

Case Study

Southeastern Regional Medical Center

Introduction

Southeastern Regional Medical Center (SRMC) is one of the top healthcare providers for southeastern North Carolina. It has evolved from a community hospital into a regional medical center with a broad range of services. SRMC has 325 licensed acute care beds, 115 long-term care beds, and a 12-bed hospice house. The emergency room experiences 73,000 visits per year from all over the region. SRMC is the sole community provider, addressing the needs of all patients regardless of their ability to pay.

Situation

When Joann Anderson became SRMC's new CEO in 2007, she faced a variety of opportunities and a few challenges. The remodeled hospital facility was growing and profitable, but the hospital-owned medical practice network negatively impacted those profits. The not-for-profit physician network consisted of nearly 40 physicians and midlevel providers, spread across a dozen or more practice sites. The physician network was losing between \$120-\$150 thousand per month. Of particular concern was a three-provider, hospital-owned clinic dedicated to the underserved and losing almost \$1 million per year. Ms. Anderson and her CFO, Thomas Johnson, decided to tackle the physician network issue head on. They hired The Halley Consulting Group to conduct a thorough **Network Evaluation** of the physician practices and to develop a performance improvement plan.

The Network Evaluation revealed several symptoms common to hospital-owned practices and employed physicians. There were few performance expectations for the network, its individual practices, or physicians. The physician compensation model did not quickly reward physician productivity, which was generally low. Ancillary services in the practice setting were limited. The physicians were not engaged with management in pursuing a common, compelling vision. The practices generally operated as separate silos. There were unresolved issues with the electronic medical record and many physicians had stopped using it. The network practice management team often failed to follow through on important initiatives at the network or practice levels. Receivables management was in disarray. Financial reporting did not allow for easy comparison with external benchmarks and the physicians were generally unaware of how their practices were performing. Provider turnover was increasing. These and other factors created the burning platform for change.

Resolution

The completed Network Evaluation yielded 90 recommendations in ten areas of business administration. Those recommendations were prioritized and divided into four calendar quarters to facilitate the focus for physician leaders and management. The resulting **Quarterly Action Plan** established appropriate performance expectations by identifying those initiatives that would receive immediate attention and those that would be delayed.

Among the most significant performance improvement initiatives was the establishment of a partnership of physicians and management to sponsor change and ongoing performance. The Halley Consulting *Council Model* was implemented at two levels in the organization. Joann Anderson carefully selected an exemplary employed physician to serve as chairperson of the Network Operations Council (NOC) consisting of six physicians and three hospital executives, including Joann Anderson (who legitimizes the NOC and has ultimate veto authority) and Thomas

Johnson, the fiscal expert. Joann Anderson established a mandate that all practices needed to reach the same level of financial viability as their private practice counterparts. The NOC supported the mandate and began to sponsor the work of performance improvement, and to hold physicians and network management accountable for implementation. The Council Model also included Practice Operations Councils (POCs) at each practice location to engage every physician and midlevel provider with practice management to consider performance improvement in terms of clinical quality, service quality, physician productivity, and operational and financial viability.

A second critical initiative was the establishment of a physician compensation model that would increase motivation and reward productive behavior quickly. Halley Consulting worked with the NOC to implement a productivity compensation model, which combined a base salary, equivalent to 50% of prior year productivity, with current Work Relative Value Units (wRVUs) at a fair market value rate per wRVU. The production pay was distributed monthly to ensure that behavior was rewarded quickly and that physicians have more control over their personal income, similar to private practice.

A third critical initiative was development of a management team that could effectively implement change. This necessitated a change in the Network Executive, who was replaced by an Interim Network Executive provided by Halley Consulting. The Halley Interim Executive brought years of experience to the SRMC team and immediately began building and training the management team at the practices. The management team came to understand their role as implementers for the NOC and POCs. Their stated role was to help *every willing physician* to succeed.

These initiatives, and many others, addressed many of the 90 recommendations proposed in the Halley Network Evaluation. Joann Anderson, Thomas Johnson and their employed physician leaders provided outstanding sponsorship for change. The Halley executive followed the Quarterly Action Plan to implement change initiatives in a measured way, and brought experience and rigor (accountability) to the process. The employed physicians, management team and support staff got behind the performance improvement initiatives and made front line changes. Importantly, everyone felt (and were held) accountable to deliver the desired and required results. This "culture of accountability" was supported by principles established with the NOC, including effective sponsorship, shared purpose, clear performance targets, time lines, measurement, and consequences. Weekly accountability provided physicians, management, and staff with positive reinforcement.

Results/Benefits

The most important benefit of the process was the "partnership" that developed between senior hospital administration and the employed physician leaders. Even though Joann is the board-appointed fiduciary and has ultimate veto power, the organization has truly become Partnership Led.

Other tangible changes soon began to appear as the organization shifted into high gear starting in March of 2008. Physician productivity increased nearly 70% and physician incomes increased 35% by March of 2009. In January 2009, the entire hospital-owned physician network was profitable for the first time in its long history! That same month, the network collected \$1.1 million in cash, compared to the previous best month of collections of \$850,000. Cash collections in April 2009 reached \$1.2 million. During the first nine months of 2009, the physician network has been able to consistently maintain break-even or better status each month. In fact, on average, the network is currently contributing about \$145,000 per month to the net margin of

the system -- a \$300,000 swing per month. Even the clinic dedicated to serving the underserved has been at break even for the last four months!

Has the culture changed? Absolutely! Hospital executives have noticed that physicians are engaged and working together as a network. Morale, efficiency, and effectiveness have increased, and physicians are taking ownership and understand the importance of their involvement in decision-making. All in all, it has been a great performance improvement success story!

Conclusion

SRMC's hospital executives are thrilled with the results of Halley Consulting Group's Practice Network Evaluation followed by rigorous implementation. The results have proven what a difference "best practices" can make when properly sponsored and implemented.

The following testimonials were shared by SRMC's executives:

"I wouldn't have thought it possible to come this far over the past twelve months. Who knew we would be looking at our clinic operations for profitability so quickly? I didn't know I would live to see the day that the 'free clinic' would achieve profitability and employed physicians would take ownership as they have . . . I am so proud we have been able to tap into the knowledge and leadership of this group and challenge them for ideas. They can challenge their peers like nobody else can, and it is obvious they enjoy having a stake in the governance and direction of our clinics and hospital."

Morris Bullock, Vice President Human Resources and Community Relations

"Thank you for the excellent work you are doing in backing the NOC through its strategic planning process. The meeting the other night was most effective and will result in motivating our physician network to become providers of excellence. You continue to make a difference."

Thomas Johnson, VP Organizational Development and CFO

"I wanted to thank you for the excellent job you did in leading the NOC through the planning session last week. You were upfront with them. You challenged them to think and you encouraged them with positive reinforcement. Most importantly, you assured that they are included in decision-making. Your work with the practices has been phenomenal. You have made a huge difference in morale, efficiency, and effectiveness."

Joann Anderson, President and CEO

"In 2004, I joined Southeastern Regional Medical Center as an employed family practice physician. After more than twenty years in private practice, I had reasonable concerns associated with joining a hospital employed medical group.

Every beginning is difficult and this move proved no exception. Although administrative intentions were good, nothing seemed to be accomplished rapidly, thoroughly, or consistently. It seemed as though our voices as practitioners were not being heard through the layers of management bureaucracy.

Personally, I did not feel a true connection with those that were managing the practice nor the information that I was provided monthly. As a group, we often were told we were losing money. When pressed for more information or asked how we could improve the situation, administration told us to "see more patients". We lacked input that had "impact" and felt like we did not have the ability to make any significant changes.

In November 2007, hospital administration brought in The Halley Consulting Group to assess our performance, including how our practices were being managed. Halley Consulting conducted an in-depth evaluation, providing a comprehensive report and a game plan for implementation. Their report clearly demonstrated an understanding of the current situation and the analysis lead to comprehensive recommendations for improvement.

In March 2008, Halley Consulting began implementing their recommendations. As a result, several significant and positive changes have taken place. Most formidable is the formation of the Network Operations Council. The council brings together the hospital administrator, senior management, and representatives of the physician practices on a monthly basis to discuss important items affecting our practices and the direction of our organization as a whole. We discuss financial results, set goals, and, in 2009, developed a strategic plan for our practices.

We now have direct input towards the management and direction of our practices, including access to financial information. More importantly, we have a vehicle to connect with hospital administration. Our relationship with administration has improved tremendously, as we now see ourselves as "one team".

In my practice, we now hold weekly practice operating councils that facilitate smooth operation of my specific practice with the partners in my clinic.

As the chair of the Network Operations Council for Southeastern Regional Medical Center, I feel I can speak for the 40+ physicians in our network by saying that things are significantly better with the direction and leadership provided by Halley Consulting.

In January 2010, we are pleased Halley Consulting will have a continued presence with us in providing assistance with the implementation of our improved strategy. We are proud of the many accomplishments that we have realized since their arrival here in March 2008. All of our practices are now at a break-even or profitable position due to the assistance and guidance of The Halley Consulting Group."

Dennis O. Stuart, MD