



Success Under Duress:

How Five Hospitals Thrive Despite Challenging Payer Mix

Introduction

California's safety-net hospitals are a vital source of care for low-income, uninsured, and underinsured people. These public and not-for-profit institutions typically have a challenging payer mix (CPM), characterized by: (1) a high percentage of Medi-Cal patients; (2) high uncompensated care as a percentage of expenses; and (3) a low percentage of commercially insured patients in relation to other hospitals.

Nevertheless, many CPM hospitals in California have demonstrated financial success, according to analysis of 2005 to 2007 hospital financial reports. Of the state's 270 (non-Kaiser) general acute care hospitals, 67 were in the "worst" quartile for each of these three components of payer mix. Twenty-two of these reported a positive total margin for each of the three years studied. In 2008, the most recent year for which financial data are available, 11 of the 67 CPM hospitals met or exceeded performance criteria on at least five of ten standard financial measures, including operating margin, total margin, operating cash flow, days cash on hand, cash to debt, days in accounts receivable, current ratio, long term debt to capitalization, debt service coverage ratio, and average age of plant.

What are these CPM hospitals doing to enable them to be financially successful? This report offers case studies of five CPM hospitals that achieved robust financial performance in 2008. The five hospitals selected for study reflect the diversity of the larger group in terms of ownership, system membership, size, geographic location, and market conditions. See Table 1 on the following page.

For each hospital the investigators completed in-depth group interviews with the senior leadership team, including the CEO and CFO. For the four larger hospitals, the interviews were extended to other members of the leadership team, such as the chief operating officer, chief medical officer, vice president for human resources, and the director of physician recruitment. A total of 28 senior managers participated.

In addition to discussing factors commonly associated with financial success, such as techniques for enhancing revenues and controlling costs, the investigators solicited the participants' responses to the question: "What do you believe are the reasons for your hospital's positive financial performance?" The full report of the findings can be found in Resources (page 17).

Case Summaries

The following case summaries capture some of the information and judgments provided by the hospital leaders most responsible for the development and implementation of initiatives to improve their organizations' performance.

ALAMEDA COUNTY MEDICAL CENTER, OAKLAND

"You don't get culture change unless you have relationships. After that, it's less about culture change and more about principles, practices, and accountability."

Alameda County Medical Center (ACMC) in Oakland is a Public Hospital Authority authorized by state legislation and directed by a freestanding board of trustees. The medical center has a total

of 475 staffed beds across three campuses—Highland Hospital (acute care), Fairmont Hospital (rehabilitation services), and John George Psychiatric Pavilion (psychiatric services). It also operates three freestanding FQHC community health centers—Eastmont Wellness Center, Winton Wellness Center, and Newark Health Center. APMC is designated a level II emergency/trauma center.

APMC serves Alameda County’s 1.5 million residents—a diverse population that is about 25 percent Asian, 22 percent Latino, and 14 percent African American. Approximately 11 percent of the residents in APMC’s primary service area have incomes below the Federal Poverty Level. The medical center offers comprehensive medical-surgical care and participates in a medical residency program affiliated with the University of California, San Francisco School of Medicine.

For many years, APMC was a troubled organization. From 1991 through 2004, eight different CEOs were appointed. During these years, even with the assistance of a contracted management company, APMC was unable to balance revenue and expenses. In 2003 a “blue ribbon” committee was appointed by the county’s board of supervisors to develop a long term fiscal solution to the organization’s continuing financial problems.

Important changes in APMC’s governance structure, local revenue contributions, and organizational leadership followed. In 2003 a hospital district and an independent board of trustees were established to govern the medical center. In 2004, the residents of Alameda County approved a ballot measure that increased the county sales tax, with the proceeds being allocated to APMC. In 2005, a new CEO was hired who quickly assembled a leadership team including a new chief financial officer

Table 1. Success Under Duress Study Hospitals

HOSPITAL/ MEDICAL CENTER	OWNERSHIP/ GOVERNANCE TYPE	SYSTEM AFFILIATION	TOTAL STAFFED BEDS ¹	LOCATION/ MARKET SITUATION	2008 OPERATING MARGIN ²	2008 TOTAL MARGIN ³
Alameda County Medical Center Oakland, CA	County Hospital Authority	No	475	Northern California, East Bay Urban/suburban Multiple competitors	0.2%	5.5%
Fairchild Medical Center Yreka, CA	Not-for-profit	No	25	North Central California Rural/mountainous No competitor in immediate vicinity: a Critical Access Hospital	3.4%	4.1%
Marian Medical Center Santa Maria, CA	Not-for-profit	Catholic Healthcare West	167	Central Coast California Urban/suburban Multiple competitors	7.5%	9.5%
Providence Holy Cross Medical Center Mission Hills, CA	Not-for-profit	Providence Health and Services	254	Southern California Urban/suburban Multiple competitors	12.6%	8.1%
Sierra View District Hospital Porterville, CA	District	No	163	Central Eastern California Rural/agricultural No competitor in immediate vicinity	6.1%	13.4%

1. Includes all classifications of beds for the hospital per OSHPD reporting, including general acute, psychiatric, rehabilitation, long term care, and chemical dependency/other.

2. Taken directly from 2008 OSHPD Hospital Annual Pivot Table. Operating margin is net income from operations divided by total operating revenue (net patient revenue plus other operating revenue). Net income on the annual Financial Pivot Tables has been adjusted to reflect Medi-Cal DSH funds transferred back to related organizations.

3. Taken directly from 2008 OSHPD Hospital Annual Financial Pivot Table. Total margin is net income from all sources divided by total operating revenue (adjusted for net DSH transfers).

and new chief operating officer. ACMC had a stable leadership team in place throughout the four-year study period, and this team remains in place in 2010.

The team focused on establishing positive, collaborative relationships with key stakeholders; changing the culture of the organization; reforming management structures; recruiting new, high-performing staff members; and initiating strategies and practices to achieve financial success. Many of the values and expectations they sought to institutionalize were formulated as goals in ACMC's "Six Pillars of Success" initiative summarized as:

- Quality goals that align with national and regional safety initiatives.
- Workforce goals to provide adequate tools and create a healthy employee culture that encourages growth, innovation, and high achievement.
- Service goals focused on increasing patient loyalty, a culture of customer service, and improved amenities that enhance patient experience.
- Fiscal stewardship goals focused on financial stability, operational efficiency, and debt reduction.
- Community/image goals for helping community stakeholders and constituents to understand ACMC's unique contribution to the well-being of the county.
- Growth/access goals supporting the mission to maintain the health of all county residents by expanding access to services.

Over 90 percent of ACMC's staff is unionized, which constrains what management can do to promote and reward high-performing staff members. Still, there is an explicit strategy to promote talent from within the staff pool whenever possible. This strategy has helped motivate employees and enabled management to fill open positions with staff members who have demonstrated that they fit well in the culture of the organization.

These efforts to transform the culture and retain and reward employees who work well in the new culture enabled ACMC to begin the process of turning the organization around. In 2005, ACMC introduced a financial improvement project, which involved about 90 managers working in interdisciplinary teams to identify expense-reduction and revenue-promotion ideas. Examples of ideas generated by this project include contract re-negotiations; development and expansion of programs that are financially viable, such as rehabilitation services; and shifting inpatient service lines, such as infusion services, to outpatient services to optimize reimbursement. According to the medical center's CEO, "This bottom-up approach to cost savings became the primary driver for improving ACMC's financial situation."

The financial improvement project resulted in new revenue and expense savings of \$28 million in 2006. It also encouraged staff engagement and commitment to pursuing hospitalwide service and management improvements.

Another key step was the implementation of data systems to monitor day-to-day performance goals against benchmarks and to initiate communication systems to disseminate performance reports to all staff members. Department managers were expected to work with executive leadership to achieve performance goals. ACMC's CFO described their emphasis on performance monitoring: "It has to be done shift by shift and is a focused practice that reviews cash, costs, variances."

Over the period 2005 to 2008 ACMC promoted profitable service lines, such as rehabilitation services and outpatient surgery, and increased referrals to these services. The expanding trauma program generated increasing revenue and helped support inpatient services as well as physical therapy and other rehab services through its referrals. Management also promoted ACMC's service lines to community clinics in the region,

resulting in an increase in the number of Medicare and commercially insured patients across most service units.

These and related efforts by ACMC's board of trustees, senior leadership team, physicians, nurses, and other staff produced positive results. The medical center had a positive total margin from 2005 to 2008. Its operating margin in 2008 was at least minimally positive at 0.2 percent, and its total margin was a robust 5.5 percent.

FAIRCHILD MEDICAL CENTER, YREKA

"We're a service industry, which means that we're only as good as the people we have to provide the service."

Near majestic Mt. Shasta, Fairchild Medical Center (FMC) is the sole hospital serving the medical care needs of 25,000 residents of north Siskiyou County. Freestanding and not-for-profit, FMC is a modern facility that was built in 1997 to replace Siskiyou General Hospital, in operation since 1921. The medical staff includes primary care and hospital-based specialties. Through its 25-bed hospital and three outpatient clinics, FMC offers a broad scope of services including orthopedics, general surgery, urology, obstetrics, hospitalist, pediatrics, and emergency services.

Given its remote location, in 2005 FMC was designated a Critical Access Hospital (CAH) under the Medicare Rural Hospital Flexibility Grant Program, which enables it to receive Medicare reimbursement at slightly better than cost. However, FMC's leadership believes that its financial success is primarily due to a shared sense of partnership between the medical center, medical staff, and the community—all focused on the need for collaboration to ensure survival of this critical community resource. There is a tight bond between FMC and the community. The board of directors consists of local community members, each of whom has a long record of service on the board. The senior leadership of FMC consists of a CEO, a CFO, and a chief nursing officer who have worked at FMC eight, 15, and 27 years respectively. Said the CEO,

"Continuity of leadership allows you to put your finger on the pulse and be reactive to changes, as opposed to the [uncertainty and delays caused by] turnover and instability."

Virtually all the medical center's employees are local residents with strong ties to the community and a commitment to a service-oriented culture. FMC's leadership invests in recruiting and retaining highly qualified staff and in providing ongoing professional development. As expressed in a comment by the CEO, there is a strong, positive relationship between FMC's management and its employees: "Over the years we've maintained a very good relationship with hospital employees. It's been honest, open, and trusting."

During 2005 to 2008, the strong relationships among the board, management, physicians, employees, and community supported FMC's financial sustainability. Through the development (or acquisition) of new programs and services, including new outpatient clinics, FMC was able to offer more to the community and subsequently to generate additional revenue.

The organization also implemented a collaborative approach to cost control. FMC has a hospitalwide budget, and the CEO and CFO work with each department head to manage the use of personnel and expenditures on equipment and supplies to meet the budget. Other cost-containment strategies include requiring the CEO's approval of any expense over \$350; membership in a group purchasing organization; and an agreement among orthopedic surgeons to use one vendor for orthopedic supplies and prostheses. FMC instituted a "new product committee" to review products to be introduced into patient care, examining utilization and cost implications. FMC's leadership believes these activities, supported by the organization's cooperative culture, has enabled financial success.

MARIAN MEDICAL CENTER, SANTA MARIA

“If we’re not hitting our targets, whether its quality, service, or financial, we ask ‘What do we need to do to readjust ourselves to succeed?’ Growth and planned expense management over time had the biggest impact; productivity monitoring as well...

We are constantly moving ahead. Grass is not growing under any person’s feet.”

With a population of more than 100,000, the Santa Maria Valley is one of the largest metropolitan areas in Central California. This coastal valley is the home of Marian Medical Center (MMC), a 167-bed, not-for-profit facility with two hospital campuses (Marian and Marian West). MMC offers a full continuum of services including health and wellness, acute and intensive hospital care, and palliative and hospice care. It is a member of the San Francisco-based Catholic Healthcare West (CHW), which operates more than 40 hospitals in California, Arizona, and Nevada. In 2004, through the efforts of Marian’s management team, Arroyo Grande Community Hospital and French Hospital Medical Center were acquired and assimilated into the CHW Central Coast service area. MMC operates under a hospital community board that is directly accountable to the CHW board of directors.

During 2005 to 2008, MMC’s financial success was due to a combination of new revenue generation and cost control, according to organizational leaders. MMC invested in revenue-generating service lines, such as a comprehensive cancer center, a NICU, and an outpatient imaging center. The increased patient service volume from the new markets served by the recently acquired Arroyo Grande and French hospitals also generated incremental revenue.

At the same time, MMC’s leadership focused on cost control. Efficiency in all aspects of hospital operations was given a high priority and reinforced through a number of activities: rigorous budgeting; close monitoring of staffing and overtime work; standardizing orthopedic equipment

and supplies; controlling drug costs through the federal 340B Drug Pricing Program; and reducing workers compensation cost through worker safety programs. This “mindfulness” about costs became an important part of the organization’s culture. Efficiency was further supported by MMC’s extensive continuum of care, which enabled a given patient to be cared for in a setting matched to the patient’s needs, thereby avoiding use of high-cost units simply due to an absence of alternative care settings. As MMC’s CEO emphasized, “Delivering the right care at the right time in the right setting is essential.”

MMC conducted monthly operational reviews that included an assessment of all “mission metrics,” such as care management indicators, capital expenditures, volume figures, financials, mission service information, patient satisfaction measures, and human resources indicators. Performance was assessed against established performance criteria and compared to “A” rated hospitals across the CHW system.

MMC’s strategic initiatives and operational practices were supported by a culture of open communication and involvement. The CEO briefed managers on strategic and operational issues at monthly meetings, and managers, in turn, shared this information with staff. The staff was continuously involved in strategic and operational discussions, and the leadership’s decisionmaking process was transparent.

With respect to the physician community, the strategy was to “recruit, retain, and engage” physicians by being transparent in budgeting and other decisionmaking, and including physicians in leadership roles. Management worked hard to maintain a positive relationship with its medical staff, which enabled the hospital’s leadership to be proactive in holding medical staff members accountable for complying with quality indicators. MMC set quality benchmarks at levels achieved by the top 10 percent of hospitals in the nation, and on most metrics they

achieved or exceeded the benchmark, benefiting patients and giving MMC greater negotiating strength with payers.

Hiring and retaining highly effective employees has been another key to financial success according to MMC leaders. Employees' salaries are raised on anniversary dates and awards are given to employees based on meeting quality and leadership targets. If MMC's overall financial performance meets budget targets, employees receive \$300 to \$400 rewards. Additionally, MMC offers a generous benefits package that increases with longevity. Finally, educational programs and opportunities for career growth and advancement are part of the package offered to employees. As a consequence, employee turnover is only 4.4 percent, which enables the organization to build a highly trained, experienced staff that embraces its mission-driven culture. Several interviewees noted the importance of the religious origins of the medical center to employees. Said the CEO, "The Sisters started Marian because it was their call. Today, MMC is here to pass on that mission. That may sound altruistic, but that's what it is and we believe in it."

The values inherent in MMC's religious underpinnings are important to understanding the organization's success. As the human resources manager noted, "We believe in the work we are doing and we carry out that mission daily."

MMC's leadership believes their employees understand the linkage between the organization's financial success and their ability to achieve their mission. Staff members are willing to accept the responsibility and associated stresses that come with implementing practices that achieve high-quality, efficient patient care.

PROVIDENCE HOLY CROSS MEDICAL CENTER, MISSION HILLS

"We've got to hit the numbers every day, and there's focused review every day to monitor reports. Awareness is key. It is built into the DNA of the facility."

Strategically located near the intersections of four freeways, Providence Holy Cross Medical Center (PHC) serves the north San Fernando and Santa Clarita valleys. A 254-bed, not-for-profit facility, PHC offers a full continuum of outpatient, inpatient, and long term care services, and is designated a level II trauma center with the second-highest volume of cases among community hospitals in Los Angeles County. PHC is part of Seattle-based Providence Health and Services, which operates 28 hospitals in California, Oregon, Washington, Montana, and Alaska. The corporate board of directors for the system is located in Seattle and has authority over systemwide planning to improve quality and patient safety, strategic planning, contracting, and finance for all system medical centers. At PHC there is also a local-level board with committees overseeing quality, peer review, credentialing, and patient safety.

PHC has received awards for the quality of its patient care from The Joint Commission, Health Grades, and other organizations. Its leadership strongly believes the PHC's reputation for quality and efficiency contributed to their financial success, drawing physicians and patients to their facilities and giving them a position of strength in business dealings. As the Providence system regional COO noted, "When your quality is good you can negotiate with payers. That's been our philosophy."

PHC used Six Sigma techniques for improving quality and patient satisfaction and controlling expenses. The organization achieved a particularly high level of efficiency in the use of the operating room, emergency room, and inpatient care units. While there are only eight operating rooms, they are in use seven days a week, 24 hours a day. Outstanding management of the OR supports efficient patient throughput, high-quality outcomes, and physician

satisfaction—due in part to the availability of OR time. In both the OR and the emergency department, there is a positive culture that supports high quality and efficiency. As the hospital’s CEO noted, “PHC has great quality nursing staff, efficiency, and an ER that works well. The OR and ER run extremely well. Physicians want to practice here and they prefer it here.”

PHC is rigorous about program planning, budgeting, and performance accountability. A “balanced scorecard” approach is used, reflecting the organizational belief that quality and financial performance are interdependent. Each department does a business plan that ties together staffing, budget allocations, and expected productivity. Managers receive daily reports on the performance of their unit related to budget (e.g., number of inpatients, trauma visits, scheduled surgeries in comparison to budget projections). Reviewing and responding promptly to these daily reports is a key to PHC’s financial success, according to its leaders. The regional COO checks the daily reports each morning, and if necessary, contacts a hospital’s leaders or unit managers to learn how they plan to address a variance from budget.

There are consequences for under-performance. A “watch” list identifies individuals and departments that have not met their budget goals. The watch list comes out weekly and monthly. If a unit is not meeting budget targets, the responsible manager is offered assistance and given time to correct performance. If there is no improvement over time, the manager is reassigned. In addition to daily monitoring of operating performance, there is a monthly review of financial and quality performance by cost center. The attitude toward accountability was captured in a comment from the medical center’s CFO: “We never mistake activity for achievement.”

PHC’s leadership team emphasized that their organization’s success is related to three core values: collaboration, trust, and high-quality performance. These values are widely accepted in the organization

and help to make it a satisfying place to work. PHC’s director of human resources emphasized this point: “Core values aren’t just about respect and compassion for patients—but for us [employees] as well. It’s ingrained in management. Managers live it and it’s infectious. When you come here you feel good about being here.”

SIERRA VIEW DISTRICT HOSPITAL, PORTERVILLE

“Our hospital culture is based on open communication, consistency, enforced policies, and fairness. Success is due to collaboration and the attitudes of the people that work together... Every move we make is like a chess move, so we have to work together on a daily basis to think about the organizational impact of every strategic move.”

Sierra View District Hospital is a 163-bed facility located in Porterville, a community of about 50,000 people in the Central Valley, near the foothills of the Sierra Nevada. It provides hospital services to about 70 percent of its service area population of 115,000. Founded in 1958, the hospital is part of the Sierra View Local Health Care District, and is governed by a board of elected hospital district directors. It offers a wide range of services including intensive care, general medical and surgical services, and major imaging modalities (MRI, nuclear medicine scans, and CT). The hospital also is home to the Roger S. Good Cancer Treatment Center.

The foundation for Sierra View’s current success was laid in the 1998 to 2000 timeframe, when a new senior management team was hired and began to implement structural, financial, and cultural changes. The core of that team remains in place today. Sierra View’s CEO emphasized the importance of strong teamwork to its success: “We have a senior team that works well together. A number of bright, highly motivated individuals within our management and staff that are innovative, dedicated, and diligent in their daily approach to whatever has been entrusted to them. A governing board that is highly supportive of our efforts. In short, a solid team effort.”

Added the executive director of risk management, “We talk as a team when we make decisions. If we make one move, we ask ourselves what the impact will be for everyone else. All team members have to come to the table and plan.”

Because Sierra View is the only hospital in the somewhat isolated, rural region, residents and the hospital are highly dependent on each other. This has created a strong sense of shared ownership among the community and the hospital’s physicians and employees. Years ago, Sierra View’s leaders made a conscious decision to excel at being a community hospital, to focus their growth on service lines of greatest value to residents, and to resist the temptation to become a much larger, costly, and unwieldy medical center.

Hospital management, employees, and medical staff work hard at recruiting high-quality colleagues who fit the organization’s culture of trust, respect, open communication, consistency in the application of policies, fairness, and teamwork. During 2005 to 2008, the strong organizational culture and the commitment of the management and nursing staffs to the hospital enabled Sierra View to develop an organization-wide mindfulness about maintaining financial viability. This mindfulness was supported by a rigorous budgeting process focused on revenue cycle improvement, recouping payments for services rendered, reducing costs of temporary staffing, and maintaining an adequate volume of patients through careful service line development and recruitment of physicians to the community. Management practices also included close daily monitoring of revenue and expenditures, and monthly financial reports to the board of directors and the joint conference committee.

The hospital’s CEO described Sierra View’s approach to controlling expenses: “It all begins with the annual budget process. Expectations are set at that time. In addition, we review actual results on a monthly basis. If there are changes during the course of the year—for example,

if volumes are below budget—we make adjustments accordingly. It is a constant process of monitoring, forecasting, and taking action.”

Given its relative isolation, an important component of Sierra View’s success was enabling staff members to interact with their counterparts in other regions. In 2005, the hospital implemented “Journey to Excellence,” which provided opportunities for staff members to travel to other hospitals to learn how to implement organizational and cultural changes, particularly with respect to quality of care and patient safety. The program had three objectives: (1) establish standards of performance and integrate them into job descriptions and evaluations; (2) support a cultural shift to one that is open, positive, friendly, and focused on quality; and (3) motivate some employees who left the organization to come back after seeing the changes generated by the program. After going through the Journey to Excellence program, many staff members pledged to improve performance. In a related initiative, Sierra View implemented a Salary Stipend 20/20 Program, which allowed eligible full-time nurse employees to work half-time (20 hours) and attend school (20 hours), while Sierra View continued to pay their full-time salary.

Sierra View’s focus on the practical tasks required to achieve a well-defined vision and mission for the hospital was an important ingredient in their success. This focus was described by the hospital’s CEO: “We made a conscious decision that we were not going to be all things to all people. Put another way, we will be an excellent community hospital rather than attempting to be a medical center with a lot of subspecialties. We don’t add services just to get bigger. Control the things you can. You can’t control government regulations and mandates, but you can control how you budget, how you conduct your operations, your culture, your approach to financial matters, and your decisionmaking process.”

No Easy Answers

The case studies and analysis indicated that there are no simple explanations for the financial success of the study hospitals. The three “intuitive” answers were, in fact, shown to be implausible.

- **Financial success among CPM hospitals was not limited to hospitals of a certain type.** The study hospitals varied in terms of system membership, size, geographic region, and general market conditions. They included hospitals in rural regions with little competition as well as hospitals in urban and suburban locations with strong competition. The hospitals also varied in terms of ownership and governance structures. Not-for-profit, district, and county-owned hospitals were represented (although it should be noted that Alameda County Medical Center is governed by an independent board of trustees).
- **Unique organizational characteristics provided successful CPM hospitals with certain advantages, but many of these characteristics also presented challenges.** Fairchild Medical Center and Sierra View District Hospital are located in remote locations, with the nearest competitor hospital over an hour’s drive away. The relative isolation of these hospitals made each of them the hospital of choice for many local residents, but their isolation also made it difficult to recruit physicians. Marian Medical Center and Providence Holy Cross Medical Center are members of large hospital systems that have a substantial presence in their geographical regions. This provides some leverage in contract negotiations but also increases organizational complexity and the need for strong coordinative management. Alameda County Medical Center includes the John George Psychiatric Pavilion, one of the few behavioral health services in its region. This enhances the medical center’s value to some consumers and insurance plans, but also requires it to cope with the low reimbursement rates generally provided for behavioral health services.
- **Federal, state, and county subsidies designed to protect safety-net hospitals were helpful to CPM hospitals, but they cannot explain their success in comparison to the many CPM hospitals that were not financially profitable over the same time period.** Each of the study hospitals received enhanced patient care payments due to their eligibility for one or more federal and state hospital subsidy programs, including the Disproportionate Share Hospital (DSH), rural clinic, Federally Qualified Health Clinic (FQHC), and hospital outpatient services and adult day health services (AB915) programs. Alameda County Medical Center benefited from a county ballot measure that allocated revenue to the medical center from an increase in the local sales tax. However, virtually all CPM hospitals in California were also eligible for at least some of these enhanced payments and revenue streams, and approximately two-thirds of them were not profitable. The leadership teams in the study hospitals believe that these enhanced payments, while helpful to the bottom line, were less important to their financial success than the strategies and practices they implemented to ensure that day-to-day operations were executed well.

Key Factors in Attaining Profitability

What, then, did contribute to the financial success of the study organizations? While many strategies and practices were used to influence the financial performance of these CPM hospitals, the leadership teams consistently identified the five key factors in Figure 1 (page 10) as the primary contributors to their financial success.

1. Quality: Strengthening the hospital’s negotiating position with payers

All of the interviewees emphasized the importance of their reputation for delivering high-quality care in negotiating payment rates with commercial payers. Leaders of the two private, not-for-profit hospitals located in competitive markets placed the greatest emphasis on the importance

Figure 1. Key Factors Contributing to Study Hospitals' Financial Success



of quality of care in these negotiations, and invested heavily in quality improvement initiatives.

Providence Holy Cross, for example, made a commitment to the Six Sigma approach to improving quality and organizational performance. PHC has two certified Six Sigma experts who work with the chief nursing officer, chief medical officer, and chief financial officer. The top clinical leaders work closely with the regional CMO to improve quality and patient safety. Quality measures published on CalHospitalCompare show that PHC was rated “superior” in ICU Mortality Rate and Respirator Complication Prevention, and “above average” in Surgical Care Measures and Overall Patient Care Experience.

Marian Medical Center also worked toward ambitious quality goals, including ranking among the top 10 percent of the nation’s hospitals on key quality measures. The management and medical staff leadership were proactive in holding medical staff members accountable for complying with quality indicators. By 2008, Marian reached their performance targets on most quality indicators. The senior management team reported that

their ability to demonstrate high quality in these ways gave them additional leverage in contract negotiations.

2. Strategic growth: Increasing the volume of patient services

Interviewees at every hospital viewed growth in patient volume as a strategic issue and the key to profitability over time. All of the hospitals developed new or expanded outpatient, emergency department, trauma, and specialty service lines. At Fairchild Medical Center, considerable investments were made to establish three outpatient clinics in the region. Alameda County Medical Center actively promoted their acute rehabilitation and outpatient surgery service lines. Providence Medical Center developed new and expanded outpatient centers, a trauma center, and a neonatal intensive care unit. Marian Medical Center also developed new and enhanced outpatient clinics, such as expanding its obstetrics/ pediatrics department by creating a state-of-the-art neonatal intensive care unit. In the case of Sierra View District Hospital, efforts to increase patient volume through these strategies were more measured, given the difficulty of recruiting specialists to the region. They expanded service lines and intensified marketing to draw patients from a nearby region where a hospital had closed.

3. Management discipline: Intense monitoring and control over expenditures and efficiency of operations

Every study hospital had an enterprise-wide budget. Actual performance was compared with budgeted revenues and expenses. Variance analyses were conducted and remedies were consistently implemented. Although such activities exist at most hospitals, what seems different among these profitable CPM hospitals is the frequency and intensity of budget reviews. In addition to quarterly reviews of financial performance, all five study hospitals also reported daily or weekly checks on financial performance and rapid response to deviations from budget.

Some of the efficiency practices reported by one or more of the study hospitals included:

- Full use of capacity of hospital service units (such as the operating room);
- Management of supply costs through supply chain and inventory management, standardization of supplies and equipment, and use of a group purchasing organization;
- Use of new product committees and similar structures to advise leadership on the necessity of purchasing new equipment and products and assessing the value and effectiveness of specific alternatives;
- CEO approval of any expenditure above \$350;
- Flexible nurse staffing (close and open units as needed);
- Reduced use of temporary nurses and other employees through staff recruitment and retention programs;
- Vigorous pursuit of payment for services rendered;
- Implementation of electronic medical records, PACS (picture archiving and communication systems), and other information technology.

In all of the study hospitals, such efficiency efforts were supported by a persistent emphasis on staff accountability. For example, Providence Holy Cross managers received daily reports on their unit's performance related to budget, detailing specifics such as number of inpatients, trauma visits, and scheduled surgeries. Reviewing and responding to these daily reports was a key to PHC's success, according to organizational leaders. A series of consequences for under-performance supported PHC's strong commitment to staff accountability.

4. Culture: Organizational values supportive of collaboration, trust, achievement, and accountability

All of the leadership teams stressed the importance of a shared organizational vision. They articulated a clear description of the type of organization they worked for and the roles that it should play in the community and the marketplace. For example, both Marian and Providence leaders saw their medical centers as anchors of comprehensive delivery systems providing a complete continuum of services. Fairchild's vision was more focused on emergency, inpatient, and outpatient services, and relying on others in the community to provide long term or home care services.

Alameda County Medical Center's Six Success Pillars program integrates the organization's vision with its core values, articulated as: quality enhancement, workforce development, service enhancement, fiscal stewardship, community image enhancement, and growth enabling access to care.

Two beliefs highlighted by all the study hospitals as critical to achieving financial success were:

- Shared responsibility among management, physicians, and nurses for achieving high quality of care and operational efficiency;
- "Mindfulness" about improving quality and patient satisfaction and controlling expenses.

The shared values frequently mentioned by the senior leaders of all the study hospitals included: respect, compassion, quality performance, honest and open communication, trust, fairness, and teamwork.

Sierra View District Hospital integrated these core values and beliefs into the recruiting process; they included staff members on interview teams, in part for the purpose of ensuring that candidates were a good "fit" with the hospital's core values.

5. Relationships: Strong, positive hospital-employee and hospital-physician relationships

All of the study hospitals reported that the compensation they paid their employees was competitive within their marketplace. Even though three of the hospitals were not unionized, they matched the salaries of nearby unionized hospitals in order to recruit and retain high-quality staff. Some of the hospitals used incentive-based compensation systems. In Providence Holy Cross Medical Center and Marian Medical Center, part of employees' compensation was tied to work performance, while straight salary compensation was used at Fairchild Medical Center, Sierra View Medical Center, and Alameda County Medical Center.

Non-financial incentives were used by all of the hospitals to motivate employees and reward high-performing individuals and units. Rewards for meeting performance targets included celebrations, newsletter announcements, "thank you grams," and certificates for free meals. Some hospitals also had "special day" programs to thank physicians and staff members for their efforts. Fairchild Medical Center sponsored "Doctors' Day" and "Hospital Week." Sierra View established "Team Rewards" and "Shining Stars" awards programs as well as "Journey to Excellence," a more programmatic effort to reward and educate employees.

Most study hospitals implemented formal staff recruitment and retention programs, and considered them essential to their organizations' financial success. Sierra View's nurse recruitment and retention initiative, the Salary Stipend 20/20 Program, is one example. Providence made a decision to not outsource hospital work, which assured employees that they would not lose their jobs through workforce downsizing, and also built commitment to the medical center; everyone working on the campus received their check from the company.

Building strong relationships with physicians in the community was a strong focus of all of the study

hospitals, believing that physicians who are committed to the hospital will refer their patients and also work collaboratively on initiatives such as quality improvement, efficiency, and culture-building. The hospital leaders spoke about the importance of conducting business with physicians in a way that recognizes their importance to the hospital and the community. Specific policies and goals included:

- Establish and maintain trust with the medical staff;
- Include input from community physicians in the physician recruitment plan;
- Develop hospital services and technologies that are attractive to physicians;
- Create a desirable, efficient working platform that makes physician work easier;
- Involve physicians in decisionmaking regarding patient care program development, equipment and technology budgeting, and other areas as appropriate;
- Use physician employment contracts where possible.

Conclusion

The interviews with senior managers at five financially successful hospitals with a challenging payer mix revealed many factors that they believe contributed to their robust performance. In particular, five broad strategies and practices surfaced as having the greatest influence on financial performance, mainly through enhancement of payment rates, service volume, and hospital efficiency. Concerted attention to organizational culture and professional relationships enabled and supported the successful implementation of these strategies and practices. The five approaches identified by these hospitals—while certainly not uncommon across the industry—are notable in terms of the persistence, focus, and intensity of effort with which they have been applied.

Establishing the conditions under which CPM hospitals can be financially successful is one of the most important

responsibilities of governing board and organizational leaders. The lessons learned from the study hospitals provide strategies and insights that may be useful to other hospitals seeking to strengthen their financial results.

The full report, “Success Under Duress,” on which this issue brief is based,” can be found at www.centerforhealthcaremanagement.com.

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Appendix A: Study Methods

The purpose of the Success Under Duress project was to identify the managerial strategies and practices associated with profitable financial performance among California safety-net hospitals with a challenging payer mix (CPM hospitals). CPM hospitals were defined for purposes of this project as meeting three criteria: (1) a high Medi-Cal utilization rate (defined as the percent of adjusted patient days attributable to Medi-Cal); (2) a high rate of uncompensated care (defined as the percent of uncompensated care as a percentage of overall expenses); and (3) a low commercial utilization rate (defined as the percentage of adjusted patient days attributable to commercially insured patients).

To identify profitable CPM hospitals, financial data for the period 2005 to 2008 submitted to the California Office of Statewide Health Planning and Development (OSHPD) were analyzed. In all, 270 general acute care hospitals were analyzed (all facilities classified as general acute hospitals, excluding Kaiser hospitals and hospitals for which 50 percent or more discharges were long term care patients). Researchers identified 67 hospitals with a challenging payer mix in 2007, as well as a subset of 22 CPM hospitals that reported a positive total margin each year for the period 2005 to 2007. Two other analyses were performed to ensure that the hospitals selected for the case studies were delivering acceptable quality of care. Hospitals with robust financial results were identified by assessing the performance of each of the 22 profitable CPM hospitals during 2008 (the most recent year for which data were available) on the ten financial indicators listed in the table.

The financial indicators were reviewed and confirmed by the Project Advisory Committee. Based on advice from the committee, the performance criteria on the financial performance indicators were set at the lesser of the threshold for either a Moody's A3 or an S&P A- credit rating.

None of the 22 CPM hospitals with positive total margins for 2005 to 2007 met the performance criteria for all ten financial indicators. However, 11 CPM hospitals that met at least five of the ten criteria were identified. An examination of summary indicators of quality of care reported on CalHospitalCompare determined that all of the 11 CPM hospitals delivered acceptable quality as indicated by the hospital's performance relative to other California hospitals on: ICU mortality rate, respirator complication rate, surgical care

FINANCIAL INDICATOR	PERFORMANCE CRITERIA
Operating margin	>1.8%
Total margin	>3.3%
Operating cash flow (EBIDA) margin	>8.7%
Days cash on hand	>139.6
Cash to debt	>97.3%
Days in accounts receivable	<49.3 days
Current ratio	>2.1
Long term debt to capitalization	<40.7%
Debt service coverage ration	>3.3
Average age of plant	<10 years

measures, hospital-acquired pressure ulcers, and hospital rating of overall patient satisfaction.

Five hospitals were selected for further study through site visits and interviews with senior leaders to gain an understanding of the management strategies and practices they believed accounted for their positive financial performance. Four of the study hospitals ranked in the 11 high-performing CPM hospitals in 2008. The study advisory committee recommended that a Critical Access Hospital be included in the study. The fifth study hospital selected was the highest performing Critical Access Hospital in 2008. The study hospitals was selected to insure variation in key characteristics, including ownership, size, system affiliation, regional location, and market competitiveness. Given the complexity associated with teaching hospitals' structure, service activities, revenue and expenses, they were not included in this study.

The leadership team at each of the five hospitals participated in an in-depth interview about the factors they believe contributed to their hospital's positive financial performance. The interview participants were sent a set of proposed discussion questions in advance of the meeting. The group interviews lasted approximately two hours. Based on the information gathered in the meeting and other data and information from the hospital's OSHPD financial reports, a case report was completed for each hospital. The CEO of each hospital had an opportunity to correct any errors or misstatements of fact in the case report.

Appendix B: Site Visit Interviewees

Alameda County Medical Center

Jeanette Corbett, Chief Human Resource Officer
Geoffrey Dottery, Vice President, Finance
Wright Lassiter, III, Chief Executive Officer
Bill Manns, Chief Operating Officer
Marion Schales, Chief Financial Officer

Fairchild Medical Center

Jonathan Andrus, Chief Executive Officer
Kelly Martin, Chief Financial Officer

Marian Medical Center

Sue Anderson, Chief Financial Officer
Charles Cova, President and Chief Executive Officer
Gary Goeringer, Vice President, Strategic Planning
and Business Development
Karen Mase, Vice President, Patient Care Services
Craig Miller, Vice President, Professional Services
Lynette Muscio, Executive Director, Foundation and
Public Affairs
Kathleen Sullivan, Vice President, Home Care Services
Adrian Tuttle, Human Resources Manager

Providence Holy Cross Medical Center

Larry Bowe, Chief Executive, Administration
Deryk Burz, Chief Operating Officer
Kerry Carmody, Regional Chief Operating Officer
Debby Dunkle, Director of Human Resources
Bernard Klein, M.D., M.B.A., Chief Medical Officer
Beatrice Newsom, Chief Nursing Officer
Chet Taylor, Chief Financial Officer

Sierra View District Hospital

Dennis Coleman, President and Chief Executive Officer
Doug Dickson, Senior Vice President and
Chief Financial Officer
Donna Hefner, Director of Risk Management
Ron Wheaton, Executive Director of Physician Recruitment
Sharon White, Director of Human Resources
Kathleen Widlund, Vice President, Patient Care Services

Appendix C: Success Under Duress Project Advisory Committee

Douglas D. Bagley
Chief Executive Officer
Riverside County Regional Medical Center

Jack Chubb
Chief Executive Officer
Community Regional Medical Center

Jay Harris
Vice President of Strategic Planning
University of California, San Francisco

Raymond T. Hino
Chief Executive Officer
Mendocino Coast District Hospital

Robert Issai
Chief Executive Officer
Daughters of Charity Health System

Wright Lassiter, III
Chief Executive Officer
Alameda County Medical Center

Michael Moody
Chief Financial Officer
John Muir Health

Robert A. Schapper
Chief Executive Officer
Tahoe Forest Hospital District

Art Sponseller
Chief Executive Officer
Hospital Council of Northern and Central California

Gustavo Valdespino
Chief Executive Officer
Valley Presbyterian Hospital

John G. Williams
Chief Executive Officer
Barton Memorial Hospital

Appendix D: Resources

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