The management of the veterans administration medical administration section in an era of scarcity: An analysis of cutback management

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ABSTRACT

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B.A., Morris Brown College, 1981

The Management of the Veterans Administration Medical Administration Section in an Era of Scarcity: An Analysis of Cutback Management

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Degree paper dated July 1, 1985

The basic intent of this degree paper is to examine the problems a public agency experienced during the era of resource scarcity. An attempt has also been made to describe the strategic choice utilized by this agency to combat accelerating overhead expenses.

In the last decade, many analytical instruments have been developed to alleviate the problems of declining resources at the state and local levels, but there is very little literature available on cutback strategies within federal agencies. Recent budget cuts have created a need to reopen inquiry into the effects of resource scarcity on public organizations and their management systems.

The research techniques used in the paper included: informal interviews with the Chief of Ward Administration and the Chief of the Ancillary Staff of the Medical Administration Section of the Veterans Administration Medical Center, also selected materials from journals, books and periodicals addressing the subject of cutback management. Other sources of information were government documents and several formal studies conducted within hospitals during a period of declining revenues.
THE MANAGEMENT OF THE VETERANS ADMINISTRATION MEDICAL ADMINISTRATION SECTION IN AN ERA OF SCARCITY: AN ANALYSIS OF CUTBACK MANAGEMENT

A DEGREE PAPER
SUBMITTED TO THE FACULTY OF ATLANTA UNIVERSITY
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF PUBLIC ADMINISTRATION

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DEPARTMENT OF PUBLIC ADMINISTRATION

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I. INTRODUCTION

From the inception of Keynesian economics, growth has been an important characteristic of governmental organizations. Almost all public management strategies are predicated on the assumption of continuing enlargement of public revenues, but the recent budget cuts by the Reagan Administration has created a need to reopen inquiry into the effects of resource scarcity on public organizations and their management systems. In the last decade, many analytical instruments have been developed to alleviate this problem; such as Zero-Base-Budgeting and Functional Value Analysis.\(^1\) A relatively new managerial tool has been created to combat some of the problems caused by slack resources. This new tool is known as cutback management. According to Charles Levine, cutback management means managing organizational change toward lower levels of resource consumption and organizational decline.\(^2\) This is true, but managing an organization in a limited-resource-environment also involves making hard decisions about terminating programs, lowering activity of other programs, expanding whenever new problems arise, and sustaining morale, productivity and creativity of employees. In spite of the deficiencies of management, it is by far the safest tool for contracting an organization

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\(^2\)Ibid.
without diminishing morale, creativity, productivity and most important --personnel.

Cutback management appeared by accident. This managerial tool was created as a result of diminishing revenues and increasing expenditures, during the mid-seventies. Once cuts have been made, management must make strategic choices in lowering levels of resource consumption. Managers must elect who will be let go and what programs will be curtailed or terminated. These actions will test management intelligence and courage and involve trade-offs, as well as opportunity costs. Cutback management provides strategic choices for managers when contracting an organization.

According to Charles Levine, cutting back an organization is compounded by four characteristics of resource scarcity. First, change is easily accomplished when the people affected have something to gain. In a period of resource scarcity, change will be unlikely because the rewards required to gain cooperation and build consensus will be unavailable. Second, public organizations are confronted with professional norms; such as civil service procedures, veteran's preference, and collective bargaining agreements which constrain the ability of management to target cuts. Third, organization contraction produces some serious morale and job satisfaction problems which make it difficult to increase productivity. Fourth, cutbacks reduce the enjoyment of working and managing an organization.3

3Ibid.
Based on the recent budget cuts by the Reagan Administration, several basic problems were identified within the Medical Administration Section (MAS) of the Veterans Administration Medical Center (VAMC). After the budget cuts were made, the management at the VAMC had to determine which programs were to be sacrificed, which employees were to be terminated at minimum costs and how to reduce the accelerating overhead expenses of the medical and surgical clinics. The purpose of this study is to examine the problems the Veterans Administration Medical Center experienced during an era of resource scarcity and to describe the strategic choice, functional value analysis (FVA), the cutback took utilized by the VAMC to reduce accelerating overhead expenses.
II. THE PROBLEM AND ITS SETTING

The Veterans Administration is organized on the basis of its major purposes: (1) health care; (2) benefit programs, such as guaranteed loans; and (3) operation of national cemeteries and the provision of headstones and markers. This study focuses on the health care division. The Veterans Administration Medical program were established originally to provide hospital care for war veterans suffering from wounds or injuries received, or from illnesses contracted during their military service. In the mid-twenties, hospital care was also extended when space was available to "medically indigent" veterans for conditions which had no service connected injury or illness. 4 Out-patient care was made available only to those who had been previously hospitalized. More recently there has been a trend toward extending the scope of services ranging from dentistry to drug-related treatment.

Health care in the Veterans Administration is the responsibility of the Department of Medicine and Surgery headed by the Chief Medical Director. The department administers the VA's vast system of hospitals, clinics, domiciliaries, restoration centers and nursing homes. The number of hospitals devoted to caring for veterans has grown enormously, from VA's original fifty-four in 1950 to 172 in 1981 with at least one in every state in the United States plus more than 400 clinics, seventy-

seven nursing homes and eighteen domiciliaries.\(^5\)

The Veterans Administration is the largest single spending agency in the government, its appropriations being close to 6.4 billion, with 2.3 billion being dispersed to the medical programs in 1983.\(^6\) From 1983 to 1985, Congress expects to save 552 million dollars by reducing appropriations to the Veterans Administration (VA).\(^7\)

The VAMC of Atlanta is a clinical research facility with over 200 beds and specialties in orthopedics, psychiatry, general medicine, neurology and general surgery. This paper focuses on the analysis of the Medical Administration Section. The writer was employed as a medical record analyst in this section. The Medical Administration Section and the medical record analyst's position were directly affected by the Reagan Administration budget cuts.

The Medical Administration Section is responsible for hospital admissions, outpatient clinics, veterans' rating and eligibility for service-connected pensions and the general maintenance of medical records.

**Statement of the Problem**

Due to the recent budget cuts by the Reagan Administration, several basic problems were identified within the Medical Administration

\(^5\)Ibid.


Section:

1) Terminating employees at minimum costs;
2) Determining which programs or services will be sacrificed; and
3) Determining how to reduce accelerating overhead expenses.

Deciding which employees will be terminated is a problem every manager must face in a cutback situation, but performing this job without destroying the organization is an enormous task. Public organizations pose a real dilemma, because these organizations are bound by professional norms, civil service procedures, veterans' preference, affirmative action commitment, and collective bargaining agreements which constrain the ability of management to target cuts. The Veterans Administration Medical Center instituted a hiring freeze from 1979 to 1982 to reduce some of the personnel costs. This freeze prevented approximately 1.1 million new employees from entering the civil service.8 This action produced serious morale and job satisfaction problems within the Medical Administration, which made cutting back within the organization very difficult.

It is easy for a manager to cut programs across-the-board, but many wrong areas may be cut, genuine opportunities could be missed and staff morale is often damaged in the process. The manager must examine each program and determine where waste might exist. Then the manager must employ an analytical tool, such as Functional Value Analysis to eliminate waste. The VAMC experienced accelerating overhead expenditures

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within the outpatient clinics. These clinics operated twenty-four hours daily, seven days per week, since 1969. The department found, with the aid of functional value analysis, reducing clinic hours to eight hours per day and reducing days to five per week and rerouting after-hour patients to admissions diminished overhead expenses for the outpatient clinics considerably.9

A cutback situation tests the ingenuity of management to assess and define the areas where waste might exist and proceed accordingly.10 Management must employ the assistance of subordinates and outside firms to determine what areas must be cut back to survive. Cutback management offers some solutions, but it is not a cure-all.

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III. REVIEW OF LITERATURE

Recent budget cuts have created a need to reopen inquiry into the effects of resource scarcity on public organizations and their management systems. As mentioned earlier, there is very little known about organizational retrenchment and the management of cutbacks; therefore, the literature is limited. However, the writer did review several studies, books and articles on the subject.

With the increasing number of cities experiencing financial problems, several studies have been spawned that identify causes of stress, but very few concentrate on retrenchment policies and the management of cutbacks. R. M. Bahl's, *The Fiscal Outlook for Cities: Implication for a National Urban Policy*¹¹ and T. Clark and L. Ferguson's, "Fiscal Strength and Fiscal Health in American Cities"¹² concentrate on economic base erosion due to the decline of heavy industry in the Northeast and Midwest. Although the implications of these studies are local, Bahl, Clark and Ferguson offered a basis for identifying the causes of fiscal stress, which can be applied to the federal level. J. C. Shefter's, *Fiscal Problems of New York City* offers an enlightened


view on the key resources for managing in a cutback environment.\textsuperscript{13}

For the first time, scholars began to devote attention to the responses to fiscal stress, as well as the causes of such stress. The literature on New York City highlighted the importance of the political structure and process for retrenchment decision making, extending the emphasis on political variables to include issues of political stability, fiscal accountability, and the distributional consequences of cutbacks. Many other cities have experienced fiscal stress, but not more than a handful of studies in cities other than New York are on the process and outcomes of urban retrenchment. J. C. Shefter's study is extremely helpful because it shows how New York City balanced its books by refinancing its debt and cutting back its bureaucracies.

Another literary piece helpful in this study is Charles Levine's \textit{Fiscal Stress: Management of Retrenchment}. Levine provides information to administrators on how localities are handling the administrative and political complexities associated with fiscal stress and provide organization theorists and students of urban politics some hypothesis and data.\textsuperscript{14} Charles Levine has also written a series of articles on organizational decline and cutbacks management, which have been helpful in the writing of this paper. Levine's article, "Organizational Decline


and Cutback Management" insists growth is a major characteristic of
governmental organizations and the decline of these institutions
are related to diminishing revenues and increasing expenditures.  
He relates organizational decline to the slow decay of teachings in
traditional administrative theory. Levine's article discusses causes
of public organization decline. According to Levine, cutting back an
organization is compounded by its special status as an authoritative,
nonmarket extension of the state. He categorizes public organization
decline into internal and external problems. Levine subcategorizes
these problems into: Internal-political vulnerability and organizational
atrophy; external-problem depletion and environmental entrophy. Levine's
article also discusses strategies for dealing with a cutback situation.

James J. Callahan, Jr. also outlines the problems of resource
scarcity. In his article, "Management and Leadership in Times of
Scarcity," Callahan addresses administrators on the national level in
the human service sector. Callahan argues that the leadership style
of these organizations will determine the survival of these agencies.
He notes several leadership styles; such as the figurehead, who is the
tough guy cutting the fat, paring overhead, holding cost down in an
attempt to bring about agency survival; second, the revitalizing

15 Charles H. Levine, "Organizational Decline and Cutback Manage-

16 Ibid.

17 James J. Callahan, Jr., "Management and Leadership in Times of
entrepreneur, who narrows the scope of the organization and matches declining revenues with soaring costs; and finally, the receiver of bankruptcy, who is an individual who enhances his own status by winding down the agency and putting it out of business.  

Callahan, like Levine does not advocate resistance to cuts; rather, they suggest that management establish the fact that cuts are a reality and implement strategic choices accordingly. Unlike Levine, Callahan suggests that management should fight cuts only when reductions are not justifiable.

All the above mentioned writers suggest that resistance is the most costly of all strategic choices. Resistance may lead to the closing of a governmental agency, which compounds the problems of cutbacks. In Robert D. Behn's article, "Closing a Governmental Facility," he denotes the catstrophies an agency confronts in this dead-end situation.  

Like Levine and Callahan, Behn believes that the government's economic activities motivated the action to close a facility. For example, an agency may experience inflating costs and declining revenues (U. S. Postal Service and the Veterans Administration Medical Center). Behn argues that closing a facility may not have an immediate impact on savings; for example, there is always the transfer costs of equipment and employees. Behn illustrates this concept by discussing the example of the West Valley, New York Nuclear

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Power Facility, in which $90 to $300 million was utilized in trans-

derence.20 Behn also describes some tactics of survival in a "closing"
situation.

Other articles which provided valuable information in writing this
paper were "Cutback Principles and Practices: A Checklist for
Managers"21 and "Organizational Responses to Municipal Budget
Decreases."22 These two articles establish the same hypothesis as
their predecessors. Glassberg emphasizes that defending the base or
resistance should be instituted in a fashion that areas which were
cut can be easily reestablished at a later date, if the need arises.

The core of this paper is devoted to strategic choices utilized
by the Veterans Administration Medical Center. The paper is limited
to the Medical Section, which wanted to reduce overhead expenses. To
develop this section of the paper, functional value analysis was used.
In his article, "Functional Value Analysis: A Technique for Reducing
Hospital Overhead Cost," James Bennett defines FVA as an instrumental
and powerful tool, which helps managers trim nonmedical costs, such as
overhead. Bennett notes that overhead is a good cost-containment
candidate for several reasons: first, it is a substantial expense item
typically accounting for at least thirty percent of a hospital's annual

20 Ibid.

21 Carol W. Lewis and Anthony T. Logalboo, "Cutback Principles and

22 Andrew Glassberg, "Organizational Responses to Municipal Budget
operating expenditure, and a source of significant savings; second, overhead components have little impact on the quantity and quality of medical care available to the patients. For example, building operations or general administration (Medical Records or Business Office), seldom affect a patient during a hospital stay; third, cutting overhead expenses is unlikely to arouse intense opposition from the medical staff.\(^{23}\) Jacques Krasney also focuses on FVA in his article, "FVA: An Effective Technique." Krasney outlines a step-by-step approach management may follow to achieve up to fifteen to twenty percent lasting reductions in overhead.\(^{24}\) Like James Bennett, Jacques Krasney believes losses in a cutback situation should be fifty-fifty with management gaining or losing as much as their subordinates. Krasney and Bennett conducted a study in the Spring of 1977, entitled "Phase I: Getting FVA under Way." They surveyed thirty hospitals, including the VAMC of Atlanta.

Functional Value Analysis is an analytical tool developed in the private sector. This process combines comprehensiveness with the sense of urgency imposed by the need to achieve rapid results.\(^{25}\) With the recent budget cuts by the Reagan Administration, rapid results are desperately needed.

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\(^{25}\) Ibid.
In undertaking the pruning job, the administrator has a range of choices. At one extreme, the administrator can wield a hatchet by requiring each overhead function to cut its budget by an arbitrary percentage. This approach may achieve results in a hurry, but savings rarely last, because the type of volume of work to be done does not really change. The wrong areas may be cut, genuine opportunities can be missed and staff morale is often damaged in the process. At the other extreme, the administrator can undertake an exhaustive review of all the work performed, and then modify some tasks or eliminate others. Although this might yield lasting savings, the necessary time is seldom available. Functional Value Analysis is between these two extremes, but somewhat closer to the former. The technique is a proven performer in the private sector, only being used in the public sector since 1975. McKinsey and Company, prominent research firm, has worked with over one hundred major companies, nearly every type of business that has achieved lasting savings of as much as twenty percent of each business' overhead expense.

Functional Value Analysis requires careful planning. This process involves four preparatory steps. These steps include: (1) deciding on the scope of effort; (2) organizing the FVA team; (3) establishing the ground rules; and (4) preparation for the second phase.

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26 Ibid.
27 Ibid.
29 Ibid.
The first step of the preparatory phase is to decide which parts of the hospital budget will be considered as overhead expenses. Usually the overhead expense of a hospital will include all nonmedical expenses, such as general administration. The second step is to organize a FVA team. The FVA team has three principal parts, which are the unit managers, a task force and a steering committee. Almost all members of this team are regular line managers of the hospital who take on extra FVA functions for the duration of the process. The team directs and monitors analysis and actually generates and evaluates costs reduction ideas.\(^{30}\) Ground rules must be established to carry out the process. Each unit must create a timetable, by which each phase will be conducted and completed. Each unit will also be assigned a stretch target, which is a percentage of the gross overhead to be reduced. The total FVA process takes six to eight months.\(^{31}\)

After the groundwork has been laid, the hospital can carry out five main steps of the functional value analysis process that leads to lasting results. These steps are:

1) redefining costs;
2) generating cost-reduction ideas;
3) evaluating attractiveness-risk versus savings;
4) making decisions; and
5) implementing ideas.


\(^{31}\) Ibid.
Utilizing a function tree, each unit chief must carefully analyze what her unit produces for other areas of the hospital. The function tree starts with the basic mission of a unit and terminates with the costs of the products and services of the unit. The function tree provides a concise picture of what comprises the mission of a unit. The unit manager must also determine how much her operation costs the hospital both in total and for each activity and service. This is performed with the assistance of a line item budget. This budget includes the cost of salaries, electricity, heating and the costs of supplies consumed by each unit.

In step three, the task force digests and evaluates all the ideas generated by management and employees. These ideas are weighed for potential dollar savings versus the risks involved for each idea. Utilizing a matrix, the task force measures the costs of each idea versus the probability of the different risks occurring and the ideas which have the lowest costs and the lowest risk factors are usually selected.

The next step is deciding which ideas identified by the FVA team should be implemented. Each idea should be presented on a cost-reduction worksheet. This worksheet should include the initial idea, the unit manager's evaluation of the idea, the probability, severity and risks factors, as well as estimated savings.

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Functional Value Analysis has several advantages. One of these is that the process incorporates the assistance of the subordinates with a unit. FVA is a proven winner, because it is a step-by-step carefully planned process, which allows the FVA team to correct any step which is not operating properly. Although FVA is a proven winner, it also has its shortcomings. For instance, the process is time consuming. FVA takes approximately eight months and sometimes interferes with the daily operation of the workplace. Overall, FVA has more positive attributes than negative ones.
IV. METHODOLOGY

The purpose of this paper is to describe the cutback strategies used by the Veterans Administration Medical Administration Section during an era of limited resources.

In order to perform this task, it was immediately recognized by the writer that field research is a social research method that involves the direct observation of a social phenomena in its natural setting. Field research uses one of four forms: complete participant, participant-as-observer, observer-as-participant, and complete observer. Raymond Gold defines these four different roles a field researcher might play: (1) the complete participant may be a genuine participant in what he is studying or may pretend to be a genuine participant; (2) participant-as-observer would participate fully with the group under study, but would make it clear that a research is being conducted; (3) the observer-as-participant is one who defines and identifies himself as a researcher and interacts with the participants in the social process, but makes no pretense of actually being a participant; and (4) the complete observer is one who observes a social process without becoming a part of it in anyway.33

An analysis of existing data was employed in writing this paper. According to social researcher Earl Babbie, the analysis of existing

data may contribute to problems of validity and reliability. Whenever research is based on this method, the topic is extremely limited. Often, what exists is not exactly what the researcher is interested in, and the measurements may not be an altogether valid representation of the variables and concepts the researcher wants to draw conclusions about. The analysis of existing data depends also heavily on the quality of existing statistics. This can be a problem, since the tables of government statistics are sometimes inaccurate or out of date. Babbie suggests that a researcher utilizing this method should use ingenuity and logical reasoning to place the concepts of the topic in perspective.34

The two units analyzed in this paper were the patients and the employees. To study the impact the cutback strategies had upon the employees, informal discussions were held with some of the employees within various units of Medical Administration Section, as well as some managers. This portion of the research was conducted haphazardly. The writer realizes that a random sampling of the employees would have been more beneficial and analytical, as well as using a standardized questionnaire to assess and code the opinions of the employees.

The discussions were confined to the areas which were hardest hit by the Reagan budget cuts. These areas included: reduction in funds for additional personnel and accelerating overhead expenses

34Ibid.
within the outpatient clinics. Some of the questions asked in the informal discussions included the following: In what areas (MAS) do you believe waste exists? If you were a part of the management team, how would you reduce costs? What effect did the reduction of the outpatient clinics' hours have upon you? During the 1979 to 1980 hiring freeze, how was mobility and job satisfaction maintained? Did you feel the cutback strategies implemented by the MAS, lowered morale, job satisfaction, affected the chain of command, etc...? These questions aided with the analysis of the effects of the cutbacks, as felt by the employees.

Additional data was gathered by comparing the budgets and pay scales of private hospitals (Northside and Grady) with the budget and pay scales of the VAMC. For instance, the writer found that the salaries of clerks at the private hospitals were considerably less than the clerks at the VAMC. The writer also compared patient type and population to the private hospitals. This observation revealed that forty-one percent of the patients at the VAMC was in the facility for nonserious conditions (general check-up, tonsilitis and appendicitis). On the other hand, the private hospitals only admitted patients with more serious conditions. The above action by the private hospitals reduced bed occupancy costs.36

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Finally, the recommendations of this paper were based on the application of functional values analysis to the Medical Administration Section. Existing data was used to analyze the problems faced by the MAS. The study by Krasney and Bennett was extremely helpful. Krasney and Bennett surveyed a wide range of medical facilities (private, voluntary, public, etc.) illustrating how functional value analysis was instituted and the problems an administrator might face with the initiation of this cost-efficient tool. Krasney and Bennett also utilized the patients as their unit of analysis. To obtain data, Krasney and Bennett employed survey research: (1) random sampling; (2) the initiation of a written survey; (3) coding of date; and (4) analysis of statistics.
V. ANALYSIS OF THE PROBLEM

After the recent budget cuts by the Reagan Administration, several basic problems were identified within the Medical Administration Section (MAS) of the Veterans Administration Medical Center (VAMC). These problems included: determining which employees would be terminated at minimum costs; determining which programs would be sacrificed; and determining how to reduce accelerating overhead expenses.

The MAS employs 175 individuals with wages and salaries averaging $2,298,322 annually.37 With reductions made by the Reagan Administration, the monies allocated for wages and salaries were reduced by one half.

The first problem the MAS experienced during this period was determining how to reduce the workforce at minimum costs. According to Charles Levine, decisions on termination poses several problems in a public agency, because the organization is bound by professional norms, civil service procedures, veterans preference clauses, affirmative action commitments and collective bargaining agreements, which constrain the ability of management to target cuts.38 Therefore, the MAS decided, if possible, not to furlough or terminate a substantial number of employees during this period. A cost-efficient panel was

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38 Ibid.
established to explore various aspects of this problem. This panel was composed of the Chief of MAS as the chairman, The Chief of Ward Administration, the Chief of the Ancillary Staff, two line supervisors and four employees from various units with MAS; the panel discovered that from 1969 to 1979, monies spent for pensions, life and medical insurance had increased from 9.5 thousand dollars to .9 million dollars and was a major part of increasing personnel costs. This amount rose substantially over the years, because of the yearly cost of living adjustments and the enormous influx of employees into the civil service after 1950. The panel also found that the majority of employees were under age forty. This high concentration of young employees increased the amount of dollars paid for medical and life insurance. Finally, the panel noticed that very few employees had established tenure with the civil service and very few employees were prepared to retire. With these problems in mind, the panel considered several alternate policies to reduce personnel costs. The first of these policies was to promote early retirement of employees with twenty-five years of experience who have reached age fifty. According to Robert Behn, such a practice would increase pension costs, but it would reduce the personnel budget since the salaries of the newer, younger replacements would be less than the salaries of the employees who retired. As stated earlier, very few of the employees within the MAS had

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established tenure of twenty-five years or more. The ages of the personnel within MAS ranged from twenty-two to fifty years of age. Six out of the 175 employees were eligible under the above qualifications for early retirement. Therefore, this policy was rejected by the cost-efficient panel.

The panel decided to reduce the force based on efficiency (evaluation reports). This was a reasonable strategy, because each employee is evaluated at least once in their career. Reduction in force based on evaluation reports required managers to re-assess the performance of each employee. This policy was instituted within MAS from May to September 1979. The process required that each line supervisor assess the quality of work of each employee within her unit. This report would record overall quality of work, employees' attitude toward job, supervisor, and other employees, overall personality and attendance. The above characteristics would be ranked from one, which is the highest, to four, which is the lowest. These evaluations were performed monthly and the employees who obtained the lowest ratings in all the characteristics for three consecutive months were terminated. However, this policy failed to have any major impacts. One reason was that many of the employees who ranked the lowest on evaluation reports were veterans and these individuals were rarely terminated, because they were protected by veterans preference clauses which provided jobs for veterans who were disabled, participated in any of the three

major wars and destitute. The second reason these reports failed to have any major impact is that the monthly evaluations became time-consuming. The line supervisors would have to spend time which was normally devoted to daily time reports, workload reports, etc., to discuss with each employee their performance for each month and submit to personnel a written evaluation for each employee. The third reason is that only two employees were terminated during this entire period and their termination was based on misconduct and improper usage of travel funds. This policy was also eliminated in September of 1979.

The panel finally recommended a hiring freeze, which was finally approved by the hospital administrator in May of 1979. A hiring freeze is a convenient short-run strategy to buy time and preserve options. In the short run, the freeze hurts no one already employed by the organization because a hiring freeze rely on natural "attrition" (deaths, retirement, etc.) to diminish the size of the organization. In the long run, hiring freezes are not the most equitable way to scale an organization. For instance, during a long hiring freeze (more than two years), productivity suffers because the most qualified employees will seek positions elsewhere as a result, only those employees with minimum skills will remain.42 Hiring freezes have many disadvantages, but the MAS instituted their first one from May 1979 to September 1982 to buy more time and plan additional

strategies. The hiring freeze prevented approximately one million new employees from entering the civil service.\textsuperscript{43}

To alleviate some of the problems of the hiring freeze, the MAS hired several temporary part-time and summer employees. This action did not eliminate all the productivity problems, but the hiring of these individuals resolved the problem of decreasing the staff at minimum costs. For example, the .9 million dollars spent on pensions and insurance was reduced to .3 million dollars, because of the transfer of some of the remaining employees to other units in the hospital and the new employees were not eligible for medical insurance, life insurance or a pension plan. The only personnel costs for the new employees were salaries and annual and sick leave.\textsuperscript{44} The hiring of the additional employees reduced the number of hours worked daily within the MAS. From May to June of 1980, the coding unit reduced work hours from twelve hours per day to eight hours per day. The above action also reduced the amount of compensatory and overtime hours. Overhead costs were also reduced because less money was spent on operating the unit after the normal work day. The coding unit is now operating from 7:30 a.m. to 4:00 p.m.

During the hiring freeze, the Office of Personnel Management also required the VAMC to develop and periodically review the classifications and pay plans within MAS. The Office of Personnel Management required

\textsuperscript{43}Ibid.

the VAMC to internally review all hiring schedules and examine all
positions in order to determine if some positions could be consolidated
or downgraded. In the coding unit of MAS, the cost-efficient panel
discovered that five of the eighteen analysts were performing similar
filing and typing duties as the file clerks within admission; there-
fore, the panel suggested the five analysts could perform the clerical
tasks and the three clericals could be transferred to admissions, which
was understaffed. The panel also found that salaries of the file
clerks at the VAMC was extremely high in comparison to two major
private hospitals (Grady and Northside). For instance, the file clerks
at the VAMC are on grade level GS-5 with salaries ranging between
13,000 to 17,000 dollars annually. On the other hand, file clerks at
Northside and Grady Hospitals were earning between 10,000 to 15,000
dollars annually. The file clerk's position was downgraded at the
VAMC to grade levels three and four. The salaries for these grades
were 10,000 to 15,000 dollars annually. The downgrading of this
position applied to all employees who were hired internally after
May of 1980.\textsuperscript{45} This downgrading reduced salaries and wages by two-
thirds of the 1.1 million dollars allocated in the yearly budget,
because most of the file clerks hired before the freeze transferred
to other units within the hospital and they were replaced by the less
costly new employees and individuals who were hired internally after

\textsuperscript{45} U. S. Veterans Administration, VAMC Annual Report 1980 (Atlanta,
The hiring of the part-time employees and interns resulted in the reduction of some of the workload, as well as overhead costs. This policy enabled the agency to save some money, but morale and productivity problems within the unit were not resolved. It is the opinion of the writer that the VAMC was more concerned with the economic side of managing an organization than the human side. For example, the coding unit operated with twenty-three employees. By the end of the hiring freeze in September 1982, eight of these employees (three were file clerks and four were analysts) transferred to units outside of the MAS. The transferring of these employees decreased the personnel costs in the coding unit but this action did not resolve the morale and productivity problems.

The coding unit is responsible for analyzing and assembling patient's medical records, as well as filing and preparing studies for medical doctors. Each medical record analyst is responsible for analyzing and assembling twenty patient charts per day, as well as initiating and completing two studies per day. After the transfer of the four analysts, the workload increased. The assembling and analyzing of patients medical records increased to thirty charts per day for each of the remaining analyst. Although thirty charts were expected from each analyst, information from the annual report indicated that from May to June of 1981, each analyst was actually completing

46Ibid.
fifteen charts per day. The coding supervisor attributes this reduction in productivity to the increased usage of annual and sick leave. At the beginning of the hiring freeze in May 1979, the average amount of sick and annual leave taken by each employee was sixteen hours per week. By the end of the hiring freeze in September 1982, the number of hours of combined sick and annual leave taken by each full-time employee increased to twenty-five hours per week.48

The new employees (part-time, interns, etc.) assisted where possible, but the training of these individuals was haphazard and time-consuming. Many of the new employees were hired as file clerks, but these individuals became technicians (medical record analysts) overnight. The training of an analyst to perform minimum tasks, such as filing and typing, is not time-consuming and only takes one work day, but to understand the medical terminology, *International Classification of Disease Manual*, anatomy and physiology, and to utilize the computer system takes months of training, especially where individuals have not had any prior experience. The new employees had to be trained in all aspects of the analyst's position so they could interact with the medical doctors and compile studies. Therefore, each of the ten remaining analysts was responsible for training at least three of the new employees and the analysts were held liable for the mistakes of the new employees. In most cases, the remaining

47 Ibib.

analysts viewed the new employees as additional burden; as a result, the training of the new employees was conducted half-heartedly. For instance, each medical record analyst is required to complete a five-hour medical terminology course, a ten-hour anatomy and physiology course and a five-hour course interpreting and using the International Classification of Disease Manual and on the job computer training. The new employees received all their training on the job and were performing the tasks of an analyst in less than two weeks. The remaining employees were also reluctant to train the new employees because their turnover was so high. The interns would return to school after three months on the job and the other new employees would become bored or frustrated and found jobs elsewhere; therefore, the analysts provided these individuals with enough training to perform only a minimum number of tasks. The haphazard training resulted in the production of inaccurate and incomplete studies and this resulted in the loss of millions of dollars in research funds.

The Medical Administration Section was a source of tension and resentment during the era of resource scarcity, but this section managed to reduce salaries and wages from 1.1 million dollars to seventy-three thousand dollars. Pensions and insurance plans were also reduced from .9 million dollars to .3 million dollars.\(^49\)

The MAS experienced additional problems during this period. Among these problems were determining how to reduce accelerating overhead

\(^{49}\)Ibid.
expenses and determining which programs would be sacrificed. These problems are closely related and are a lot more difficult to assess; therefore, an analytical tool such as Functional Value Analysis must be employed. The MAS elicited the assistance of White and Silverstein, a medical management consulting firm. White and Silverstein used the facts found in the study conducted by Jacques Krasney and James Bennett, in the Summer of 1977. According to Krasney and Bennett, the main objective of functional value analysis is to identify areas within the hospital where accelerating overhead expenses might exist. As of May 1979, the chief of the Medical Administration Section determined that overhead expenses had increased for the surgery and medicine clinics from $18,089 in 1950 to $277,000. The overhead expenses for these two units of the MAS was greater than any other unit within MAS.\textsuperscript{50}

The outpatient clinics of the MAS was established in the late 1950's to treat in-house patients, as well as outpatients. The VAMC houses five clinics: dental, eye, orthopedic, general medicine and surgery. These clinics are headed by the Chief of Ancillary Staff and five line supervisors and operate on a budget of approximately .5 million dollars annually for each clinic. Ironically, the funds for ambulatory care were not reduced by the Reagan budget cuts, but with overhead rising so fast, in two years the clinics would not be able to operate normally. The rising overhead expenses are the result of the operation of the general medicine and surgery clinics for twenty-

four hours per day and the inadequate scheduling of patients for treatment. In 1969, the two major clinics began to operate twenty-four hours per day and seven days per week. Consequently, overhead expenses rose. These clinics hours were increased by management because the amount of outpatient visits increased from 10,000 patients in 1950 to an astonishing 59,000 patients in 1970.51

Again a cost efficient panel was established to resolve the problems caused by accelerating overhead expenses. This panel was known as the functional value analysis team. The team included the Chief of Ward Administration, the Chief of Ancillary Staff, two line supervisors from the outpatient clinics and four employees from the two major clinics. During the FVA process, a task force and steering committee should be established. These committees oversee the functional value analysis process and offer guidance to the functional value analysis team. The task force and the steering committee included members from the staff of White and Silverstein, as well as some members of the Board of Directors and intermediate management of the Veterans Administration Medical Center. The stretch target, which is percentage of overhead to be reduced, was set at 6.0 percent for each clinic. The stretch target is always set higher than the actual percentage of overhead to be reduced. According to Jacques Krasney and James Bennett, the stretch target should be set high enough to allow for any shortcomings.52

The FVA team developed several cost reduction ideas. One of these was the elimination or closing of the clinic. Closing and eliminating a specific facility always has devastating effects on an institution, as well as the employees. According to Robert Behn, the budgetary benefits of closing or eliminating a facility may not be as attractive as it first appears. For example, the Tuskegee Alabama VAMC decided to close the orthopedic ward and clinics in 1977. The closing of this facility was estimated to result in an annual cost savings of $17,000 and an annual manpower savings of $20,000, but the "anticipated, one-time costs" of closing the facility reached $70,000, because personnel was transferred to other facilities and while these individuals were preparing for their transfer, their salaries were still paid. In essence, an agency may pay more for transference costs than actually trying to resolve the problem of overhead costs. The Atlanta VAMC did not want to spend as much as $70,000. This policy was rejected because it appeared too costly. The second cost reduction idea was to defer any strategies to a latter date. With overhead costs accelerating yearly, deciding not to do anything may cause the clinics to close in two years and no policies would be needed. The third idea was to automate the medical analysis aspect of the clinics. Automation is extremely costly. Not only for installation of the computer system, but the training of employees in computer analysis. Displacement of many jobs also occurs when automation is implemented. The MAS needed

a short-range action and the results of automation usually takes up
to two years. The next idea was to reduce clinic hours and days.
This action would be less devastating on the employees and overhead
costs would be reduced because the facility would be used during normal
business hours only. The final cost reduction idea was to consolidate
the two major outpatient clinics with the emergency rooms. This idea
was rejected because the emergency room would be overburdened. The
outpatients would begin to use the emergency room as a walk-in screen-
ing clinic at all hours of the day. Many jobs would be lost because
of the consolidation. Many of the clerks in the outpatient clinics
perform similar duties as those in emergency; therefore, the clerks
of the outpatient clinics would be transferred to other units or
facilities and transference costs would again increase.

The MAS wanted to reduce cost, but the managers wanted ideas
that would not involve any severe risks and could be obtained at minimum
costs. Therefore, the FVA team decided to reduce clinic hours and
days. Utilizing FVA, the team analyzed the workload of the unit by
time of day and day of the week and found that after 9 p.m. and on
the weekends the clinics serviced an average of ten patients in each
time slot observed. The panel found by reducing clinic hours to
normal work day (9 a.m. to 5 p.m.) and rerouting afterhour cases to
admissions, reduced the costs of overhead for heating, fuel, electricity
and the amount of supplies (needles, cotton, alcohol, etc.). The FVA
team decided also to restructure the scheduling process. Before the
institution of FVA, appointment schedules for patients was nonexistant.
After FVA, scheduling would be performed by the clerks in coordination with the Chief Physician of the two clinics. Patients would be scheduled from 10 a.m. to 3:30 p.m. on Monday, Wednesday and Friday--hours which correspond with patients as well as physicians personal schedules. Tuesday and Thursday would be designated for walk-in patients. If patients walked in on Monday or Wednesday (scheduled examination days), these patients would be scheduled to return on another day if their case was not an emergency. The FVA team also conducted a waiting time study on patients visiting the clinics. The panel discovered that each patient waited an average of twenty-five minutes before reaching the treatment room; therefore, the clinics' staff was increased. Before the new system, both clinics operated with a total of fifteen medical doctors. This number was increased by the addition of three interns (one medical, two surgical), three physician assistants, two practicing nurses, and five registered nurses distributed evenly between the two clinics. As a result of the implementation of the above policies, the total overhead expense for the two clinics of $554,000 was reduced by 10.8 percent.⁵⁴

FVA had a significant impact on the reduction of overhead expense, but individual employees are rarely affected by this process because the employees are unaware that the process is being undertaken. The reduction in clinic hours and days only eliminated four jobs and these individuals were guaranteed positions in other areas of MAS. According

to Charles Levine, employees are more willing to participate in cutback plans if they feel there is something to gain from the situation.\textsuperscript{55} Jacques Krasney and James Bennett also believe that a cutback situation should be shared among the employees and management, FVA offers this approach. Overall, FVA was a success story within MAS. Although this process reduced the overhead expenses by only 5.4 percent for each clinic, the reduction fell short of the stretch target of 6.0 percent. However, management was able to reduce costs without generating hostility among the employees.

The motivation for any cost reduction idea is the need to reduce cost. In an era of scarcity, it is the job of the management, as well as their subordinates, to ensure that the transition from an abundant to a scarce environment is made smoothly.

\textsuperscript{55} Ibid.
VI. CONCLUSION

Cutback Management involves the participation of management and employees within an organization. Management must select who will be released and what programs will be sacrificed. Employees must be patient and try to identify areas where waste might exist to aid management in the cutback process.56

The Medical Administration Section resolved many of their problems with a little ingenuity and functional value analysis. As a result of functional value analysis, the total overhead expenses for the two major outpatient clinics were reduced from $554,000 to $552,920 annually. Functional value analysis reduced costs without producing any devastating effects on the employees or the organization. On the other hand, personnel costs were reduced drastically, but many productivity and morale problems remained. Managers are operating in a fundamentally different environment than in the past, and strategies developed for dealing with incremental changes, whether increases or decreases, are unlikely to be applicable. Management must attempt to find new instruments to assist in cutting back an organization, but this same management must not forget that the employees are the most important resource of an organization.

VII. RECOMMENDATIONS

The data provided in the analysis section of this paper illustrates that cutback management is not a cure-all and there is still a need for additional research on the topic and its effects on public agencies. The utilization of functional value analysis resolved some of the problems of overhead expenses within the Medical Administration Section. However, after the process is completed, the duties of implementing the policies are assigned to the subordinate who is liable to the line manager for any mistakes. This action lacks accountability. The subordinate is now responsible for implementing a policy he had very little to do with initially. It is the opinion of the writer that the functional value analysis team should be organized for more than six months. This team should monitor management and assure that the functional value analysis process is carried out properly. Each employee should be informed of the functional value analysis process, since it is a relatively new managerial tool. In most cases, the subordinates are unaware of the process until it is over. This lack of knowledge of the information does not reflect negligence on the part of the employees (subordinates), but on the agency. That is, the agency is not actively communicating and providing the employees with important information on cutback policies. As a result, employees within MAS are not being utilized properly to assist in targeting cuts. After all, a reduction in resources is not
only a managerial problem, but this reduction affects all employees within an agency. A lack of subordinate participation is also evident during the FVA process. There are four subordinates involved, but the final decision is made by top management. According to Jacques Krasney and James Bennett, the cost-cutting policies should be initiated at the subordinate level and trickle upward to management.  

The establishment of cutback management at the VAMC required a hiring freeze to buy time for management until other strategies could be created. A hiring freeze is a convenient, short-run strategy to preserve options, but in the long run, hiring freezes can eliminate the most qualified employees because these employees can receive better treatment and opportunities elsewhere. During a long hiring freeze, an organization may find itself short on morale, productivity and creativity. When an agency makes a transition from a growing budget to a decreasing one, employees' morale and productivity will inherently suffer and management should attempt to make small sacrifices to assure stability within the organization.

In view of the fact that cutback management is not a cure-all the writer offers the following recommendations:

1. Organize a FVA team for at least two years after the cost-efficient policies are implemented. The extended team could conduct periodic reviews of line management to check the

57 Ibid.


59 Ibid.
progress of the newly implemented FVA policies and serve as a reinforcement to management. The FVA team could also conduct ongoing interviews with employees to establish new cost-effective measures.

2. Increase subordinate participation in the FVA process. The agency could implement a training program or orientation in cutback management, as well as Functional Value Analysis. These training programs should be organized so that each subordinate would be responsible for initiating their cost-efficient ideas and implementing these ideas.

3. Communicate the new approach to all employees. This could be achieved through staff meetings and training programs.

4. Implement energy-conservation policies. For example, lights should be turned off upon leaving the office.
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