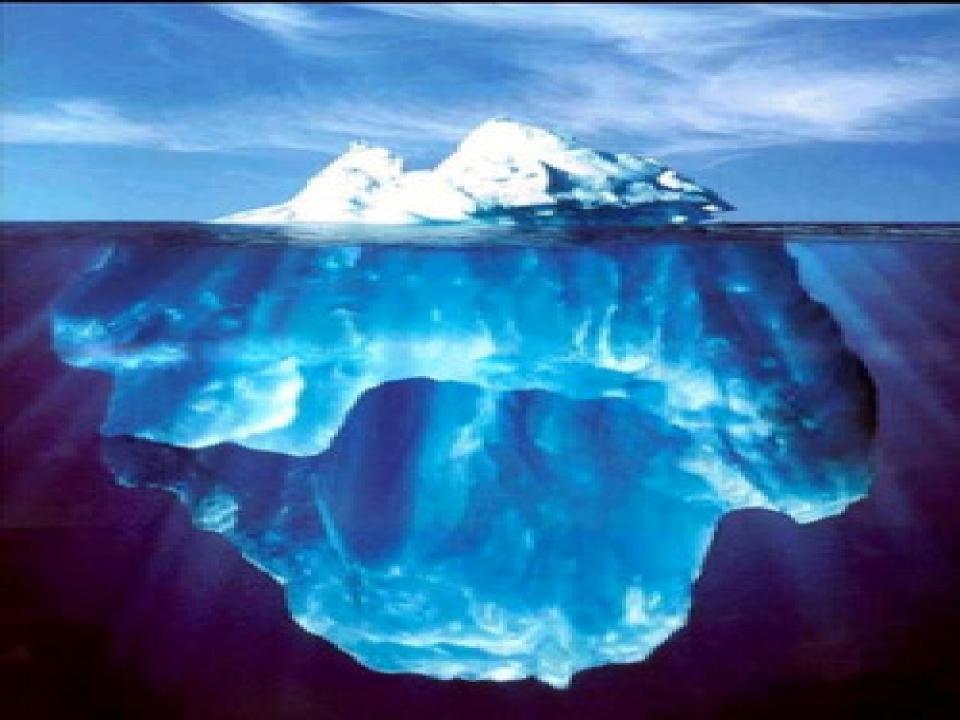
Note: Based on Consistent Cohort of Respondents. Valid n = 120.

Total Margin = ((Net Patient Service Revenue + Total Other Operating Revenue + Total Non-Operating Revenue - Total Operating Expense) / (Net Patient Service Revenue + Total Other Operating Revenue + Total Non-Operating Revenue)) * 100

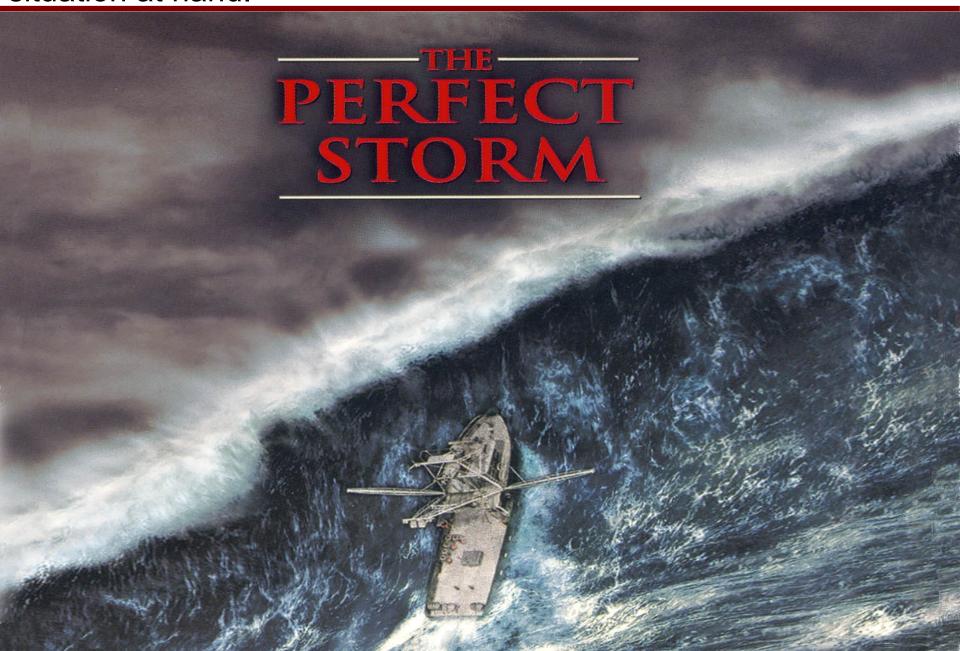
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MOODY'S OUTLOOK ON PROVIDERS, PAYERS, & UNIVERSITIES IS <u>NEGATIVE FOR THE FIRST TIME EVER</u>.





<u>Prediction #4</u>: And we are undersizing our responses to the situation at hand.



The UofC Challenge

- Revenue is flat (+1-2%) against budget (+6%) (reflecting national trend)
- Key financial assumptions for recession
 - Estimated to continue for 3 years
 - Philanthropy flat at best; grants flat
 - Clinical revenue grows 6% rather than 18% over those 3 years
 - Return on endowment
 - ➤ FY09 -30%
 - > FY10 0%
 - ➤ FY11 8%
- Effect of diminished endowment on financing critical investments

Immediate Budget Challenges

Happening Now

Δ

1. Revenue rising 1 - 2%, not 6%

\$60m - \$75m

Coming on Line in July

2. Base spending increases

\$15m

3. New Research building coming online

\$21m

4. Malpractice self-insurance investments

\$25m

5. Staff pension plan investments

\$20m

6. Incremental IT costs

\$ 5m

The Choices

1. "Wait and see" approach:

While income continues to decline, wait to see duration of recession

2. "Incremental" approach:

Begin to take out cost incrementally as revenue declines

3. "Major change and restructure" approach:

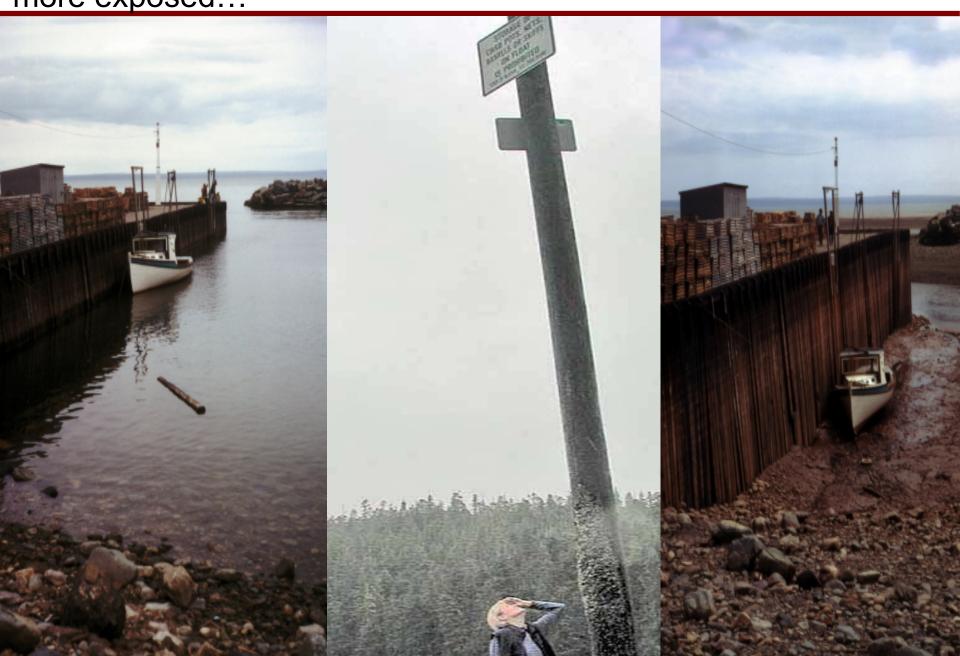
Take out cost in one profound step to bridge a prolonged recession

Trustee Engagement & Feedback

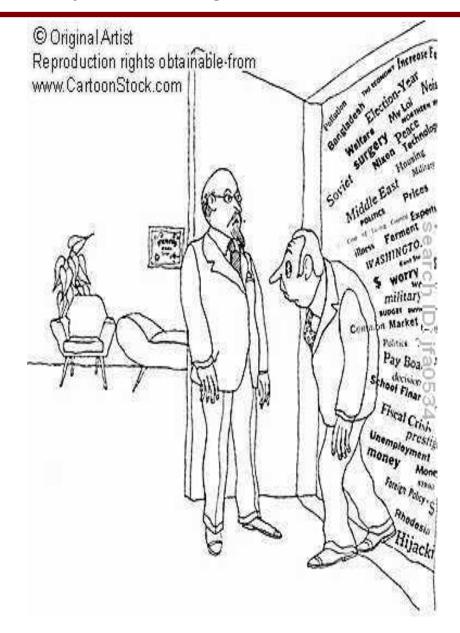
- Expressed appreciation for the 30-month targets (-3%; -6%; -6%)
- However, considerable sentiment the recession will be more severe
- Therefore, we agreed to a more aggressive and immediate 10% overall reduction and absorb inflation over the next 2.5 years.

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<u>Prediction #5</u>: The fundamental disconnects will be even more exposed...



Are you feeling like it is overwhelming?"







Prediction #6: "Death is not necessarily imminent"



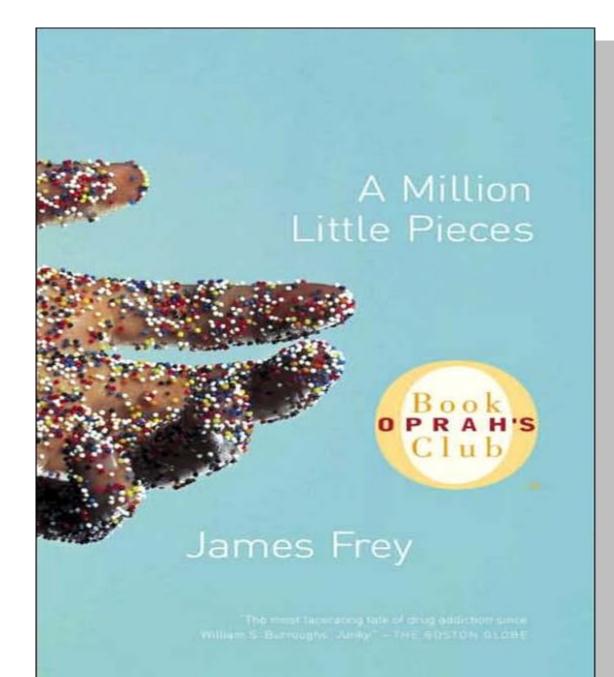
(think Hahnemann; the BI; Univ of Florida)

However, that which we believe to be solid, may not be...



What is the treatment plan?





5-Step Treatment Plan

- 1. Philosophic Musings & Structural Changes
- 2. Ask and Answer Fundamental Strategic Questions (eg: Should an Academic Medical Center Continue to be "All Things to All People"?)
- 3. Integrate Strategy & Budgets While Altering the Funds Flow
- Significantly Reduce the Cost Base by Removing the Waste, Duplication, Inefficiencies, and Variations
- 5. Generating the Courage to Lead

No matter how it seems, we really are all interconnected

Philosopher Dr. King

In a real sense all life is inter-related.

All men (AMCs) are caught in an inescapable network of mutuality, tied in a single garment of destiny. Whatever affects one directly affects all indirectly.

- Martin Luther King, Jr.

And your Chairs are your fundamental points of leverage

ARTICLE

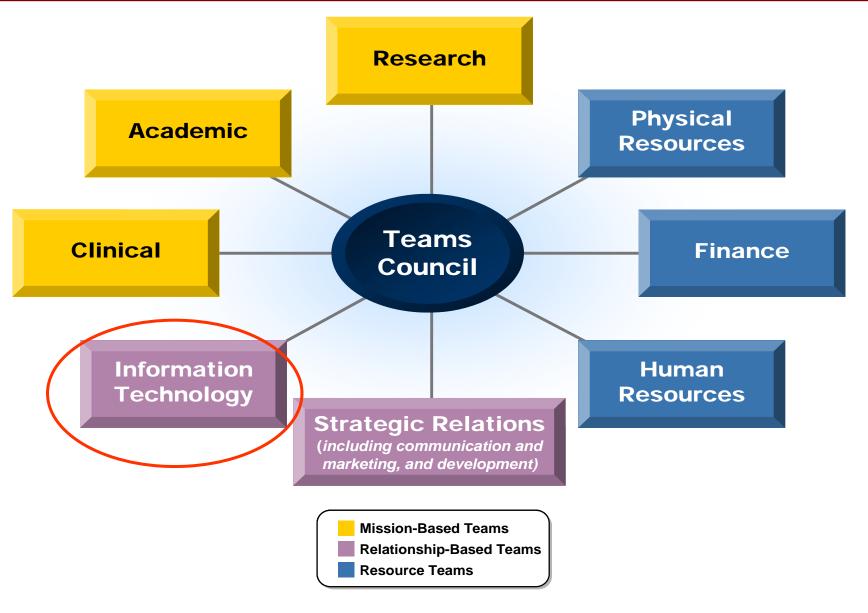
The Future-Oriented Department Chair

R. Kevin Grigsby, DSW, David S. Hefner, MPA, Wiley W. Souba, MD, ScD, MBA, and Darrell G. Kirch, MD

Leveraging Chairs and Division Chiefs to Build a Culture that Gets Results

BY DAVID S. HEFNER AND WILEY W. SOUBA, MD, SCD, MBA

Form Interdisciplinary teams that can confront and appreciate the complexities



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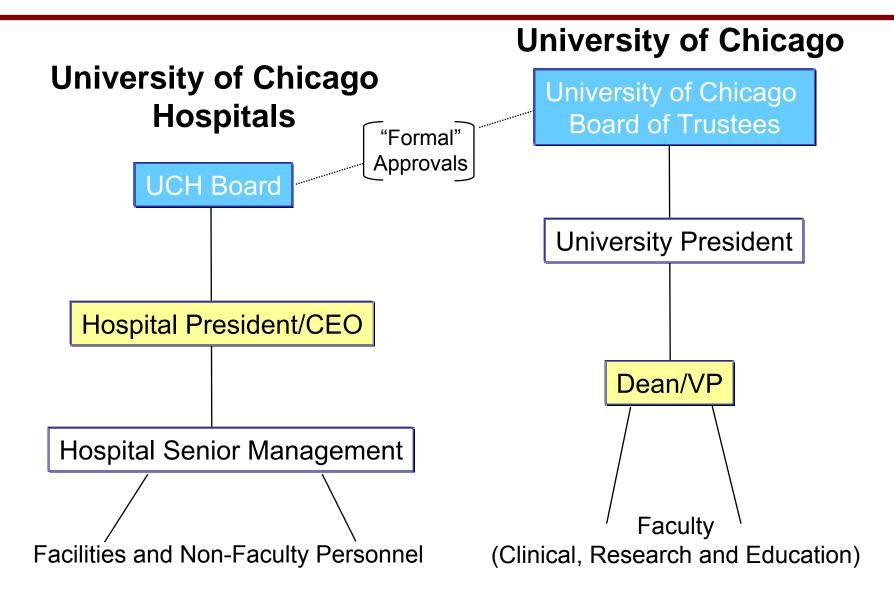
Philosopher Maguire



"~Help me...
help you,
help me,
help you...~"

AAMC GBA/GIP 4-09

Prior to 2006, UofC had a traditional governance structure



UofC unified governance



\$1.7 Billion



Integrated Patient Care Hospital & Prof Service

UCMC \$1.3B

Teaching & Research in Biology & Medicine

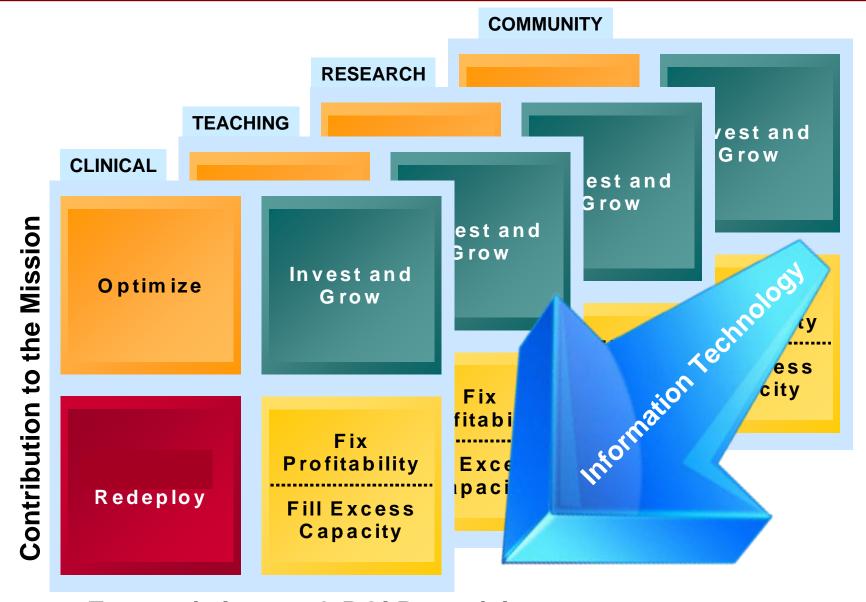
BSD \$400M

(However, structure is helpful but insufficient)

UofC 5-Step Treatment Plan

- 1. Philosophic Musings & Structural Changes
- 2. Ask and Answer Fundamental Strategic Questions (eg: Should an Academic Medical Center Continue to be "All Things to All People"?)
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UofC Developing a "4-Box" Mentality



Economic Impact & ROI Potential

AAMC GBA/GIP 4-09

UofC Implementing a Series of Difficult Choices

- PeriOp Flow
- Bed Capacity & Control
- Ambulatory Care
- Entire Labor Pool



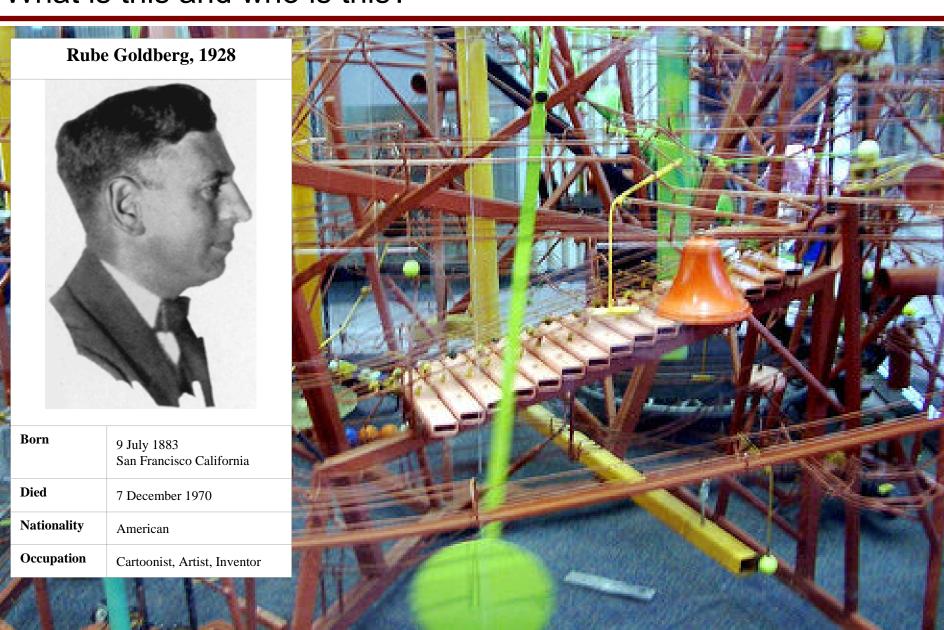
- Cancer
- GI
- Advanced Surgery
- Neurosciences
- High Tech Imaging
- Highly Distinctive Programs
- Supply Chain
- Revenue Cycle

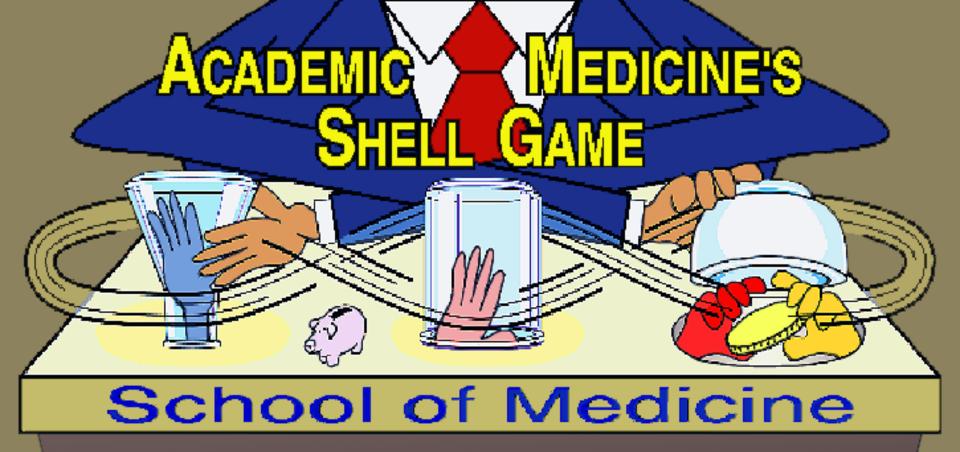
- Inpatient Psychiatry
- General Ophthalmology
- Low Risk Obstetrics
- General Medicine
- General Pediatrics
- Another 30 Gen Med Beds
- •8 ICU beds
- Emergency Dept Triage
- Faculty Attrition & Hiring

UofC 5-Step Treatment Plan

- 1. Philosophic Musings & Structural Changes
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What is this and who is this?







Courtesy: University of Maryland School of Medicine

UofC First-Ever Integrated Budget ...

ENTERPRISE-WIDE STRATEGY

Clinical Mission 5 Year Plan

Academic Mission 5 Year Plan



5 YR CAPITAL BUDGET

- Agree upon capital spending envelope
- 2. Organize capital budget template for each and every request
- 3. Assign "total cost of ownership" for each request
- 4. Prioritize the spend

YEARLY OPERATING BUDGET

- 1. Revenue allocations by mission
- 2. <u>Faculty compensation</u> expense allocations by mission
- 3. Staff and non-wage expense allocations by agreed upon methodology
- 4. <u>Productivity metrics</u> by Department by Faculty member
- 5. Organize <u>budget templates</u> for each Department & Cost Center
- 6. Organize <u>Budget Oversight Team</u> with cross-representation
- 7. Run the process



... with Interdisciplinary Team Members





(min. 1 yr. commitment)

COMMITTEE

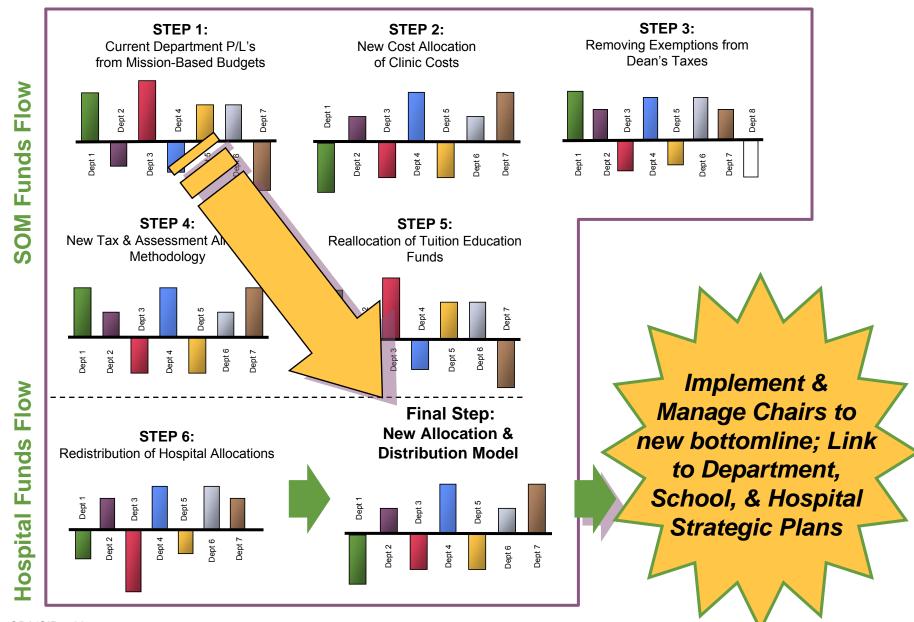
BUDGET OVERSITE

Broad faculty & management membership

- 1. Surgery Chair
- 2. Ophthalmology Chair
- 3. Basic Sciences Chair
- 4. Chief Medical Officer & Clinical Dean
- 5. Medical Education Dean
- 6. Research Dean
- 7. Practice Plan COO
- 8. **CFO**
- **9.** CIO
- 10. UCMC President



Recast the Internal Funds Flow by Applying Methodologies in the Light of Day



UofC 5-Step Treatment Plan

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UofC Macro-Economic Revenue Impact

Revenues

Current run-rate

\$1.5b

Prior 3 year growth path

3 years X 6% = 18%

Current 3 year expectation

6% total over 3 years = 6%

Total impact on revenues

 Δ 12% x \$1.5b = \$180m

UofC Macro-Economic Expense Impact

Expenses

Current run-rate

\$1.5b

\$1b "controllable" budget (allocations to six budget groups)

(2/3 labor + 1/3 non-labor)

\$500m depreciation, interest, insurance, costs recovered from grants & professional fees

-10% cost reduction achieved now = \$100m run-rate [-10% labor ~ 900 positions across faculty/staff]



Absorb 4% inflation (2x\$40m) for FY10 & FY11 = \$80m

Total impact on expense base = \$180m

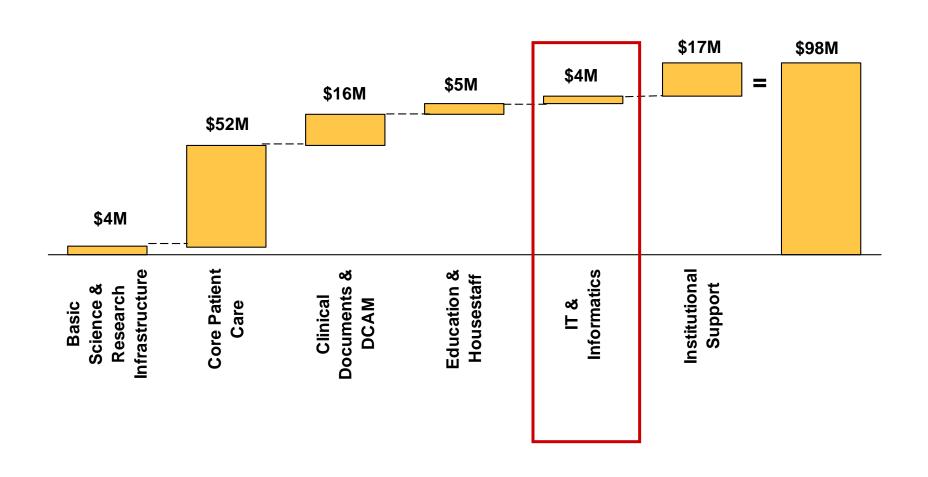
UofC 10% Targets Allocated to 8 Major Budget Groups

Major Budget Group	Target	Leads (accountable person)
1) Basic Science and Research Infrastructure	\$4M	Vinay Kumar, Neil Shubin, Jane Schumaker
2) Clinical Departments and DCAM Clinics	\$16M	<u>Harvey Golomb</u> , Carolyn Wilson
3) Core Patient Care Operations	\$52M	Carolyn Wilson, Harvey Golomb
4) Education and Housestaff	\$5M	Holly Humphrey, Gerard Mikols, Mike Simon
5) Information Technology & Informatics	\$4M	Eric Yablonka, Conrad Gilliam, David Hefner
6) Institutional Support	\$17M	Ken Sharigian, Larry Callahan

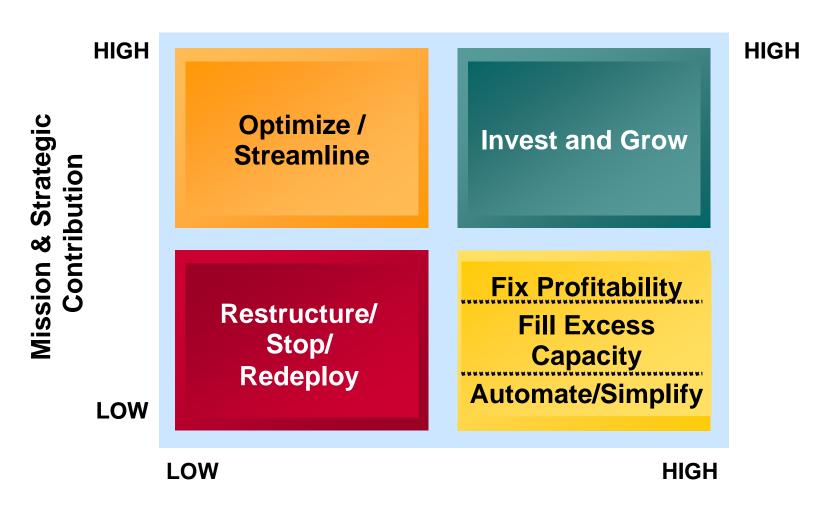
7) Capital Budgets	\$20M per year	<u>David Ho</u> , Jane Schumaker, David Hefner
8) Revenue Enhancement	2% per	Lawrence Furnstahl, Ken Sharigian, Mayumi
of itevenue Limanicement	year	Fukui, David Ho

UofC Allocation of the \$98M Targeted Savings

30-month Targets at 10% Savings

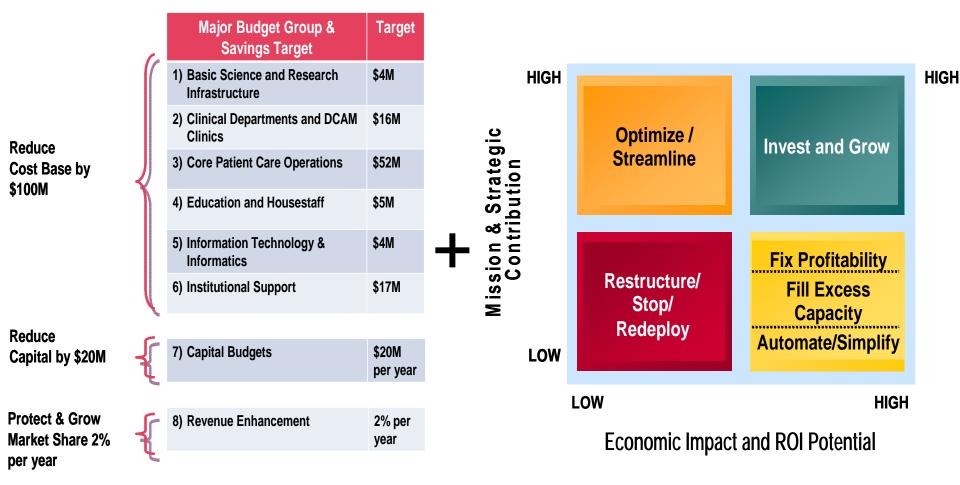


UofC Thought Process of "Four-Box" Thinking



Economic Impact and ROI Potential

UofC: 10% Targets & 4-Box Thinking Considered in Tandem



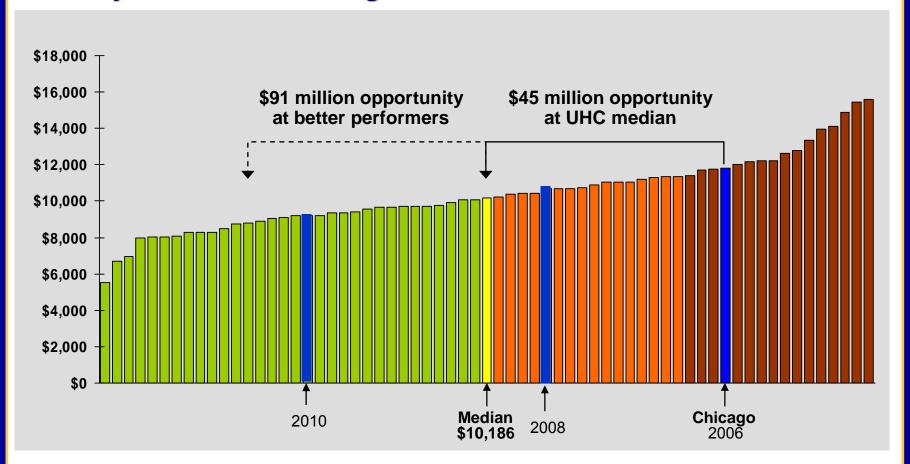
UofC FY10 Forecast as of April 1, 2009

Budget Committee	Status Indicator	Target Reduction %	FY 2009 Budget (Base Year)	Assigned Target		Identified		Identified, Discounted for Confidence Level		Implemented	
Basic Science and Research	₩	10%	\$ 44,776,866	\$	4,477,687	\$	3,729,306	\$	2,526,375	\$	567,095
Core Patient Care	₩	10%	\$ 518,782,049	\$	51,878,205	\$	50,653,008	\$	39,881,953	\$	22,909,945
Clinical Departments and Clinics	₩	10%	\$ 162,789,917	\$	16,278,992	\$	18,495,750	\$	13,560,975	\$	5,861,000
Education and Housestaff	₩	10%	\$ 48,014,146	\$	4,801,415	\$	4,271,000	\$	3,778,900	\$	1,610,000
IT and Informatics	*	10%	\$ 35,372,669	\$	3,537,267	\$	4,611,499		\$3,926,349	\$	2,682,188
Institutional Support	*	10%	\$ 167,313,497	\$	16,731,350	\$	19,053,990	\$	17,148,591	\$	16,357,891
Phoenix CPOE - Operating							(\$5,000,000)		(\$5,000,000)		
Unattributed RIF/Attrition Impact (net seve	rance)						\$1,555,745		\$1,555,745		
Grand Total			\$ 977,049,144	\$	97,704,914	\$	97,370,298	\$	77,378,838	\$	49,988,119

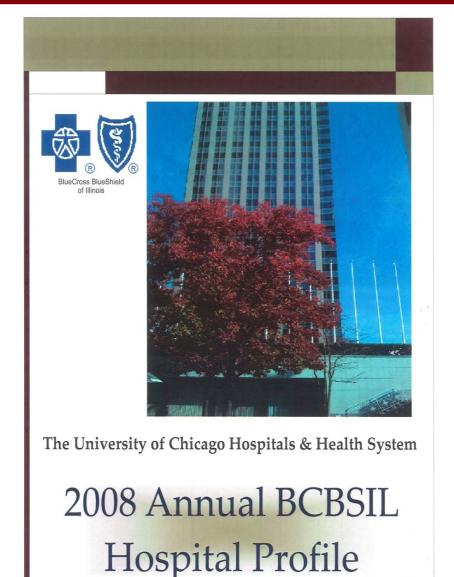
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Major Cost Reduction Opportunity

CMI-Adjusted Cost/Discharge



Quality: External Public Measures



2007 ***********

2008 *********

2009 **********

2010 *********

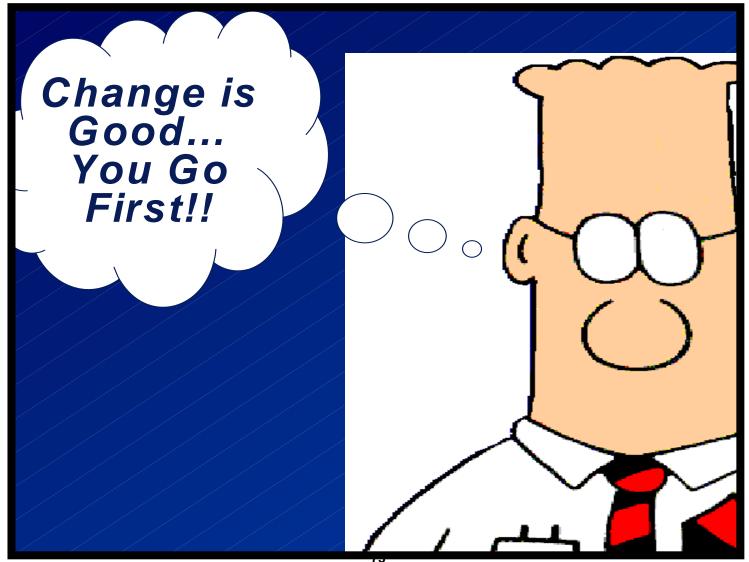
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5-Step Treatment Plan

- 1. Philosophic Musings & Structural Changes
- 2. Ask and Answer Fundamental Strategic Questions (eg: Should an Academic Medical Center Continue to be "All Things to All People"?)
- 3. Bridge Strategy → Finances → Execution
- 4. Alter the Funds Flow
- Significantly Reduce the Cost Base by Removing the Waste, Duplication, Inefficiencies, and Variations
- 6. Generating the Courage to Lead

Organizational Change, by it's nature, requires someone to lead

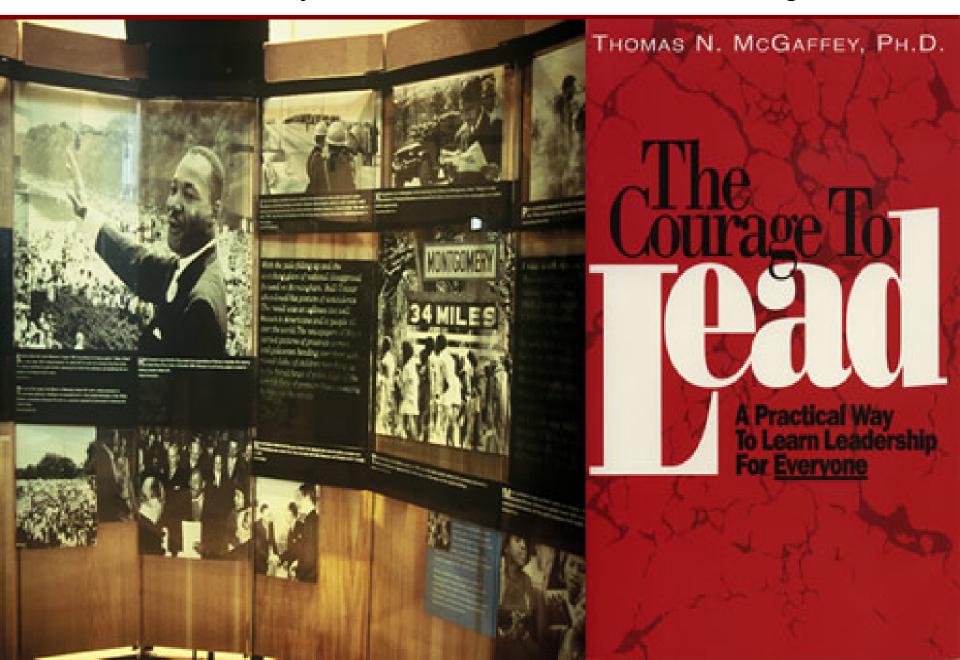
Philosopher Dilbert



Therefore, consider yourself "Neo" and have the courage to lead...



Therefore, consider yourself "Neo" and have the courage to lead...



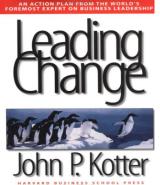
AN ACTION PLAN FROM THE WORLD'S FOREMOST EXPERT ON BUSINESS LEADERSHIP

Leading Change



John P. Kotter

HARVARD BUSINESS SCHOOL PRESS



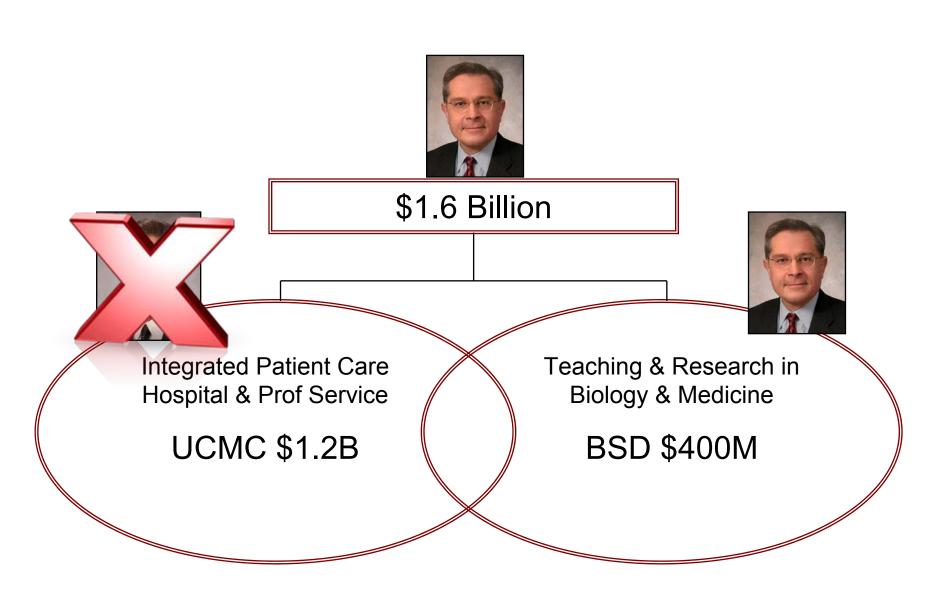
EIGHT STEPS TO TRANSFORMING YOUR ORGANIZATION

- Establishing a Sense of Urgency
- Examining market and competitive realities
 - Identifying and discussing crises, potential crises, or major opportunities
- Forming a Powerful Guiding Coalition
 - · Assembling a group with enough power to lead the change effort
 - Encouraging the group to work together as a team
- Creating a Vision
 - · Creating a vision to help direct the change effort
 - Developing strategies for achieving that vision
- Communicating the Vision
 - · Using every vehicle possible to communicate the new vision and strategies
 - Teaching new behaviors by the example of the guiding coalition
- Empowering Others to Act on the Vision
 - Getting rid of obstacles to change
 - · Changing systems or structures that seriously undermine the vision
 - Encouraging risk taking and nontraditional ideas, activities, and actions
- Planning for and Creating Short-Term Wins
 - Planning for visible performance improvements
 - Creating those improvements
 - Recognizing and rewarding employees involved in the improvements
- Tonsolidating Improvements and Producing Still More Change
 - Using increased credibility to change systems, structures, and policies that don't fit the vision
 - Hiring, promoting, and developing employees who can implement the vision
 - Reinvigorating the process with new projects, themes, and change agents
- Institutionalizing New Approaches
 - Articulating the connections between the new behaviors and corporate success
 - · Developing the means to ensure leadership development and succession

...but it is not without risks and could be dangerous.

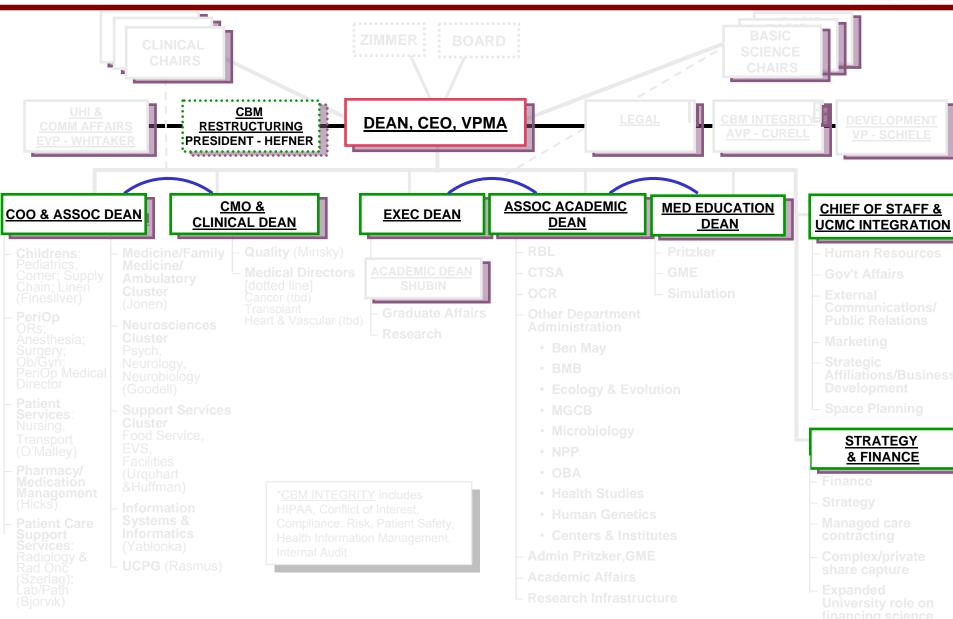


UofC Example: Next iteration of unified governance



UofC Example: Aligning Structures Our Strategy





And also being mindful of the "Culture Eats Strategy" notion

Chicago Tribune Trouble in the ER



U OF C SEEKING CURE FOR SOUTH SIDE POOR

University of Chicago Reconsiders Plan to Redirect ER Patients

Chicago Hospital Doctors Protest Planned Bed Cuts

University of Chicago ER sends kid mauled by pit bull home

Neighborhood concerns mount after U. of C. unveils plan to redirect some patients

University of Chicago Medical Center cutting 450 jobs U. of C. emergency recognitions.

Dissent halts ER plan at U. of C.

U. of C. emergency room to get more selective

New version of patient triage aims to cope with spiraling costs and long waits for treatment

By Bruce Japsen | Tribune reporter

Prediction #7: If we do not find the courage to lead, then it will be a "Back to the Future" experience



Penn Health System:

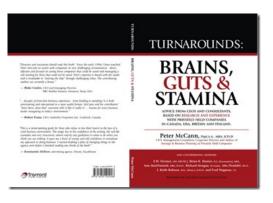
The Hunter Group and the Turnaround Project





Mount Sinai turns to advis Hunter Group cuts costs a





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DMC CUTS 2 EXECS IN TURNAROUND CAMPAIGN

CRAIN'S DETROIT BUSINESS

Article from:

<u>Crain's Detroit Business</u>

Article date:

November 16, 1998



Apr 08, 2003

Hunter Group offers Rx for fiscal stability

"Never doubt that a small group of thoughtful, committed people can make a difference.

Indeed, it is the only thing that ever has."

— Margaret Mead

Questions? Comments? Reactions?