As anyone following my past articles knows, I am not a big fan of the “bigger is better” attitude being adopted by many provincial governments across our country when it comes to regionalization. Certainly being too small presents the risk of creating unnecessary redundancy in our healthcare system due to a complete lack of economies of scale, and attracting and retaining talent presents another challenge that can have a significant impact on the effectiveness of healthcare organizations and their budgets. So some consolidation in the industry is required. But as we move from the extremes of super small to super large we begin to tip the scales of centralization versus decentralization and pay dearly for the loss of local control in response to local issues. Equally important is the loss of diversification that limits creativity and stifles innovation when we over-centralize any business model down to a single alternative.

If our provincial governments truly believe that bigger is better, why don’t we hand the whole thing over to the federal government and get rid of provincial healthcare systems altogether? It’s funny how that sounds ludicrous to many members of our provincial government, but it sounds no more ridiculous than a single provincial healthcare organization does to a municipal politician. The fact is that too much government involvement at any level is a problem. We need to be concerned about our healthcare industry being run exclusively by unions and government when faced with enormous challenges that require unique, flexible and diverse solutions. If necessity is the mother of all invention, I would say entrepreneurship is the father of all invention. In the absence of entrepreneurs being lured into our industry, where is the next great idea going to come from?

Unfortunately, our reward system is not necessarily geared toward encouraging cost reductions in healthcare. The numbers are relatively simple here: because roughly 75% of the operating cost of a hospital goes to paying for labour, we have to reduce staff if we are going to achieve any meaningful cost savings. But in an environment where power is defined by the size of budget you manage, no one is anxious to significantly reduce their operating budget if that means a proportionate reduction in their importance. And reducing head count is the exact opposite goal of many unions operating in healthcare. Their goal is to keep their people employed – and at the rate of pay they have become accustomed to. Unlike the lost automobile manufacturing market in Ontario, where many businesses pulled out because the unions were being unreasonable in their demands, we cannot simply pull out of the business of healthcare.

In my own experience of developing and releasing software enhancements for more than 20 years, I saw a radical difference between the adoption rate of simple enhancements that made people marginally more efficient compared to the adoption of disruptive technology that put people out of work. Is any manager in government ever truly motivated to adopt technology that will wipe out a large percentage of their operating budget?

I am aware of at least one large Canadian healthcare region where senior management is contemplating firing all the union staff and subcontracting administration out to a third party in order to break the union because its membership simply will not allow sufficient change for the organization to make any real headway in cost reduction. (The irony is that most of those people will be rehired at a reduced rate because they are the only experienced labour pool management has to draw from). Of course, we are all aware of the typical government organization that rushes to spend its budget before March 31 each year because they are worried about not getting the same budget next year. The list goes on. It’s the elephant in the room that no one wants to talk about.

Let’s face it; cost cutting in healthcare is a lot like climate change: no one wants to be the first to adopt change that has a negative impact on their personal financial situation. Perhaps that is the reason why government has been forced to introduce regionalization: because it is the only way to force change within a highly unionized environment. We can complain about it, as I like to do, or we can simply accept it and develop strategies to work around it.

There is one province that has staved off excessive regionalization: Ontario. Instead of taking the approach of devastating the healthcare system by simply removing the funding, introducing massive uncertainty and letting members within the industry sink or swim, Ontario chose a kinder and wiser approach of setting the goals for healthcare administrators and holding them responsible for their own outcomes. Is it any wonder that Ontario rates the highest in quality of care and bang for the healthcare buck when compared to other provinces and territories? One model that is more prevalent in Ontario than any other province is the Shared Services Organization or SSO. Instead of forcing every healthcare organization within a specified geographical area to merge into a single legal entity, SSO’s use technology to drive cost savings through achieving economies of scale without sacrificing local control or limiting innovation. In effect, having their cake and eating it too.

There are several shared services organizations operating in Ontario at this time. Still in their infancy, most Ontario SSO’s are focused on providing benefits to member hospitals by reducing operating costs through the consolidation of supply chain management services. These organizations lower the total cost of service delivery by standardizing supplies, services, processes and purchasing contracts across the member hospitals in their Local Healthcare Integration Network. Essentially, the business
focus is to gain economies of scale by consolidating business volume across multiple organizations. Economies of scale introduce cost savings by removing duplication, consolidating third party relationships, reducing cost through volume discounts, and gaining access to a larger pool of human resources. Further cost savings are achievable through using software technology to streamline the operations of the SSO by automating the business process. They are generally funded and governed as independent organizations owned by the respective organizations they serve and are not-for-profit organizations, but are essentially entrepreneurial in nature.

What I like about Ontario shared services organizations is that they are diverse and focused. Unlike regions or province wide SSO’s, which provide many services to many organizations (often in different industries), Ontario SSO’s are focused on providing very specific services to a limited group of organizations within a specific geographical area (and within a specific industry). Granted, there is an administrative cost to having more SSO’s active in the market, but that cost should be offset by the benefit of having specialized organizations focused on the unique needs of a few participating members. The added benefit, from my perspective, is that it creates diversity in service offerings and allows these organizations to learn from each other – instead of assuming there is only one solution to the problem. It is also not subject to the limitations inherent in a large bureaucracy that often spends more time in meetings trying to gain consensus than actually doing the job they were hired to do.

In theory, this should be a stronger business model offering us the benefits of consolidation and the economies of scale that come from extending the business model across multiple organizations, without running the risk of limiting innovation and building the kind of bureaucracy inherent in large, government run organizations. We are somewhat limited by time and space in this issue, but I hope to gather more empirical data over the coming months on the actual savings these nimble organizations are generating on behalf of their member hospitals. With a little luck, we should be able to do a side by side comparison with the regionalization model and draw a numerically proven model of success or failure.