



## Case Study #13 The Case of the Hopeful Hospital

### The Situation

Community Care Hospital<sup>1</sup> is a 100-year-old, 415-bed, independent, not-for-profit medical facility located downtown in a major US city. There are 1,500 employees on the medical staff, including 650 physicians and 550 nurses.

When Frontier Associates (FAI) was engaged, annual revenues were \$210M (million), but budgeted expenses were \$230M. The resulting 10% (\$20M in 2005) annual deficit had resisted all reduction efforts for many years. The hospital's customer satisfaction score was only in the 7th percentile of similarly sized hospitals.

### The Goals

In initial meetings with FAI, hospital leadership expressed commitments to

- Reduce the persistent budget deficit to breakeven as quickly as possible
- Significantly improve customer satisfaction scores
- Improve employee morale
- Improve overall quality of care

The first goal of the engagement was to produce a breakthrough in the current fiscal year's deficit while not negatively impacting accomplishment of the other three goals. When FAI was engaged, the hospital was halfway through its fiscal year, had already lost \$9M, and was entering the low period of its seasonal fluctuations in census (occupancy) with a predictable annual deficit of about \$22M.

### Our Analysis

Through interviews and other data-gathering efforts, FAI made the following analysis:

- Employees expressed a tremendous amount of pride in the hospital: its accomplishments, its history, and its place in the community.
- The hospital was a heavily siloed; people in one department did not communicate or share goals with people in other departments. Most stakeholders did not perceive as important any data that did not pertain to their immediate span of control. In addition, most employees did not see



anything they could do to significantly impact a \$20M problem. All prior solutions had come down from the top and were generally applied across the board. Most were incremental approaches and had varying success, but none produced the degree of deficit reduction needed. In addition, the workforce felt that if the deficit were important, senior management would be working on it more than they were.

- As a result of these factors, the workforce did not take ownership of the deficit or of its reduction.
- People were change-weary. In the prior three years the hospital had pursued a number of initiatives to improve the quality and effectiveness of its delivered services. There was a strong perception that whatever came along next would be another “Flavor of the Month.”
- Expectations of the hospital’s ability to change — particularly to make major breakthroughs — were low.

## The FAI Solution

Given the press of time, FAI proposed using FAI’s proprietary Breakthrough Process to reduce the current fiscal year’s deficit.

Approximately 50 stakeholders, representing all areas of the hospital, were selected for the Breakthrough Team. A major selection criterion was sphere of influence on other employees. Those with the most influence were the most likely to receive an invitation to participate.

The CEO empowered the Team to find a solution by summarizing the situation:

- The deficit is staying about the same each year.
- Without reducing, then eliminating, the deficit, the hospital at some point will have to close.
- If the Team does not find and implement a solution, it is unlikely that anyone else will.

The Team agreed that consensus would be used for all decision-making. Consensus as used here means that each member of the group had veto power. That is, no decision could be made unless everyone in the conversation agreed to it without compromising. This method of decision-making is required to promote the level of creativity and buy-in needed to produce breakthroughs.

It was agreed that the following six measures would constitute success (a breakthrough) for the engagement:

- Deficit for the current fiscal year equal to or less than \$14 million
- Operating revenues greater than or equal to operating expenses for the subsequent fiscal year and every fiscal year thereafter
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- Overall hospital Press Ganey<sup>2</sup> score greater than or equal to 60th percentile for last quarter of next fiscal year meet all regulatory requirements, including those relating to patient safety
- No increase in the absolute number of significant sentinel events<sup>3</sup>
- No increase in “reportable” employee injuries over 2004

After steps that supported the group in “thinking out of the box,” the Team selected the following commitment:

***We provide quality, compassionate, accessible, cost-effective health care services for each patient, their families, and our community.***

Subsequently the Team selected nine projects that cumulatively would produce the needed deficit-reduction breakthrough. This contrasted with prior approaches developed by top management, which generally attempted to apply one methodology across the board.

Many stakeholders believed that the organization would have difficulty with execution, so the Team implemented measures to provide points of accountability, structure, and support. These included establishing a Project Management Office, training and coaching for hospital and program leadership in leading and managing change, and a monthly gathering of the nine team leaders to report progress to the Breakthrough Team. They also established continuous communication, through a variety of channels, with the entire hospital community regarding goals and progress.

## **The Results**

While the loss for the six months preceding the breakthrough process was \$9M, the loss for the subsequent six months was only \$2.3M. Instead of the predicted \$22M annual loss, the deficit for the fiscal year was cut to \$11.2M. This deficit reduction was accomplished without layoffs, without conflict with the labor unions, and without significant capital investment. While no formal measurement was made, ad hoc observations indicated an improvement in employee morale.

This accomplishment enabled the hospital to then put additional efforts on accomplishing the other three goals (improve customer service scores, employee morale, and overall quality of care).



## Summary

Community Care Hospital had experienced a 10% annual deficit of about \$20M for almost a decade. The deficit persisted despite all reduction effort, and stood at \$9M for the first half of the fiscal year. By employing FAI's Breakthrough Process, the loss for the second half of the fiscal year was reduced to \$2.3M, despite it being the hospital's typically low census period. This was accomplished with no significant capital investment, with no conflict with the labor unions, and without layoffs. The significant lessons learned were

- FAI's Breakthrough Process can reliably cause people to "think out of the box" and produce breakthroughs.
- Empowering the workforce to resolve a hospital-wide problem can yield success when top-down solutions did not.
- A requirement for consensus decision-making promotes creative thought and buy-in to implementing the solutions developed.

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<sup>1</sup> The name of the client has been changed to maintain anonymity.

<sup>2</sup> Press Ganey Associates surveys discharged patients to measure patient satisfaction with hospital care.

<sup>3</sup> A "sentinel event" is defined by the Joint Commission on Accreditation of Healthcare Organizations as "an unexpected occurrence involving death or serious physical or psychological injury, or the risk thereof."