Northeast Georgia Medical Center faced a series of strategic and financial dilemmas. While running at full capacity, the hospital’s operating margin was approximately break-even. Capacity constraints prevented the hospital from increasing revenue through volume growth. The inpatient beds were full, the operating rooms were constantly booked, the emergency department was overflowing, and outpatient services were strained to the limit. Staff productivity levels were relatively low, and the average age of plant and equipment was relatively high because of an aging facility. Growing indigent care problems combined with a relatively low Georgia Medicaid payment rate provided immense challenges for this full-service regional hospital with more than $455 million in annual revenue.

A new CEO, James Gardner, assumed leadership of Northeast Georgia Medical Center when the previous president retired after more than 40 years of distinguished service. Management and employees were comfortable with the hospital’s performance. The new CEO was not. It quickly became apparent to him that the hospital’s capacity problems, aging physical plant and medical technology, and relatively complacent management were potential impediments for future change. Although the hospital was stable financially, it was not thriving. Although the physical plant and
medical technology were functional, they were not state-of-the-art. Although the medical staff was diverse and quality oriented, it was not engaged in meaningful collaboration with the hospital leadership. The hospital’s capital plan, which included replacing a major portion of the inpatient facility, proved to be unrealistic; current financial performance would not allow the hospital to access sufficient capital to execute the facility and technology improvements needed to make the hospital state-of-the-art again.

As CEO, Gardner viewed these challenges as windows of opportunity to change. He began by mobilizing Northeast Georgia Medical Center to allow what he characterized as a “strategic turnaround.” To do this, he engaged the board of directors, senior management, middle management, medical staff, and employees in the dual tasks of completing a comprehensive strategic plan for the future while strategically lowering the hospital’s cost structure. The board of directors insisted that these dual goals be pursued while simultaneously improving customer service, clinical quality, and employee morale. Although these may seem like contradictory goals, Northeast Georgia Medical Center proved they could be accomplished. The medical center’s success story is a road map for all hospitals, regardless of size, for how to successfully implement strategic cost reduction.

MAKING THE CASE

Northeast Georgia Medical Center’s first challenge was what its new CEO described as “making the case.” When financial collapse is eminent, making the case for change becomes obvious: Either performance improves, or the hospital perishes. But what happens when a hospital is seemingly satisfied with its less-than-stellar performance? That is the question Gardner faced first. He and his senior management team analyzed recent historical financial and performance trends. Next, they ordered a careful review and comprehensive update of the hospital’s future capital needs in conjunction with commissioning a new strategic plan. This review demonstrated that
immediate capital needs were $150 million, not $80 million as previously thought. Long-term capital needs of $450 million were identified for the next eight to ten years.

Strategically lowering the hospital’s cost structure became a critical priority for gaining access to capital so that strategic initiatives could be founded; this is now clearly articulated as part of the strategic planning process. After understanding strategic capital needs of the future, Gardner and his team then faced the decision of whether or not consultants were needed to help the hospital achieve strategic cost reduction goals. Gardner considered doing it alone, hiring a large consulting firm, or using a small consulting firm with a “facilitated” approach to strategic cost reduction. He chose the small-firm approach and retained a highly experienced adviser to help his leadership team accomplish strategic cost reduction.

**DISTINGUISHING FEATURES OF THE STRATEGIC COST REDUCTION APPROACH**

Gardner, his strategic cost reduction adviser, and the hospital’s senior management team devised a unique and extraordinarily successful approach to strategic cost reduction. The approach began with the recognition that external benchmarks would be of only limited value. Previous internal benchmarks during years of exceptionally good financial performance were used as an alternative to external benchmarks. It was agreed at the outset that the adviser would facilitate the strategic cost reduction process and senior management would lead. Gardner and his senior management team set five goals with help from the strategic cost reduction adviser:

1. Reduce annual operating expenses by $20 million per year without compromising quality.
2. Improve physician and employee morale.
3. Improve customer service throughout the hospital.
4. Create an opportunity for meaningful physician and employee input into the strategic cost reduction process.
5. Implement the cost reduction initiatives to position the hospital for a successful bond issue one or two years hence.

TASK FORCE METHODOLOGY

The hospital’s adviser recommended organizing senior and middle management, approximately 100 leaders, into task forces for identifying strategic cost reduction initiatives. Nine task forces of approximately 11 people each were organized. Middle management, including directors and managers, constituted eight of the task forces. Senior management, vice presidents, and Gardner’s direct reports made up the ninth task force. The eight middle-management task forces were organized so that membership was highly diversified. Clinical and nonclinical directors and managers were intermingled. Long-tenured and recently hired directors and managers were also intermingled. This diversification meant that the task forces included directors and managers who barely knew each other at the beginning of the strategic cost reduction process.

Once the task forces were organized, the hospital’s adviser conducted training sessions and developed ground-rule guidelines for how the task forces were to operate. A detailed schedule was developed, encompassing approximately 60 days of intensive work by task force members.

TASK FORCE KICKOFF RETREAT

The strategic cost reduction initiative was formally launched at Northeast Georgia Medical Center with a kickoff retreat for all members of senior and middle management. The retreat was used as a training session conducted by Gardner, senior management, and the hospital’s adviser. Here, goals were assigned to each task force and the
hospital's adviser explained the concept of green dollars in great detail. He explained that cost reduction initiatives could not be counted toward the $20 million goal unless the hospital stopped “writing checks.” Hypothetical, theoretical, or hoped-for savings could not be counted toward the strategic cost reduction goal. Only true green-dollar reductions in salaries, fringe benefits, supplies, or purchased services could be counted. Checks for $20 million a year would have to cease for this aggressive strategic cost reduction goal to be achieved.

Immediately after the kickoff retreat, Gardner conducted what he described as “town meetings” with all physicians and employees. This required a series of exhausting, around-the-clock meetings so that the medical staff of 425 and employee staff of 3,500 could all receive personal communication from the CEO about why strategic cost reduction was needed and a detailed explanation of the process. These town meetings, held at the beginning, middle, and end of the strategic cost reduction process, garnered high praise from physicians and employees.

Gardner and senior management went to great lengths to communicate the cost reduction process to the board of directors. The message to the board was that the financial performance needed to improve by $20 million annually and that the performance of the hospital’s leadership needed to improve. Additionally, Gardner made the commitment to simultaneously boost employee morale and customer service while achieving strategic cost reduction goals. Although members of the board appreciated the aggressive approach, many were skeptical that all of Gardner’s ambitious goals could be achieved. Time proved the skeptics to be entirely wrong.

**TASK FORCES AT WORK**

For 60 days, the hospital’s nine task forces met approximately three times per week. Other major hospital priorities were temporarily suspended or curtailed to give all members of management time to focus intimately on strategic cost reduction. They brainstormed
with each other and challenged each other. Each task force had a specific green-dollar goal to achieve. Goals were assigned to each task force proportionate to the total annual-expense dollars controlled by task force members. In other words, if the 11 task force members in total controlled 10 percent of the hospital’s operating costs, then the task force was assigned 10 percent of the $20 million overall goal, or $2 million. At first, these brainstorming sessions were a learning experience for task force members. The members quickly realized, however, that the hospital’s CEO had entrusted them with a seemingly impossible cost reduction challenge. Gardner’s trust provided an extraordinary level of inspiration for directors and managers to achieve their assigned task force goals.

The hospital’s adviser met with each task force approximately every 10 days throughout the 60-day brainstorming period. His role was one of teaching; facilitating; and, occasionally, administering sharp critique. The adviser used his previous experiences with strategic cost reduction to help directors and managers focus on realistic ways to reduce costs while preserving patient care quality and customer service. He challenged them to restructure staffing patterns around employee attrition. He cajoled them into considering supply alternatives and different approaches to purchased services that could accomplish the needed tasks to lower costs. Nothing went unnoticed; every hospital cost was examined in great detail by the nine task forces.

The adviser worked particularly closely with the ninth task force, which comprised Gardner and his senior management team. This task force had a very aggressive goal for green-dollar cost reduction, and each vice president, and Gardner himself, was expected to put forth ideas to make sufficient cost reductions to reach their assigned goal. This ninth task force carefully evaluated management layers within the hospital, staffing, fringe benefits, and purchased services for a wide variety of hospital needs. They also considered renegotiating major supply contracts and making clinical program changes to achieve their goal.

On Friday afternoon, each task force was required to submit directly to Gardner a weekly progress report, detailing initial cost
reduction ideas and works in progress. Weekly progress reports were reviewed by Gardner and senior management on Monday morning. Senior management used these weekly reports to help the task forces evaluate the cost reduction implications of their ideas. In this way, senior and middle management were working together to achieve the common goal of $20 million in green-dollar cost reductions. Throughout this process, each member of every task force was expected to meet with their department’s physicians and employees. In this way, the task force process gained access to the ideas of all physicians and employees throughout the hospital. This grassroots approach not only created a sense of widespread teamwork throughout the hospital, but it also produced some extraordinarily creative ideas for reducing costs.

CHALLENGES ENCOUNTERED BY TASK FORCES

During the 60 days of intensive task force work at Northeast Georgia Medical Center, several challenges were encountered. It quickly became apparent that some directors and managers were highly comfortable with the status quo and would resist change with great vigor. The hospital’s culture had not previously been one of high accountability for members of senior and middle management. Some medical staff constituencies also had a strong resistance to change. The paternalistic approach to leadership of the previous CEO had permeated the hospital’s management ranks.

Gardner met these challenges in a straightforward manner. His strong commitment to a grassroots approach to strategic cost reduction reinforced a higher level of accountability as part of the hospital’s new leadership culture. He made it clear that no one was exempt from this accountability, including himself and senior management. During this process, sacred cows (of which there were several) were exposed and put out to pasture. Gardner emphasized that he
expected open and honest communication and a positive attitude about the strategic cost reduction process from everyone. At the end of the 60-day period, all task forces presented initiatives that achieved their green-dollar goals. Collectively, a total of $25 million in cost reduction initiatives were identified and ultimately the hospital’s senior management approved $24 million in changes. In addition to cost reduction proposals, each task force recommended employee morale and customer service improvement’s that were considered and approved by senior management for immediate implementation.

LEADERSHIP REVIEW

While all of the other task forces were hard at work identifying strategic cost reduction initiatives with physicians and employees, Gardner and his senior management team of the ninth task force were engaged in a comprehensive evaluation of the hospital’s organizational structure and an individual evaluation of all management personnel. Their primary objective was to flatten the organization by reducing layers of management wherever possible. Their secondary objective was to identify members of the management team for future promotion and identify those individuals whose skills no longer matched the hospital’s future needs.

Two vice president and two director-level positions were eliminated because of the leadership evaluation. About a dozen middle management positions were combined or consolidated, and several prominent members of management left the hospital because of performance impediments. Once the leadership review was completed and the changes were implemented, Northeast Georgia Medical Center focused heavily on organizational development. The new leadership team has been extremely successful in implementing and sustaining strategic cost reduction initiatives and creating an updated leadership culture that emphasizes accountability.
DECISIONS, DECISIONS, DECISIONS

Northeast Georgia Medical Center’s senior management considered more than 300 recommended initiatives for cost reduction that were submitted by the task forces. Senior management developed detailed implementation plans, and a timetable was established for each initiative. Staffing reductions of approximately 200 positions were implemented, mostly through attrition and payroll practice changes; major changes were made in the employee benefit program; and a myriad of supply and service changes were carried out. The appendices described at the end of the book highlight examples of Northeast Georgia Medical Center’s strategic cost reduction initiatives and the task force process they used so successfully.

Postimplementation results were dramatic. As planned, the hospital’s financial performance immediately improved by approximately $2 million per month after the strategic cost reduction initiatives were implemented. The strategic cost reduction process created a tremendous sense of ownership among managers, directors, physicians, and employees. This successful outcome facilitated a true transformation of Northeast Georgia Medical Center’s leadership; it energized senior and middle management and gave physicians and employees a new sense of ownership in their hospital’s success.

One year following the strategic cost reduction initiative, Northeast Georgia Medical Center posted the highest operating income and margin in its history. Its stellar financial and leadership performance enabled Northeast Georgia Medical Center to access the bond market for needed capital to complete its strategic plan objectives. Its bonds received the highest possible rating and insurance coverage because of its highly improved financial performance. Gardner credited his board, leadership team, physicians, and employees with these profoundly important milestones in Northeast Georgia Medical Center’s history and rewarded all employees with their first-ever financial bonus.
LESSONS LEARNED

Gardner describes this successful outcome as a “leadership transformation, with a highly positive financial performance improvement result.” He and his hospital’s senior management team accomplished a stunningly successful strategic turnaround. Gardner articulates several key lessons learned:

1. Preparation is the key.
2. Constant communication is required.
3. Get it done and over in four months.
4. The CEO must take ownership of this work.
5. Be bold and choose a good adviser.

Department directors and managers also learned several key lessons from the strategic cost reduction process. They articulated their personal lessons learned as follows:

1. We can challenge each other.
2. We can learn from each other.
3. We can teach each other.
4. Together, we can achieve greatness.
5. History will record that this path to greatness began with a new vision of the future and the successful utilization of the task force approach to strategic cost reduction.

HOW DOES YOUR HOSPITAL COMPARE TO NORTHEAST GEORGIA MEDICAL CENTER?

Hospitals that are contemplating embarking on a strategic cost reduction process should begin by asking themselves these key reality-check questions that are based on the experiences of Northeast Georgia Medical Center:

1. Does your hospital have the commitment to renew the
process of strategic planning before or during the actual strategic cost reduction process to ensure that a profoundly important case for change can be articulated to all hospital constituencies?

2. Does your hospital have the discipline to change its corporate culture even if that culture has years of momentum?

3. Is your hospital willing to eliminate senior and middle management positions to set a leadership example for streamlining?

4. Can your hospital significantly reduce the number of employees and improve productivity?

5. Does your hospital have the strength in middle management members to sustain employee productivity improvements?

6. Can your hospital’s leadership team work with physicians to make substantive clinical practice changes in drug use, supply utilization, length of stay, clinical test and service utilization, and so on?

7. Can your hospital implement a performance-based retention-and-reward system for management and employees?

8. Will your hospital’s board of directors support senior management if challenged by middle management, physicians, employees, and community members during strategic cost reduction implementation?

9. Can your hospital improve employee morale and customer service while simultaneously implementing strategic cost reduction improvements?

10. Can your hospital afford to do nothing? Is status quo an option?

Northeast Georgia Medical Center is an extraordinary example of a hospital that transformed itself using strategic planning and strategic cost reduction. Not only did the hospital succeed with strategic cost reduction, but it also sustained the financial performance improvements while simultaneously enhancing its physician morale, employee morale, and customer services experiences. It is a remarkable hospital led by a remarkable senior management team and board of directors.
Every hospital is unique. Even so, every hospital, regardless of size, clinical focus, or geographic location has opportunities to succeed with strategic cost reduction. Part II highlights these opportunity areas; it explains the place to begin the search for initiatives that can reduce hospital green-dollar costs without negatively affecting patient care or customer service quality.