

**STATEMENT OF
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BEFORE THE
SUBCOMMITTEES ON HEALTH AND ON OVERSIGHT AND INVESTIGATIONS
HOUSE OF REPRESENTATIVES
July 24, 1997**

Mr. Chairman and Members of the Subcommittees:

Thank you for the opportunity to present the experience and positive outcomes which resulted from the integration of the Palo Alto and Livermore VA Medical Centers.

The first question that needs to be asked in any proposed integration/consolidation/ merger (to me these terms are interchangeable and synonymous) is "Why do it?" In my opinion, there are only two possible answers to this question. One is to save money and the other is to improve the quantity and/or quality of patient care. Preferably both of these goals will be met, as they have been in the Palo Alto/Livermore consolidation.

The idea of consolidating Livermore and Palo Alto has been the subject of discussion and speculation since at least 1989 when minimal Stanford training programs were established at Livermore. When I was approached about being reassigned to my current position in late 1992, the Regional Director, Clark Doughty, charged me with three major goals. One was to see that the

construction of the new Palo Alto hospital progressed on schedule, another was to fully integrate the clinical and administrative activities of the Menlo Park and Palo Alto divisions which were functioning somewhat autonomously at the time, and the third was to work toward consolidation of the Palo Alto and Livermore VA Medical Centers. In retrospect, the full integration of the Menlo Park and Palo Alto campuses was almost as much a challenge as the consolidation of the Palo Alto and Livermore facilities.

By 1993 there was already some interaction between Palo Alto and Livermore. Although no savings were realized, the Library Services had been consolidated. Some clinics at Livermore were being provided by staff from Palo Alto on a part-time basis, and Palo Alto was the major referral center for patients from Livermore. Although these relationships existed, the usual barriers between two free-standing organizations were evident and had some impact on the way patients were referred and treated.

In 1993 the Director position at Livermore became vacant. The Regional Director arranged to have Clarence Nixon appointed as Director at Livermore with the clear understanding that he was to work with me to facilitate the ultimate consolidation of the two facilities. Mr. Nixon was willing to do this since he had plans to retire within two years. We began the process with meetings at a site mid-way between Palo Alto and Livermore (the two campuses are forty miles apart). Shortly thereafter we included the Chiefs of Staff and Union Presidents in our discussions. We were moving ahead on a one to two year time table and involving all other stakeholders such as Veterans Service Officers, congressional representatives, affiliates, and staff when Clarence Nixon opted to take the buy out in June 1994, I was subsequently appointed Acting Director at Livermore

while remaining in my position as Director at Palo Alto. Obviously this arrangement greatly expedited the consolidation process.

By the summer of 1994 it was common knowledge that we were working actively toward full consolidation of the Livermore and Palo Alto VA Medical Centers. In my opinion, it is at this point, when there is no doubt that a future merger is imminent, that the actions of those in leadership positions are most crucial. While circumstances and facilities may differ from one integration to the next, the phases they must pass through are essentially the same in every case, as are many of the actions which must be taken.

Because the Palo Alto/Livermore consolidation was the first in recent history (I believe the last one was at Portland/Vancouver in approximately 1980), and because plans were being developed to consummate additional integrations across the country, the precedent-setting approval process proceeded slowly. During this time certain key actions were taken which, I believe, contributed significantly to the success of the Palo Alto/Livermore integration.

- The first important action was the designation of a single management to direct the organization in a consistent manner. Not only was it clear to everyone that I was the Director of both organizations (and subsequently the combined organization), but I also made it clear that there would only be one chief of each service and/or program in the organization. We were fortunate that several of the Service Chief positions as well as the Director and Associate Director positions at Livermore were vacant. The remainder were told they would no longer be autonomous services. The issues of

leadership and management must be clearly, thoroughly, and quickly delineated from the beginning.

- Perhaps the most important tool in this or any similar process is communication. You can not over communicate. We used every avenue available to communicate with all stakeholders and kept the communication channels open for feed back and rumor control. We used town hall meetings, newsletters, bulletins, e-mail, phone calls, letters, regular meetings, special meetings, retreats with Service Chiefs and labor leaders, and one-on-one discussions throughout every day. While it is always important for management to be visible in the organization, during times like this it is critical. Regular tours of work areas at all integration sites, including talking with individual employees, is essential, It is also paramount that management be totally open and honest in presenting the situation to all stakeholders. It is often necessary to tell people things they do not want to hear, but it is much more productive to do so than to let them find out some other way.
- Throughout the process all stakeholders were kept informed, sometimes on a daily basis. Of extreme importance was the relationship established with the Unions at both Palo Alto and Livermore. Even before the consolidation I worked to establish identical Labor/Management Partnership agreements with both Unions so when the merger did occur we would not have to renegotiate the terms of those agreements. In addition, we included our Union partners in everything we did related to the consolidation, including the ultimate need for a reduction-in-force and staffing adjustment in 1996.

By doing so we significantly reduced staff resistance to the radical changes that were being made in both organizations. In 1996 Palo Alto was one of three VA facilities recognized by Vice President Al Gore for their Labor/Management Partnership efforts.

- Throughout the integration process it was imperative that we demonstrably improve services to veterans, especially at Livermore. This was accomplished in a number of ways, all of which were visible to both employees and veterans. Some of these included additional clinics at Livermore which precluded making veterans travel to Palo Alto for care, new equipment and adequate supplies, reduced waiting times, and improved provider quality. Improved patient care is, in my opinion, the most important benefit of any integration.
- One of the most difficult but important things to do in a merger such as this one is to integrate the computer systems, data bases, fiscal systems, and telephone systems. This can prove quite costly and at a minimum requires much effort and time. We were fortunate to have the necessary expertise at Palo Alto to accomplish this while the problem was still being studied at the national level.
- In 1994 we were unaware of the budgetary constraints that would occur in future years. Therefore, at the time the consolidation was initially proposed I promised the staff and the Unions that there would be no reduction-in-force resulting from the integration. Instead we would let attrition deal with the redundant positions. This approach worked for almost two years, when budget concerns forced us to conduct a reduction-in-force and staffing

adjustment. While some of the positions impacted by these actions were left over from the consolidation, the reduction-in-force action was not taken as a result of the consolidation and this was understood by our Union partners. Had they not been involved from the beginning, as well as being involved in our Executive Resources Board, it may have been impossible to convince them of this distinction and thus enlist their support for the staffing reductions that occurred in 1996.

- Quality Management was another area which, when consolidated, improved care at both Palo Alto and Livermore. In fact the Quality Manager who was at Livermore prior to the consolidation is now the Quality Manager for the entire Palo Alto Health Care System and has made significant improvements throughout the organization, utilizing the "best" of both Palo Alto and Livermore policies and procedures.

- One of the important actions that management must take in a merger situation

is to clearly define the mission of the organization and that of the various campuses involved. For instance, in the Palo Alto/Livermore situation, Livermore was trying to be a full service hospital when that was not appropriate. Therefore, we made it clear early in the process that Livermore was to become a full service ambulatory care center with extended and long-term care inpatient facilities. Neither the volume nor the cost supported maintaining acute inpatient care at Livermore. We also discontinued accepting walk-in patients after normal working hours since the infrastructure was not available at Livermore to support this activity. A study showed only a few patients per week coming in after hours and those who

were really sick were immediately referred to the nearest local private hospital at VA expense. We now operate a 24-hour emergency room only at the Palo Alto campus. Livermore is served by critical care transport, including helicopter service.

- Perhaps the biggest paradigm shift that must occur in any merger is that there needs to be only one business office or administrative headquarters for the entire organization. This means that all campuses other than the primary administrative campus must become and think of themselves as clinical campuses where only patient care and those administrative activities necessary to directly support patient care exist. While this may seem obvious and simple when stated, it is a difficult concept for people to accept in practice.
- Other seemingly mundane administrative actions are absolutely necessary and not always simple to accomplish. They include, but are not limited to, such things as a name change for the facilities that reflects the new organization, a new or consolidated station number for internal reporting, a new organizational chart, and notification to all headquarters and other entities, including many outside the Department of Veterans Affairs, that there is now a single organization where two or more previously existed. This impacts everything from organizational membership dues, to internal reporting, to congressional correspondence, to routing of routine reports, and mail.
- Throughout the entire integration process, management must be particularly

sensitive to the feelings and perceptions of employees, especially those who are directly impacted by the changes. Those who comprise the most vulnerable group, and are most able to adversely impact the merger if they are not on board, are the mid-level managers, especially displaced Service Chiefs. It is essential that they be treated with sensitivity, dignity and respect. Every effort should be made to accommodate them and place them in a productive, rewarding position that capitalizes on their expertise. Displaced employees must know they are valued by management.

In summary, the Palo Alto/Livermore consolidation has been a huge success. Some things, such as a single affiliation and the opportunity for prior planning, probably made the situation easier to manage. On the other hand, the perception of a big institution gobbling up a smaller one, the decades of rivalry between the institutions, the major cultural differences between the institutions, and the administrative delays once a decision was made to consolidate, contributed to the challenges we faced. Some of the major positive outcomes of this facility integration follow:

- An immediate reduction of 78 FTE and elimination of approximately \$500,000 in contract hospital costs at Livermore resulted in cost efficiencies amounting to approximately five million dollars. It is worth noting here that we are currently operating the entire Palo Alto Health Care System, which includes the previous Palo Alto and Livermore facilities plus new clinics in San Jose and Monterey, with the same FTE numbers that were at Palo Alto alone four and one-half years ago.
- We are now serving more veterans than the combined facilities served prior

to the consolidation, and Livermore has become a major ambulatory care and extended care facility which also serves as a feeder for the expansion of access points in the Central San Joaquin Valley.

- Waiting times in clinics have been reduced and, wherever possible, veterans have been redirected to the clinics that are closest to where they live.
- Not only are more services being offered at Livermore, there is also significant indication that the quality of those services has been improved and there is now a single standard of care across the entire Palo Alto Health Care System.
- When veterans must be referred between facilities, it is now an entirely seamless process with no road blocks to veterans wishing to access services at another campus.
- The efficiencies realized by the integration have helped us deal with tight budgets and increased medical care inflation without reducing care to veterans.
- Benefits have accrued to both Palo Alto and Livermore. Palo Alto staff now venture beyond the walls of the teaching hospital, which is essential in today's health care environment. Livermore has realized increased flexibility and access to the resources of a much larger health care system, which has contributed positively to the programs at Livermore. In my opinion, there is no down side to the Palo Alto/Livermore integration. I believe everyone has won in this process, and the most important winners have been the veterans we serve.

As we debate the pros and cons of integrating VA facilities, I hope we do not lose sight of the fact that consolidation is not an end in itself, but a means to attaining the larger organizational goal of improving services to veterans.

That concludes my statement, Mr. Chairman. I will be pleased to answer any questions you or members of the Committees may have.