



Sharing Healthcare Knowledge

TO MEET THE EXTRAORDINARY CHALLENGES YOU ARE FACING TODAY
YOU MUST DEMONSTRATE EXTRAORDINARY BUSINESS PRACTICES:

An Interview with Jon Cecil, CHRO at Lee Memorial Health System
“How we successfully navigated our most recent financial turnaround.”

Lee Memorial Health System (LMHS) located in Lee County, FL. has experienced periods of high performance as well as challenging times in turnaround mode over the past decade. Most recently, the economic hard times have fallen hard on LMHS as they were quite literally located at “ground zero” with the catastrophic impact of the nation’s sub-prime real estate collapse. Following the meteoric rise of their local housing market, they quickly went from a raging local economy (unemployment below 3.5% in October of 2005) to hitting the wall (and then some) with unemployment now over 9.5% (within a 3 year period). Their uninsured population also showed a parallel rise to a now unmanageable rate of 32% (approximately twice the national average and 20% above the state average). How did the LMHS leadership team respond to these challenges? The following White paper summarizes “The top 8 leadership tips” in an interview conducted between Tom Olivo (President of Success Profiles) and Jon Cecil (CHRO at Lee Memorial) on November 19th, 2008.

Setting the stage in Jon’s words...

“In the fall of 2007 it was becoming apparent to us that Lee County was beginning to face extraordinary economic challenges and that it was spilling over to

LMHS. We were completing a good first year post the acquisition of the two local former HCA hospitals, and other than having to fix some serious staffing shortages that cost us over \$10 million in premium labor, we were feeling good about improvements and expected growth.

Through the foresight of our CFO who has developed excellent ‘early warning’ systems and our CEO, we began to realize something was happening in October and November of 2008 when we fell far short of our budgeted volumes and saw significant losses. This coupled with the State of Florida’s awareness of swirling winds of pending economic challenges and the sun setting of PIP insurance law, the CEO and CFO had a frank discussion with our senior leadership team. Not only were we fearing reductions in reimbursement from the State, the Federal government was also making changes to reduce reimbursement. As the region’s safety net healthcare organization, we saw our uninsured population of age 65 rapidly

escalating along with those underinsured causing unprecedented increases in our charity care and bad debt.

Understanding the challenges, the senior leadership team had a tough road to accelerate the change in our internal culture in the organization since we believed we were headed for tough economic times. We had prided ourselves the last few years with our cost and waste reductions and quality improvements through many initiatives including our Productivity Committee and Lean/Sigma team. It became shockingly obvious this pace of change was not enough and that the culture of the organization was going to be tough to switch since so many felt great after acquiring the competition.

Over the next few months we had to do a lot culturally to get everyone's attention. As the state and federal financing woes continued and our local economy literally went 'south', we went through different organizational 'pushes' to find significant operational savings, as well as look for revenue enhancement. This was not easy as most of the 'low hanging fruit' had been found/plucked in the early 2000s following a previous economic decline (Balanced Budget Act of 1997) for Lee Memorial in 1999 and 2000 and turnaround. With the economic successes of 2003 and 2004, we became a little complacent and did not hold our gains as we would have liked. This coupled with high vacancy rates in clinical positions resulted in the aforementioned high premium labor expense due to travelers and overtime. With the acquisitions of two hospitals we had to immediately increase staffing ratios of clinical staff to meet our health system's standards. All this exacerbated our finances as the downturn in our economy reduced revenues while we faced additional expenses from suppliers and physician subsidizations.

The following is a summary of over \$65 million that we recaptured (by both reducing expenses and increasing top line revenue) some of which was

realized in FY 2008 and some of which we are reaping as we have begun FY 2009 as of Oct.

Meanwhile even with all of this the beat goes on, and we will face even more challenges this year. We have taken a massive bath on our investment portfolio (probably like everyone else). As noted earlier, Lee County, Florida has jumped from 3.5% unemployed to over 9.5% unemployed. After the school district and LMHS, there are no major employers of any size. We are now a Medicare/Medicaid and highly uninsured community. Private physician groups are looking for us to save them economically from their reduced reimbursements through emergency call and other forms of subsidization such as reimbursement for uninsured and in some cases underinsured patients. Meanwhile these same physicians beat us up for our outpatient market share which is actually very small (15%).

In spite of these challenges, we have learned as a team that anything is possible to overcome if you really put your mind, heart and passion into it."

Jon's advice to some specific turnaround issues is as follows:

"At first we were in denial about our declining market, the accuracy of our volume trends and our management operating data validity. We initially disagreed as a team. It prevented us from decisive action, and we lost valuable time in making the level of improvements we need to make. As our CEO, Jim Nathan says, 'our area in Southwest Florida used to be the last to feel the impact of economic downturns and quickest to recover'. Now, we find ourselves among the first and will probably be among the last to recover."

Tip #1: The data doesn't lie. If your data systems and early warning signals have been accurate in good times, trust the data and don't spend precious time disavowing the data. Don't get mired in the minutia, validate your data, and quickly react to trends are occurring. Successful businesses must be agile and responsive. Senior

leaders must pull together and stay focused on fixing your financial situation, other wise you will not be able to achieve your other strategic goals. Reach consensus quickly with senior leaders and passionately assure all levels of leadership are on the same page with you and what the game plan will be. The further from the top, the more effort needed to convince these leaders that the crisis is real. Don't let other brush fires distract you and your leadership from your focus on the turnaround. As they say on Wall St, "Don't fight the tape."

Therefore, agree on the numbers quickly.

The crisis also challenged their ability to function as a team. Jon's feedback is that the challenges they faced didn't so much build character, it revealed it.

Tip #2: Don't wait too long to take action by listening to the dissenters, they can absorb time and disrupt your teamwork. Make certain the dissenters opinions are heard, reviewed for merit or not, and then move on. Get the right people on the bus or right seats and the wrong people off. Make sure all leaders take ownership in the situation and most importantly, don't punish each other by playing "the blame game." Leaders must not be distracted by looking at what others should be doing, but what they and their team should be doing.

For example, you notice that when really good football teams happen to lose, the players don't blame the kicker for missing a field goal with two seconds left in the game. Instead everyone looks in the mirror and asks: what, where and how could I have done better throughout the entire game to have possibly made the difference between winning and losing? That's how good teams handle adversity.

"Engage the front line leaders ASAP because they are usually an untapped resource of great ideas and value

added initiatives, and they should be engaging their line staff for their untapped great ideas."

Tip #3: Your front-line leaders are a great resource if you have a process to elicit their feedback, ideas and advice. Take advantage of this feedback early-on because it will take time for the ideas to gain acceptance and get traction. We gained and improved a great amount and we expect more to follow because of the cycle time between the recommendations for improvement and delayed implementation. The \$45 million in cost savings could not have been achieved with out everyone in the organization understanding they had a role to play to "save jobs" and assure viability for our safety net institution on behalf of our community. Likewise, the \$25 million in additional revenue would not have been achieved without this understanding and engagement.

"If people know the score and keep the score, the score will improve."

Tip #4: You cannot underestimate the importance of communication. The more you "over-communicate" exactly where the organization is and what is at stake, the more likely people are to buy into the challenges you face. When all staff know what the leaders know, the adjustments that the organization needs to make are viewed as logical given the undesirable hand you may be dealt.

The leaders at LMHS even presented the alternatives as choices between, "we can choose to change "X" or we can save jobs." What is the best choice for the community, our patients and/or the organization? Presented this way, the changes are less seen as "a take away."

Be direct with your assessment of the crisis. Don't candy coat or over dramatize. The "Joe Friday just the facts" is a good approach in healthcare. But

make certain you celebrate your successes. We found that month after month of not so good financial news began to have a debilitating impact on leadership, and we were receiving feedback that leaders were avoiding our meetings so as not to be more depressed. We recently brought in a relatively inexpensive but very good motivation speaker to share with them the characteristics of greatness both personally and organizationally. This was a good uplift and inspirational for many. It somewhat recharged some batteries for our leaders.

*“Process improvements (aka changing the way work is done) **always, always, ALWAYS** takes longer than you expect.”*

Tip #5: As good as you think you are at redesigning the way work is done (process improvements), driving out waste (lean techniques), reducing variations (Six Sigma) and adding real value (to patients), there is always another level of performance you haven’t explored yet. LMHS has adopted a structured approach for operational excellence for over six years. According to Jon, “Even though we’ve made significant progress, it’s fair to say that we’re not even half way yet to accomplish what’s possible.” If you haven’t begun this “organization – wide” intervention, get started now because it takes several years (5 to 10) to get really proficient. Senior leadership understands how quality directly relates to not only expense reductions but revenue enhancement. We are fortunate to have a CFO who

understands investments in quality improvements go directly to the bottom line. He even chairs our Productivity Committee and has provided strong leadership with our Chief Medical Officer in driving out costs and improving quality through this committee.

“The number one take away from this experience is that as a leadership team and as an organization, we need to learn from our mistakes faster.”

The growth we have experienced (through both acquisition and marketplace expansion) has both contributed to our capability and taken away from our nimbleness. If we can somehow be both - a dominant presence in our market and “hungry” to improve performance we could more effectively take on just about every challenge thrown our way. We truly believe as a public safety net institution that is owned by our community and our market dominance (95% inpatient market share); we can focus on what is best for our citizenry and create a future model for healthcare delivery in our country.

Our performance improvement over the past 11 months gives us more confidence to take on future adversity. We almost matched our reductions in expenses with increases in business development (in a very difficult period to grow our top-line revenue). (See table below) Overall summary of where and how we achieved our ambitious goals.

The overall improvements and economic value added were achieved in the following macro categories:

TOTAL ESTIMATED SAVINGS	
Workforce optimization and labor savings	\$ 24,287,516
Optimization in physician subsidies	\$ 7,000,000
Overall supply-chain savings	\$ 5,000,000
Other (HR and employee recommendations)	\$ 3,219,849
Top-line revenue enhancement (\$\$\$)	\$ 26,340,592
TOTAL	\$ 65,847,957

A Summary list of 37 Improvement Initiatives:

1. Evaluate construction slowdown
2. Evaluate closure of Gulf Coast Hospital
3. Challenge Business Office to reduce Days in Accts. Receivable by 10
4. Administrative support review
5. Span of control review by leader and role
6. No management pay increases
7. Staff merit increase cap of 2%
8. Discuss across-the-board pay reduction
9. Consulting fees reduced or eliminated
10. Travel limitations/restrictions
11. Energy and recycling audit
12. Reduction in Average Length of Stay (ALOS)
13. Delta nurse staffing review
14. FY '09 proposed rate increase
15. Evaluate Back-to-Work program
16. Revise budget volumes
17. Evaluate 403b match
18. Evaluate health benefits
19. Move staff laterally - between facilities
20. Increase Leadership and employee communication
21. Video presentation for employees by Jim Nathan (CEO) and John Wiest (CFO)
22. Increase Bonita market share
23. Evaluate all memberships
24. Evaluate Medical Director Fees
25. Evaluate bedside registration
26. Review observation patients
27. Core positions/leadership review
28. Nursing redesign program
29. Review surgical flow/anesthesia
30. Revise productivity measures and standardize statistics
31. Streamline budget process
32. Evaluate pharmacy process
33. The Children's Hospital process improvements
34. Encourage use of accrued PTO
35. Encourage use of job sharing
36. Examine turnover to project future labor expense and savings opportunities
37. Delay "Epic" EMR installation

"We had to remind ourselves to get off the treadmill, celebrate the wins and recognize exceptional performance."

Tip # 6: Take a time – out and recognize the heroic performance that everyone has exhibited. With Healthcare being the most challenged industry in America, remember, your workforce is probably tired (most likely exhausted). Therefore, make sure to celebrate the wins, recognize and reward those who have made significant contributions. It will become the "rocket fuel" they need for the next level of performance.

"Our team views FTE reductions as a failure in leadership."

Tip #7: Jim Nathan (our CEO) for years has repeated his personal philosophy that FTE reductions should be considered a failure in leadership. We therefore had to do everything we could to reduce our excess costs and grow revenue BEFORE he would even seriously entertain discussions of actually laying off any employees. Our hiring freeze or slowdown took place almost 8 months before our reduction in July 2008. In October/November of 2007 we felt we could not support 200 to 250 employees due to reduced patient volumes and needed to work hard to reduce without a layoff. By early 2008, we had accomplished most of this without a layoff, when the bar was raised again due to unexpected reduced reimbursements and rapid growth in uninsured as we became the home foreclosure capitol of Florida and the nation. The target went back to the 200 to 250 employee reduction necessary to balance the budgets. This happened two more times before the final balancing of the budget in July 2008. It seemed as soon as the hole was plugged, some other financial crisis emerged. Finally, we had to make our very first layoff decision of any

magnitude in our history of 46 employees out of almost 9,000. Stepping back, the impact on this size organization was not tremendous, but for these 46 employees it was awful. So while the budget target was 250 employees, by a lot of hard work over about eight months we were able to avoid a major layoff and manage this number down to 46 within a month or so of final efforts. Lastly, for the 46 affected employees we worked very hard to do the reduction in a professional caring and compassionate manner providing the greatest amount of respect and dignity that we could for these people in this difficult situation not of their choosing. In fact, we were able to find positions for about half within our own organization through effective planning.

“Finally, we had to accept that HR could add significant value by raising the bar of performance by every measure.”

Tip #8: We were initially under the impression that if we fundamentally changed the ratio of HR professionals to total staff (previously 1:140 and now 1:200) that we somehow couldn't deliver on good internal “customer service.” Well, we were wrong again. Yes, our ratio has changed, but our responsiveness and overall service has also improved in most cases. Our team now recognizes that you just never know what's possible until you test yourself.



Jon Cecil is the Chief Human Resource Officer (CHRO) at Lee Memorial Health System located in Ft. Meyers FL.

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For more information on the exceptional “Turnaround” performance of Lee Memorial Health System, you can contact Jon Cecil at 239-772-6597. For this and other examples of Best Practices level performance in Healthcare, please contact Tom Olivo at 877-582-8884.



Thank you to Jon Cecil for his passion for improving healthcare and making available his time and expertise. This work is a product of Success Profiles Inc. Research Division. Success Profiles has its finger on the pulse of the healthcare industry, you can get more information at the partner site www.healthcareps.com/site/pressroom.html