

Health care: managed like the private sector?

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Introduction

When I arrived at the Ottawa General Hospital (OGH) in 1983 after five years at the Centre hospitalier de l'*Université Laval* in Quebec City, I thought I was in a different world:

- The collective agreements were one centimetre thick, not five.
- Everything that was not specifically prohibited in the collective agreement was management right, and we (management) negotiated collective agreements ourselves.
- The provincial government encouraged us to run the hospital like a private business.
- With the BOND program (Business Oriented New Development), we retained our surpluses and spent them as we wanted. Deficits were also our problem.
- Salaries and benefits of senior staff were at the discretion of the Board.
- Hospitals could run commercial operations. OGH offered housekeeping services, catering, dry cleaning, and gourmet meals.

The Ministry of Health introduced the BOND program in 1982, under a conservative government, as an incentive to public hospitals to control costs and increase revenues. Under BOND, OGH financed the construction of several new floors and a research centre.

This approach was influenced by the “New Public Management Theory,” which argues that the public sector should focus on efficiency, be divided into smaller entities and run like business with financial indicators, pay for performance, etc. Margaret Thatcher and Ronald Reagan, and later Mike Harris, George Bush, David Cameron and Stephen Harper adopted this theory with gusto. As did a lot of business people. In the 80s, influenced by that ideology, hospital Executive Directors became Presidents and CEOs, and their subordinates Vice Presidents.

New Public Management has endured through time. In a 2013 interview with *Politico*, Bill Gates criticised the US government for being dysfunctional. Gates argued that it is on a “non-optimal path” and that a “business that is maximising its output would proceed along a different path.” He remarked, “You don’t run a business like this.”¹

Let’s go back to the BOND program. In the mid-1980s, some hospitals started to run deficits. Government bailed them out because they could not be allowed to go bankrupt. In addition, some companies rumbled that they were treated unfairly because the hospitals’ charitable status allowed them to avoid taxes.

In 1991, the NDP government placed a moratorium on BOND due to problems associated with real-estate projects. In particular, St Michael’s Hospital in Toronto had serious financial problems due to real estate deals gone bad. The moratorium prevented hospitals from engaging in major revenue-generating projects

The Ministry of Health lifted the moratorium in 1999 (under Mike Harris) but limited its scope. In reality, BOND was made so restrictive and there were so many rules that most hospitals have given up.²

In fact, the government wanted hospitals to behave like the private sector as long as they toe the Ministry line (and don’t behave like the private sector). For example, hospitality expenses are strictly

¹ Aubrey Bloomfield, “Bill Gates Says Government Should Be Run More Like a Business: Why That’s a Bad Idea,” March 14, 2013, <http://mic.com/articles/29749>
² Miller Thomson, “Bond Policy,” July 10, 2002 http://www.millerthomson.com/assets/files/newsletter_attachments/issues/comm_bond_policy.pdf

controlled. A CEO managing a budget of \$1 billion is not allowed to buy a drink for a potential donor. As I said to a current minister of the Ontario government, the last time I bought a glass of wine for someone, he gave our foundation \$250,000. I thought that was a pretty good investment.

Here lies one of the fundamental differences between managing in the public sector and in the private sector... they don't operate by the same rules. Let's look at some of these rules.

Part 1: Operating Under Different Rules

1.1 Competition

If a private sector company has a good product at the right price and provides good service, it stands a good chance of making a profit. Competition is the name of the game. Competition drives the price down and pushes quality up. If customers don't like the offer or if they find a similar product at a better price elsewhere, they won't buy and the company will eventually go out of business.

The public sector functions in a completely different environment. Most public services operate as a monopoly: hospitals being a good example. Since 1995, successive governments have worked to eliminate competition in health care. This was the case in Ottawa with the merger of the General and the Civic hospitals, and in Pembroke with the closure of one of its two hospitals. In most municipalities in Ontario that had two hospitals, one was closed or its mission changed to eliminate perceived competition. A patient cannot walk out and go to another provider. Most of the time, there is no alternative.

1.2 Needs vs. expectations

Private sector companies respond to clients' aspirations. These aspirations or expectations don't necessarily reflect needs; they may be the result of skillful marketing campaigns. For example, if I want to change my car, the car dealership will be ready to sell me the car I *want*, rather than the car I *need*. Who *needs* more than a safe, reliable, well priced Toyota Camry or a Dodge Journey? Nobody *needs* a Mercedes, or a Porsche Cayenne. But the salesperson will never say, "You should consider the Camry. It's cheaper and will meet your needs perfectly." His/her job is to convince me that the Mercedes fulfills my aspirations, whether I need it or not.

The service provider in the public sector has a different responsibility. As the steward of public money, his responsibility is to provide what citizens *need*. If it also meets their expectations, that's great but not essential. Anyone who tells their physician, « I don't feel well; I want a CT scan, an MRI, a battery of tests, etc... » will not get it. Those services are available at a private clinic at a price. But not in the public sector. There, citizens will only get what their health professional thinks they need.

1.3 Volume and cost

In the private sector, each transaction usually generates a profit. Some product lines (food, for example) have a small margin; others (like furniture) have a large one. In some cases, a company may decide to sell some products at a loss for marketing reasons. But, generally speaking, the more products sold, the higher the profit. If a product does not sell well, the price will be discounted until people decide to buy it or the company will stop producing it.

In the public sector, the opposite is usually true. If emergency departments were private and in competition, they would be very happy to have more patients (clients). They would expand their facilities, add staff and physicians and minimise wait times. Some private hospitals in the US operate like that, and advertise their services to get more clients. Public hospitals, on the other hand, try to convince clients to go elsewhere because each additional person is an additional cost. The cost per patient may go down, but since there is no revenue attached, the overall cost increases. So the answer to volume is: wait time.

In the US, citizens or their insurance will be charged for every drug that is dispensed, and the hospital makes a profit with each little pill. This is a strong incentive to prescribe more. In Canada, hospitals pay drugs out of their budget; each prescription is an additional cost. The director of a hospital pharmacy in Canada cannot manage like in the private sector. His incentives are just the opposite.

Bed management is another example. The better a hospital manages its beds, that is, by shortening length of stay, the more efficient it is. That means treating more patients in the same room during a certain period. However, since the cost of hospital stays is higher during the first few days (because of cleaning, tests, surgery, etc.) than the last few (convalescence, monitoring, etc.) which require a lower ratio of staff per patient, higher efficiency actually means higher cost.

The global funding system is transitioning to relate more directly to volume and complexity. But isn't it strange that a provincial government like Ontario that is trying to eliminate fee-for-service as the main form of remunerating physicians is implementing fee-for-service for hospitals? It is too soon to evaluate this change but it is clearly an attempt to link volume and products (care) to revenue, as in the private sector. But will hospitals be allowed to behave like the private sector? For example, can they drop services that do not generate a profit? If so, who will provide the service instead, since competition has been all but eliminated? And if they are not allowed to drop services, how will they deal with their deficit? The overall amount of money available will not change, which means it will be reallocated between hospitals based on their efficiency and volumes. There will be winners and losers. What will happen to the losers? Let me guess... they will be bailed out.

Unless the private sector receives government grants, it will provide services only where it can generate a profit. For example, airlines serve areas with sufficient volume of travellers but will not serve remote areas without subsidies. If a store does not generate profits, it simply closes up.

The public service has to take into account the interest of the overall population. Some health services are maintained in areas where the sheer number does not otherwise justify it because of the government's obligation to provide health services to its citizens. There are also political imperatives and trade-offs that may preserve institutions or services in certain areas.

For example, when the government threatened to close its cardiac surgery program, my predecessor at CHEO mounted a hugely successful public campaign to keep it. Politics being what it is, the government eventually hired an expert to make recommendations; things dragged on and then, one day, the government changed, and CHEO happened to fall in the riding of the new Premier. Saved!

1.4 What private sector? Target...? Nortel...?

When politicians talk about managing the public sector like the private sector, exactly what private sector are they talking about? Target? Nortel? Enron? The large investment companies and banks that caused the sub-prime crisis? There are plenty of great organisations in the private sector, but also too many poorly run companies. Some disappear because they provide poor service, are inefficient, not innovative enough or their product becomes obsolete. Even the best-run private sector companies cannot be a total inspiration for the public sector.

Part 2: Value for Money vs. Public Value for Taxpayers' Money

2.1 Value for money

There is also a perception that the private sector always delivers better value. But the US health system (50 percent more expensive per GDP than the Canadian system) leaves a large proportion of the country's population without health insurance. And most of this excess cost is the result of higher administration cost. This is a good illustration of market failure.³

2.2 Technological innovation vs public innovation

Most people think of innovation as something that is typically private sector: developed in the private sector, adopted first by the private sector. All this is very true, and it shouldn't come as a surprise.

- The private sector has more capacity to raise capital.
- It is less risk-averse because the consequences of errors matter less.
- It can test its product with one segment of its market whereas the public sector is responsible for the whole population.

On the other hand:

- The impact of error in government is much more important: think Thalidomide, boarding schools for aboriginals or Mirabel.
- Government staff have very little incentive for taking risks on policy or programs, or achieving goals more effectively. In addition, the potential for substantial criticism and other personal loss if the innovative attempt fails is high.

That said, the public sector has been and continues to be the source of public innovation that transforms the world we live in. The public sector gave us the radar, computers, a man on the moon, and our way of life.

We owe to public institutions many of the innovations that have given shape to the societies we live in today. They have given us the nation state and the rule of law. They have created the policies and programs that have contributed to building societal solidarity—from public health and public education systems to public pension and support programs to assist citizens most in need. They have generated the laws necessary for a market economy to flourish, from corporate laws to intellectual property and the regulation of financial institutions. They have built the infrastructure needed for a modern society and economy to develop, including roads, harbours, airports, as well as the modern information and communication infrastructure.

Examples of recent innovations include government interventions to rescue financial institutions, which have given new meaning to private risk and collective responsibility for the unprecedented use of monetary policy and quantitative easing to mitigate the impact of the “great recession”.⁴

³ Makai McClintock, “Five faults of capitalism: market failure,” *The Massachusetts Daily Collegian*, February 25, 2013, <http://dailycollegian.com/2013/02/25/five-faults-of-capitalism-market-failure/>

⁴ Jocelyne Bourgon, “Public Innovation and Public Purpose, A Follow up to the OECD Conference, Innovating the Public Sector: from Ideas to Action Paris, November 2014”, www.nsworld.org

2.3 Measuring success

Generally speaking, the private sector measures success in terms of profit, return on investment, and the value of the stocks and shares.

Not so easy in the public sector. When I was at CHEO, we worked hard with the LEAN approach to reduce the wait-times in Emergency. And we were successful. So much so that more people started to show up. The volume increased by 20 per cent and wait-times crept up again. How successful was that?

What if the Ministry of Employment could process unemployment insurance payments at a record pace, but unemployment rose faster? What is success? This example may be a success for that Ministry and a failure for the government as a whole. Measuring success only in terms of one specific agency's output is not sufficient. Measurement must include agency output, system results and societal outcomes.

Of course, the public service must increase its efficiency wherever and whenever it can. And there *are* areas where the private sector is a good model. But the pursuit of maximum efficiency may have very perverse impacts. A case in point is hospital occupancy rates. It is generally accepted that an optimal occupancy rate for an acute-care hospital is 85 per cent. This allows hospitals to face peaks and valleys, respond to crises or outbreaks of infectious diseases and use staff efficiently. But this is difficult to understand for people who think hospitals should be managed like the private sector. Over the years, hospitals and beds have been closed to the point where occupancy rates hover around 100 per cent most of the time. This means that people stay longer at Emergency, surgeries are postponed, hospitals are short staffed, etc... Efficiency gains may reduce the overall effectiveness of the system. We could have very efficient hospitals but a very unhealthy population. Is that success?

Medical tests are another example. How many times have I seen reports that say 40-50 per cent of tests ordered are useless? This shows a lack of understanding of the system. A negative test is not necessarily a useless test. Tests are used in large part to rule out certain problems. If 100 per cent of tests were positive, some politicians would think this is very efficient. I would consider that very dangerous.

2.4 Pay-for-performance

The concept of pay for performance has been around for a long time. The Ontario government imposed it on hospitals back in 2009, linking part of senior management pay to specific criteria, including some imposed by the government.

I have never been a big fan of pay-for-performance in the public sector (at least not in the format that it has been imposed) because attributing results to specific individuals is far from obvious when you don't have a clear bottom line like the private sector. Plus, I have serious doubts that it would be motivational. This is particularly true in hospitals where those who decide who your clients are, how long they will stay and what services they receive are not your employees (i.e. physicians).

A former colleague was CEO of a hospital when the government forced hospitals to introduce pay-for-performance. One of the criteria was wait-times at Emergency. "No problem", she said, half-jokingly. "If my pay is to be based on wait-times at Emergency, there will be no wait. But look out for what happens in other areas!"

For example, my hospital might have short wait-times at Emergency, for MRI and orthopaedic surgery, but a two-year wait to see a psychiatrist or for dental surgery. But because the first criteria are part of my performance pay, I am rewarded for what works without being penalised for what doesn't.

In addition, the work of a senior executive is mainly long term, while performance pay rewards short-term gains. Part of my job was to help increase integration of services in our region, select the right technology for the future, recruit the best physicians, contribute to fundraising, etc. Nowhere were these tasks considered in the performance pay scheme.

Performance pay is an appealing idea, but the experiences reviewed in this study indicate that its implementation is complex and difficult. Previous OECD studies on the impact of performance pay at the managerial level concluded that many of the schemes had failed to satisfy key motivational requirements for effective performance pay, because of design and implementation problems, but also because performance assessment is inherently difficult in the public sector (OECD, 1993; OECD, 1997). Performance measurement in the public sector requires a large element of managerial judgement. The notion of performance itself is complex, owing to the difficulty of finding suitable quantitative indicators and because performance objectives often change with government policy. Many studies have concluded that the impact of PRP on performance is limited, and can in fact be negative.⁵

Part 3: Customers, Consumers, Clients, Taxpayers, Citizens

Citizens have rights and obligations that come from their status and that help our societies function. As citizens, people are entitled to equal or equivalent treatment from the public services they contribute to fund through their taxes. They are entitled to some services whether or not they pay taxes. And when there is a user fee, it is usually much lower than the cost of the service received.

Of course, public organisations should try to provide the best and most efficient service possible for their clients. But citizens are not “customers”. The service they receive is related to their status as a citizen rather than to their capacity to pay.

There is more to citizenship than paying taxes. Constantly referring to citizens as taxpayers tends to assimilate government services to a commercial transaction between a client and a vendor. You pay me this and I give you that in exchange. This is not how a country operates.

Here is an article written about the electoral campaign for Toronto mayor when Rob Ford was elected:

Apparently we're a city of customers now. We're not citizens, residents or even taxpayers. The vocabulary has shifted so dramatically in this election that it seems the very notion of civil society is under linguistic attack.

Customers get exactly what they want when they want it. Taxpayers, on the other hand, get duped into paying for things they have no direct use for.

While Rob Ford calls for “a customer-service approach to city services,” George Smitherman declares, “a City Hall under my leadership will put the customer first.” To this end, he's proposed “citizen feedback portals” where “citizens and visitors can instantly grade the quality of service received.”

⁵ OECD, “Performance-related Pay Policies for Government Employees,” report published by the OECD, May 20, 2005, http://www.oecd-ilibrary.org/governance/performance-related-pay-policies-for-government-employees_9789264007550-en

Indeed, the notion that we are clients entitled to a dollar-for-dollar return on our tax investment became epidemic in this election.

Fair enough. It is reasonable to expect decent services, and a city hall that communicates with residents.

But if the client is always right, what happens when there are 2.5 million of them, each with different needs, priorities and views on how his/her money should be spent? What about the client who wants increased funding for the arts? Or the one who would rather have an light-rail stop within walking distance from home than a useless IOU for an imaginary subway? Are they right, too?⁶

Unlike private sector organisations, government organisations have a legal obligation to serve and be accessible to all constituents. Governments cannot choose their clients. Citizens have a right to some services, thereby creating an obligation for a government agency. A private sector business can analyse its markets and opt to target clients with specific characteristics or needs. They can retreat quickly under poor performing results, undesirable segments or onerous challenges. Governments simply cannot do that.

Part 4: Education Programs

All of the above should have consequences on how we teach administration and management. If we assume that management in the private and public sectors is basically the same then, for example, a Masters in Health Administration (MHA) program will become part of an MBA program, as is the case at the University of Ottawa. If public administration were fundamentally different, that would be reflected in a distinct public administration program (MPA), of which health administration would be a component.

Although some overlap exists in the coursework for these two degrees, the two programs have a very different focus. An MBA program provides training in private-sector management. As stated above, the success of a private business is measured primarily by its profitability, so business schools train future managers to make as much money as possible for their organisation. The emphasis is on economics, finance and marketing,

In contrast, an MPA program concentrates on management in non-profit and public-sector organisations. The mission of these organisations is to serve the collective and improve the social condition. Managers need to understand that the success of their organisation is difficult to measure. They must be prepared to make trade-offs between the demands of competing groups of citizens and government agencies, to learn how to engage citizens. They must have the skills to raise funds from donations, foundations, and government grants for their activities.

In the end, MBA programs concentrate on the economic market while MPA programs work towards social solutions. There is a world of difference between making an individual company or corporation more profitable and leading an organisation that is trying to make the world a better place.⁷

⁶ Hume, John. "Customer vs Taxpayer, Service industry rhetoric degrades democracy," September 30, 2010, www.nowtoronto.com

⁷ "MPA Vs. MBA Programs: Which Is Right For You?" <http://www.careerealm.com/mpa-mba-programs/>

Of course, some skills and behaviours are the same in both sectors. But what makes a good leader in the private sector will not necessarily make the same person a great leader in the public sector, and vice versa. I know more public sector leaders who were successful in the private sector than the opposite. Several attempts have been made to bring private sector leaders in positions of deputy ministers at the federal level: most were not successful; some were disastrous. The former CEO of a very successful private company who became later mayor of Ottawa told me one day, as he was embattled with a number of intractable issues: I never thought the public sector was so complex.

Conversely, I can think of several federal DMs and ADMs who have had very successful career in the private sector: Gaétan Lussier at Culinar, Paul Tellier at CN, Bob Brown at Bombardier are just a few examples. But most of those I know who left the public sector for the private sector longed for the complexity of public policy issues. Prof. Donald Savoie said:

Politicians grabbed the policy-making levers and decided to turn bureaucrats into better managers. Public servants were not about to admit that their management skills were lacking, so politicians looked to the private sector for inspiration. As a result, strategic plans were turned into business plans, citizens into customers and cabinet into a powerless board of directors, and attempts were made to tie pay to performance.

The notion that public administration could be made to look like private-sector management has been ill conceived, misguided and costly to taxpayers. Management in the private sector has everything to do with the bottom line and market share. Administration in the public sector is a matter of opinion, debate and blame avoidance in a politically charged environment. It doesn't much matter in the private sector if you get it wrong 40 per cent of the time so long as you turn a handsome profit and increase market share. It doesn't much matter in the public sector if you get it right 99 per cent of the time if the 1 per cent you get wrong becomes a heated issue in Question Period and the media.⁸

Conclusion

There are good and bad organisation, good and bad managers, in both the private and the public sectors. It is too simplistic to postulate, as is too often the case with right wing advocates, that the private sector creates wealth and the public sector just wastes taxpayers' money. A well performing public sector is essential for the development, the operation and the progress of society. But assessing the performance of the public sector is more complex and the criteria cannot be the same used for the private sector. A dynamic private sector and a well performing public sector are both essential for any society to thrive and provide a good standard of living to its citizens. Public sector managers should not manage as if they were in the private sector. Their goal is to serve the citizens of their country, not the owners of their company.

⁸ Donald Savoie, "Running government like a business has been a dismal failure," *The Globe and Mail*, January 7, 2013.

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