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Lessons from the VHA Transformation: A Case Study

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During the 1990s many organizations in both the private and public sectors underwent large-scale transformations to improve their performance. VHA's transformation was in response to several external events and trends that threatened its future viability. This *Transition Watch* article excerpts a report on the VHA transformation that was prepared for the PricewaterhouseCoopers Endowment for the Business of Government, an organization founded in 1998 to advance knowledge on how to improve public sector effectiveness. The report is based substantially on a case study investigation of the VHA transformation supported in part by the National Science Foundation. This case study intended to gain insight into the opportunities and problems organizations face when attempting large-scale transformations.

VHA's transformation is worthy of careful study for several reasons. First, the transformation overcame substantial obstacles to achieve many impressive results and is a potential source of best practices for other organizations undergoing transformation. Second, VHA's transformation, while generally a success, has not been without shortcomings that, when examined, offer insight to the challenges and tensions that underlie many transformations. Third, VHA is the second largest agency in the federal government and the size and scope of its transformation is a remarkable story of large-scale organizational change in the public sector.

Between 1995 and 1999, the case study team interviewed VHA employees at all levels of the agency along with individuals from organizations interfacing with VHA. The case study team also conducted surveys of employees and examined internal VHA documents and data sets. Following is a brief summary of the context for the transformation and the seven lessons learned from the VHA experience.

The Context for VHA Transformation

At the time VHA embarked on its transformation in 1995, several external developments placed its future in peril. At the same time, however, VHA faced significant internal barriers to changing itself to adapt to these developments.

External Threats

Shifting Priorities in the Delivery of Health Services:

By the early 1990s,VHA had become out of synch with prevailing trends in the delivery of health care services. These trends were shifting resource priorities away from inpatient-based tertiary care medicine to outpatient-based primary care medicine. However, most VHA hospitals were large, technologically intensive, and often underutilized facilities. Most VHA physicians were medical specialists with little expertise or interest in primary care medicine.

Prospect of Competition:

VHA faced the prospect that it could lose many of its patients to the private sector if certain health care reform proposals were passed that would enable many veteran users to access health care in the private sector. In competing with private sector organizations, VHA officials knew the agency had a strong reputation for excellence in many areas of specialty medicine. However, they also knew that VHA had a reputation for long waiting times, fragmented care, and a cumbersome bureaucracy for accessing services.

Efficiency of the Agency's Operations:

Although VHA had been searching for ways to achieve cost savings for some time, the issue assumed greater significance in 1995 when Congress indicated its intention to freeze the agency's budget.

Demographics:

VHA had an unfavorable demographic trend toward an increasingly older and sicker patient population. In the absence of any future military conflicts, this trend would likely persist leaving the organization to care for a patient population that was at the same time dwindling and highly resource intensive.

The sum total of these external threats created a black cloud over VHA's future. To ensure its viability into the next century, VHA needed to significantly change the way it provided health care services, improve patient satisfaction, and increase the efficiency of its operations.

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Internal Problems and Barriers to Change

Centralized and Bureaucratic Decision-Making Structure:

Like many large, established organizations, VHA was not oriented toward flexibility and change. Decision-making was highly centralized and bureaucratic. This structure impeded operating units from adapting to local circumstances in a timely manner. Additionally, VHA's resource allocation system, based largely on operating units' historical costs, did not provide incentives for the efficient and effective delivery of health care services to the patient population.

Multiple Stakeholders:

As a public-sector health care system, VHA has multiple stakeholders who have different and sometimes conflicting interests. This presents a substantial complication to any agency change effort. For example, Congress wanted to see the agency provide veteran constituents with more accessible and cost-effective health care services, yet individual Congressmen were wary of any changes that might negatively impact VHA facilities in their own districts. VHA's affiliated medical schools have had a strong interest in maintaining the agency's capacity to provide high-tech inpatient care, since this capacity supports their residency programs and faculty research. Other major stakeholders include veterans service organizations, as well as several different unions representing different parts of VHA's workforce. These stakeholders had their own agendas to pursue during the transformation effort.

Legal Barriers:

As a federal agency, VHA operates within a framework of extensive rules and regulations. At the time of the transformation, a number of these rules and regulations barred the agency's ability to adapt to its changing circumstances. In particular, complex patient eligibility rules limited the agency's ability to treat patients on an outpatient basis. The agency also could not dismiss physician employees for performance issues other than those concerning clinical incompetence. This restriction created a disincentive for physicians to change their practice orientation to meet transformation goals.

Lessons from the Transformation

Despite the previously noted barriers to change, VHA's transformation has generally been a highly successful endeavor. Since the transformation began in 1995, the agency has improved substantially on a number of important performance indicators. Exhibit 1 presents selected transformation results. Although each organizational transformation is unique, VHA's experiences can offer a number of lessons for future transformation efforts. Based on this case study, the following seven lessons emerge.

Lesson 1: Appoint Leaders Whose Backgrounds and Experiences are Appropriate for the Transformation

As is true of many change efforts, VHA's transformation began with new leadership. Dr. Kizer, a physician trained in emergency medicine and public health, proved to be a highly effective leader for the VHA transformation. Dr. Kizer's effectiveness, interviewees repeatedly stated, was largely a result of the match between his professional experience and qualifications and the needs of the transformation.

Interviewees identified three of Dr. Kizer's qualifications as particularly relevant to his effectiveness. First, he was an outsider and, therefore, had no loyalties within the agency.

Second, Dr. Kizer had substantial leadership experience in the public sector that prepared him to work effectively with both policy-makers and career civil servants. He also had experience as a medical school department chair, a position that prepared him to manage VHA's important but complicated relationships with its affiliated medical schools.

Third, Dr. Kizer was an astute student of innovations in the financing and delivery of health care services, and he brought this spirit of innovation and experimentation to VHA.

VHA's transformation highlights the importance of having leaders whose background and experiences fit the needs of the transformation. For some organizations undergoing transformation, new leadership may be necessary, but the focus should be on ensuring that

Corrections & Amplifications

In the Winter 2000 hard copy of *Transition Watch,* the table on pages 4-5, "VISN Service Line Implementation as of October 1999" inadvertently left out the VISN 3 Mental Health Service Line. Its structure during 1997-1999 was a task force and is projected to remain so. There was no budget authority for 1997-1999 and is projected to have **no** budget authority.

selected leaders have the appropriate expertise for the transformation.

Lesson 2: Follow a Focused and Coherent Transformation Plan

Most transformations encompass many different activities and initiatives. Although this is also true of VHA's transformation, the senior leadership team for the transformation focused on four interrelated initiatives that formed a coherent and effective transformation plan.

- Creation of a Vision for the Agency
- Adoption of a New Organizational Structure
- Establishment of an Accountability System
- Modification of Agency Rules and Regulations

Lesson 3: Persevere in the Presence of Imperfection

All transformations generate controversy and criticism. Such criticism and controversy often distract transformation leaders from focusing on their central goals. In the case of VHA, the senior leadership team kept their sights fixed on key transformation goals while making mid-course corrections to address technical problems as they were recognized.

For example, VHA's senior leadership team became embroiled in controversy over the accountability system they established for upper-level managers. The new accountability system entailed development of new performance measures and data sets. Initially, managers complained about the integrity of the data sets, reliability of the measures, and potential opportunities for gaming the accountability system. They also raised objections based on the number and attainability of performance goals.

Certainly many of the complaints were valid and efforts were made to improve databases and measures. The senior leadership team, however, believed the new accountability system exceeded its functional limitations because it brought a new level of focus among agency managers to the value of performance measures.

Lesson 4: Match Changes in the External Environment with Changes in the Internal Environment

Leaders of transformations are often consumed with managing the internal changes of an organization. VHA's transformation reveals the importance of managing external changes to complement internal ones.

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Exhibit 1: Selected Transformation Results

- **Orientation to Ambulatory-Based Primary Care:**
  - Annual inpatient admissions have declined by more than 32 percent while ambulatory care visits have increased by more than 45 percent.
  - Percent of surgeries performed on an outpatient basis has increased from approximately 35 percent to over 70 percent.
  - Approximately 60 percent of hospital beds have been eliminated.
- **Convenience and Accessibility of Care:**
  - Over 300 new community-based outpatient clinics have been established.
  - Telephone-linked care has been established at all hospitals.
- **Operational Efficiency:**
  - The number of full-time equivalent employees has been reduced by more than 14 percent while the number of patients treated per year has increased by more than 25 percent.
- **Patient Satisfaction:**
  - Patient satisfaction scores for outpatient care (based on VHA's own national surveys of patients) have improved by more than 15 percent.
- **Quality of Care:**
  - Percent of patients receiving cancer screening for early detection of several types of cancers has increased substantially (e.g., colorectal cancer screening from approximately 34 percent to 74 percent).
  - Percent of patients receiving treatments for preventing or controlling disease has increased substantially (e.g. cholesterol management for heart disease from approximately 74 percent to almost 100 percent).

Source: VHA internal documents and databases; Government Accounting Office, *Veteran's Affairs: Progress and Challenges in Transforming Health Care*, GAO/T-HEHS-99-109 9 (April 1999).

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VHA's senior leadership team collaborated with other interested parties to secure from Congress a number of legislative reforms that were central to the transformation. These reforms included changes in patient eligibility requirements and expanded authority to contract with private-sector organizations.

Lesson 5: Develop and Manage Communication Channels from the Highest to Lowest Levels of the Organization

VHA's transformation offers another of many examples where conventional communication strategies did not work to keep frontline employees informed during a large-scale change effort. Survey data collected as part of the case study indicated that frontline employees were often left out of the communication loop during the transformation. To reach frontline employees, future leaders of transformations should carefully consider opportunities for developing communication at the lowest levels of the organization.

Lesson 6: Do Not Overlook Training and Education

During the transformation, many managers reportedly struggled to adapt to a management system that required them to develop new skills and capabilities. Interviewees repeatedly noted that many managers lacked the skills to function effectively in the new environment and that few educational or training resources were available to them. Although VHA's senior leadership team did plan for several educational and training initiatives as part of the transformation, most of these initiatives were not in operation at the time the agency was undergoing a sweeping change in its organizational structure (i.e. implementation of the Veterans Integrated Service Networks). In situations where swift change is deemed necessary, senior managers should not overlook the importance of training and education to support employees in developing needed skills in a timely manner.

Lesson 7: Balance System-Wide Unity with Operating Unit Flexibility

During the transformation, a dramatic push occurred to decentralize decision-making after years of micro management on the part of headquarters. However, the swing from centralized to decentralized management appears to have allowed little opportunity for careful planning in the reorganization of certain functions and programs at agency headquarters. Some programs were left in disarray without clear lines of responsibility or system-wide criteria for coordinating activities across operating units. Both the Senate Committee on Veterans Affairs and the General Accounting Office highlighted this problem in reports. Interviewees from within and outside the agency also expressed concern that the new decentralized decision-making structure provided limited opportunities for sharing best practices among the agency's operating units.

VHA's experiences reveal the need to carefully plan decentralization efforts so that an appropriate balance is struck between system-level coordination and control and operating unit flexibility.

The VHA transformation continues and *Transition Watch* will continue to report on the transformation process. ■

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Transition Watch is a quarterly publication of the Office of Research and Development's Health Service Research and Development Service that highlights important information and learnings from the organizational change processes underway within the Veterans Health Administration. Special focus will be given particularly to findings from three organizational studies: the Service Line Implementation Study, the Facility Integration Study and the National Quality Improvement Study. The goal of *Transition Watch* is to provide timely and supportive feedback to VHA management throughout the change processes being studied as well as to draw on the change literature to assist managers in their decision making. For more information or to provide us with your questions or suggestions, please contact:

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