



# Health Care Governance in Volatile Economic Times: Don't Waste a Crisis

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## A MESSAGE FROM THE OHA

As part of its mandate to promote and foster excellence in health care governance, the Ontario Hospital Association (OHA), in partnership with Deloitte, is pleased to offer *Health Care Governance in Volatile Economic Times: Don't Waste a Crisis*.

Following participation at the OHA's May 2009 conference, *The Changing Financial Landscape – Governing in Tough Times*, Deloitte interviewed a number of health care board members from across Ontario, as well as recognized experts in health care governance. In all cases, one message stayed constant: while the private sector is challenged by unprecedented economic uncertainty, hospitals, community services and other health care providers in the province have a long history of operating in difficult economic circumstances.

However, the gravity of today's economic situation is truly unprecedented. While health care organizations may be familiar with operating in tough times, the long-lasting impact of today's deficits is an entirely new challenge. Therefore, because it is so difficult to determine the many possible ripple effects of today's economic downturn, this document has been designed to include questions board members should ask at any time, for any fiscal challenge.

Recognizing the uniqueness of all health care provider organizations, this resource allows users to customize the information according to their own specific needs and realities. The *Key Questions to Ask* seeks to assist board members fulfill their fiduciary duties as directors on hospital boards and representatives of their communities.



## Acclimatize to a New Reality

### TODAY'S ECONOMIC DOWNTURN: A NEW FRONTIER FOR HEALTH CARE BUDGETS

As the recession continues to make its mark on today's society, the public sector must acclimatize to a new reality, accepting the notion that even as the recession ends, its effects will be sizeable and long-term. At the time this paper was written, the Government of Ontario had projected a decline in the province's GDP by 3.5 percent in 2009 and a 2009/2010 deficit of \$24.7 billion.<sup>1</sup> This is, no doubt, a significant debt – one that will take many years to repay and that will have significant impacts on public sector organizations. Consider the *2009 Ontario Economic Outlook and Fiscal Review* that made specific reference to conducting a rigorous strategic spending review focused on ensuring the continued relevance and effectiveness of government programs and services and the ways they are funded.

In addition to revenue reductions, the province is facing program pressures coupled with growing interest on the provincial debt that will likely continue stressing health care budgets in the years to come. Hospitals, dependant on the government allocations they receive from Local Health Integration Networks (LHINs), should expect the depth and intensity of the recession to continue to significantly impact their financial situation for many years ahead.

#### Don't Waste a Crisis

Describing Ontario's health care transformation as a work in progress, many hospital board members explain that their organizations face significant challenges and therefore need to look beyond their own doors and explore broader system changes. Ontario hospitals have a demonstrated history of operating with considerable financial caution while carrying out substantial restructuring plans. They also have experience making difficult decisions for long-term sustainability in light of limited financial resources. That said, these leaders also know that past solutions will not be sufficient for the time ahead and that new, innovative approaches are essential. The economic crisis puts forth many opportunities, and these are opportunities that cannot be wasted.

Boards committed to good governance and with appropriate skills and competencies are best positioned to make sound decisions in the best interest of the local health system.

<sup>1</sup> 2009 Ontario Economic Outlook and Fiscal Review, p. 21 & viii.

The trend to partner and collaborate within LHINs and with other health care providers, coupled with the economic realities of the day, suggest the need for a new, high-priority platform of health care change and transformation. Today's financial crisis, the magnitude of which has only begun to unfold, may very well be the impetus required to drive dramatic reform that results in a far better, more integrated health system.

This report provides an overview of the following familiar and emerging issues board members reported on during conversations, symposiums and conferences related to the dual issues of economy and health system sustainability:

#### KEY GOVERNANCE ISSUES

##### Familiar

- Governance basics
- Risk management
- Productivity
- Quality and patient safety
- Increasing demand
- Efficiency

##### Emerging

- System-wide perspective and commitment
- Process improvement methodologies (e.g. Lean)
- Capacity planning - having the right mix of services in the community
- Ensuring consistency with clinical evidence

#### KEY GOVERNANCE ISSUES - ON THE AGENDA

- Health human resources
- Health promotion
- Upstream and downstream partnerships

#### Challenging Economic Times: Key Governance Questions to Ask

- Does our board thoroughly appreciate the implications the recession will have on the funding of the health care system over the next several years?
- What is the leadership role for the board during this economic crisis; has it changed, is it evolving and are we positioned to respond?
- How can we work with other health care providers to help us all weather the economic storm?
- How are other health care providers' deficits affecting our organization?
- What are other organizations, in our LHIN and beyond, doing to cope with financial challenges?



## THE NEW CHALLENGES

### The Economy

While exact measures of the economic crisis and their outcomes on government funding allocations are difficult to pinpoint, we know that:

- Globally, there has been a sharp decline in World GDP Growth since 2007.<sup>2</sup>
- The abrupt contraction in the global economy has led to weaker-than-expected economic growth in Canada. The federal budget is projected to remain in a deficit position until 2013-14, at the earliest.<sup>3</sup>
- Ontario is currently in a year of revenue decline and has projected to run a deficit until 2015-16.<sup>4</sup>
- In order to return to balanced budgets by 2015-16, the Ontario government intends to hold average annual growth of core program expenses to less than the average growth of revenue.<sup>5</sup>
- The Ontario Treasury Board will conduct a strategic spending review of high-impact areas, such as health care, that will focus on the “continued relevance and effectiveness of government programs and services and the way they are funded.”<sup>6</sup>

Despite some indications that certain countries and/or sectors may avoid or recover from recession impacts, the magnitude of today’s debt will, likely, lead to very real challenges for years to come, requiring hospitals to adapt to a new economic reality.

### System-wide Perspective

Historically, board members have focused on knowing their organization and their community to provide governance leadership. Over the last decade, however, increased importance has been placed on establishing boards that are skills- and competencies-based (i.e., finance, capital, stakeholder consultation, patient safety and quality, and legal).

Understanding the services and programs of other providers, particularly those within a LHIN, will significantly improve boards’ abilities to provide effective leadership and governance, optimizing resources and patient care in return.

In recent years, Ontario’s hospitals have experienced a dramatic increase in the number of Alternative Level of Care (ALC) patients who should be cared for in non-hospital settings. With hospital in-patient capacity maxed out by patients in need of care in more appropriate settings – such as in the community with care supports, assisted living, palliative care, or long-term care – and hospitals facing enormous pressures to respond to increasing demand for services, the current economic downturn makes it essential that we explore broader, system-wide integration and embark on long overdue changes to put the appropriate mix of capacities of these non-hospital services in place.

As the Ministry of Health and Long-Term Care (MOHLTC) releases several pending policy documents such as its ten-year plan, its Mental Health Strategy, and its Rural Health Framework, it is clear that boards are being looked on to build capacity and capability for a range of areas, including clinical care models, demographic demands, changes in scope of practice, workforce profiles, distribution of resource to ensure reasonable access to care, patient flow, critical mass, quality, patient safety, community engagement, and partnership building with other organizations. As the complexity of the sector accelerates, skills in integrative thinking are becoming more of a critical component to board composition.

### Trust and Transparency

The Ontario health system has many partnership success stories that organizations can build on in an effort to work better together, knowing that efforts in building trust and transparency will be particularly crucial. A number of LHINs have formal structures in place for collaboration among provider boards, and many board members have shown strong interest in increasing board-to-board relationships that will enable better-decision making for the “system” as a whole.

### Decision-Making

The value of accurate and timely information remains an important element in making well-informed decisions and performance assessments. As stewards of their hospitals’ financial affairs, boards are required to monitor their organizations’ financial state against approved operating plans. This responsibility becomes increasingly challenging and subject to criticism during the fallouts of a recession, making success dependent on the strength of a board’s ability to make sound, well-informed decisions.

### Stakeholder Consultation

Difficult decisions are often deferred because of community expectations. Consultation and collaboration can be considered both fundamental to the decision-making process, or, on occasion, an impediment to achieving necessary results.

Communities tend to care more about the local than the regional, and it will be important for board members to champion and lead change at all levels. Board members in today’s unprecedented environment need to be focused on system integration and must help lead change that fosters community understanding and support.

### Leading Change

While many board members are passionate about leading change, they also recognize that few sectors are as “change fatigued” as health care. In a sector where change is the only constant – from evolving LHINs, to broader system integration, to expanded scopes of practice for professional staff – it is imperative for boards to move from planning to execution and to lead change with results.

Leading change is a core function for hospital boards, and today’s board members must realize the potential harm of not evolving to meet the new and unique challenges of the day.

### Clinical Best Practices

Hospital boards are not expected to be composed of clinically trained professionals; they are expected, however, to play a strong role in generating the will to improve their organization and ensuring the execution of best practices among clinicians and within the overall organization. Boards should view their relationship with physician leaders and hospital management as an opportunity to engage clinicians in identifying and implementing best practices. Using appropriate channels and a transparent, two-way engagement process, a board should have a clearer answer to the question, “Are we performing the right procedures in our hospital?” and “Are we carrying out clinical services according to evidence-based best practices?” The strongest boards are the ones that commit to adopting emerging, evidence-based clinical best practices, and then oversee execution in a manner that is consistent throughout their institution. This is especially true if boards intend to, as they should, hold physicians accountable to providing safe and efficient care.

<sup>2</sup> 2009 Ontario Budget, p. 3 & 47.

<sup>3</sup> Canada’s Economic Action Plan: Federal Budget January 27, 2009.

<sup>4</sup> 2009 Ontario Budget, p. 48 & 49.

<sup>5</sup> 2009 Ontario Budget, p. 83.

<sup>6</sup> 2009 Ontario Economic Outlook and Fiscal Review, p. 45.

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**Building A System-Wide Perspective: Key Governance Questions To Ask**

- How has our board understood its changing role in the context of system transformation, and are we positioned to lead with necessary skills, competencies, and committee and decision-making structures?
- Is the work we do with our LHIN and other health service providers focused on access to care and on developing the right capacity mix?
- What can we do to further support health system integration among service providers within our community and to ensure all clinicians are committing to clinical best practices.
- Are there changes that we can make within our organization and in partnership with other care providers to achieve greater system-wide efficiencies?
- What are we doing to be seen as trusted partners in the health care system? Do we feel that our relationships with our LHIN and other providers enable us to efficiently deliver safe care in our communities?
- Are we confident in the strength of our decision-making processes given the challenges and pressures we face during the lengthy fallout from the recession? Is the information we receive from our senior management appropriate and timely given our role as stewards of our organization's financial affairs?
- What will system integration mean for our communities and how will we engage with them?
- Is our board focused on leading change through results?
- Do we have mechanisms in place to ensure meaningful discussions and exchanges of ideas with management, physician leaders and patient care staff?
- Are we confident that our physicians are performing the right procedures in line with evidence-based emerging best practices?

**THE OLD CHALLENGES**

While hospital board directors are confronting a rapidly changing health care landscape and many familiar challenges remain top of mind, the solutions remain ever changing. For example, where cost reduction used to equate to simple service reduction, leading organizations now look through the “Lean” lens and ensure core processes are both efficient and effective, optimizing both productivity and clinical outcomes through, for example, enhanced patient safety.

**Governance Basics**

Over the last few years, Ontario hospital boards have made great strides towards improving their quality of governance. The time is ripe now for boards to continue ensuring that skills and competencies needed for these unusual times are in place (e.g., through changing board composition, the use of advisory committees, education, etc.) and that board performance is rigorously assessed and areas for improvement are identified and addressed.

**Understanding the Problem**

It is critical that all board members understand the impacts of today's economic crisis and what it means for their organizations' futures. In the time ahead, transfer payments from government will likely be capped (at the same time that demand grows) and financial resources available from Foundations and other philanthropic sources may decline. Boards must also consider the impact of investments, the conditions of covenants and loans, and be familiar with the status of accounts receivable. A watchful eye on the supplier network is critical to ensuring risk (e.g., supplier failure) is being managed and the safety of patient care is maintained.

**Risk Management**

Strongly related to understanding the magnitude of the challenges being faced is the constant need to be attentive to the organization's risk management framework, ensuring a holistic view is being taken. Where risk management is concerned, the line between management and governance can often become blurred, but recent events in the credit market have underlined the importance of strong board leadership in enterprise-wide risk management activities. In health care, the board is ultimately held accountable for organizational performance.

**Productivity, Quality and Safety**

Over the long-term, even though financial resources will be limited Ontario will see an increased demand for health services with an aging population and greater prevalence of chronic diseases. In this context then, board members must raise their attention to and accountability for the balance of achieving improved productivity with increasingly limited resources – human, financial, materials — and the responsibility to ensure ongoing quality and patient safety.

**Efficiency**

Today's economic environment demands a greater focus on cost management and cost reduction than what health care organizations have grown accustomed to in recent years. The focus on cost management must always balance short-term gains with long-term perspective, ensuring that today's pressures do not compromise future operations and opportunities. In the short-term, organizations typically focus on discretionary spending – training, travel, internal events – but most do so in a manner that does have unintended adverse impacts.

There is also a need to attend to the major cost drivers in the hospital environment – employees, physicians, drugs, and supplies – and ensure that dollars are being well spent and that any opportunities for cost reductions are being pursued.

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**Familiar Territory: Are We Continuing to Ask the Key Questions?**

- Does our board have the right membership and structure to ensure the right core knowledge is available?
- Are we focused on continuing education for members to ensure appropriate level of knowledge in key areas (i.e. patient safety, risk management, community engagement, etc.)?
- How aware is our board of the effect that declining provincial financial resources have on various sources of revenue (transfer payments, investments, donations to the Foundation, etc.)?
- As a board, have we identified areas of risk requiring our oversight? Are we prepared to react when provided with information indicating serious risk to our hospital?
- Have we explored all opportunities for improving productivity while ensuring patient safety and quality? Does the board have clear aims for quality improvement and are they aligned with improvements to productivity?
- Are we ensuring that our short-term cost reduction strategies are well managed to avoid dramatic adverse impacts (staff morale), as well as not compromising our future strategies?
- Is patient safety and risk management top-of-mind across the organization? Have we identified and are we tracking the appropriate indicators?
- Do we have a balanced scorecard and metrics-focused dash board that ensures we are attentive to the right areas? Are we receiving the right information to enable action and decision-making on key issues?

## ON THE AGENDA

Somewhere between familiar and emerging issues are a number of areas that remain on the agenda, but are not yet receiving system-wide attention from Ontario's health care boards.

The three most often identified issues are:

- Health Human Resources (HHR)
- Health promotion; and
- Upstream and downstream partnerships

These three issues require a balance not only of organization and LHIN-specific cooperation, but also coordination and cooperation with and between provincial and federal governments. For board members, these types of issues that have no natural borders require new types of thinking, new levels of understanding and leadership from health provider boards.

### Ongoing Issues: What are the Right Key Questions to Ask?

- Does the board have a view of the critical workforce segments and where the organization is at risk – leadership, clinical, other?
- Are we working with other organizations and our LHIN collaboratively to address human resources needs?
- Do we understand the provincial priorities related to health promotion and are we leveraging systems and applications to improve our organization?
- Are we supporting long-term system sustainability by ensuring that our organization and our LHIN are prioritizing health promotion?

## CONCLUSION

Over the last number of years, whether serving on a publically traded corporate board or on an Ontario hospital board, the complexity, time demands, and expectations of stakeholders have increased dramatically. It is imperative that boards continue to prioritize where their limited time and energy is best spent to ensure that the health system of Ontario is sustainable for the future.



## ADDITIONAL RESOURCES

### Deloitte's online centre for governance

[www.corpgov.deloitte.com](http://www.corpgov.deloitte.com)

### Public Sector Challenges: Managing in Volatile Times

(Industry – podcast) [www.deloitte.com](http://www.deloitte.com)

### Taking a comprehensive look at your health care organization

Deloitte publication

### Lean in Healthcare: Building a Patient Centred Care Environment

Deloitte publication

### The Effective Not-for-Profit Board

Deloitte publication

### The Guide to Good Governance

OHA publication

### Quality and Patient Safety: Understanding the Role of the Board

OHA publication

### Online community engagement tool for the Ontario health care sector

[www.epicontario.ca](http://www.epicontario.ca)

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