Hospital Growth Summit
The Organization for Healthcare Admin Leaders

EXECUTIVE SUMMARY

FOR MEMBERS

OVERVIEW

From Surviving to Thriving

by David Zechman, McLaren Northern Michigan

David Zechman became president and CEO of Ozarks Medical Center in Missouri in 2008, when it was on the brink of financial ruin, and turned the place around. He shares his insights here.

DAVID ZECHMAN became president and CEO of McLaren Northern Michigan in November after serving in the same capacity at Ozarks Medical Center in West Plains, Missouri. Zechman, who has more than 31 years of health care and leadership experience, in less than five years led Ozarks from near financial collapse to the strongest position it has been in in its 53-year history.

McLaren Northern Michigan serves the residents of 22 counties in lower Michigan and the Upper Peninsula.

"We had to do something. We had to keep the place open."

Things took a downturn at Ozarks Medical Center in 2005, after surgeons, in a falling out with the hospital administration, opened an independent ambulatory surgery center. In 2004, 4,532 surgeries were performed at OMC; in 2008, the year Zechman arrived, it was 2,321.

In 2006 and 2007, the hospital was approaching financial collapse. It halted construction on its new emergency department building and hired an operations consultant -- mandatory because the 2007 year-end debt service coverage was 0.5, which violated the hospital's bond covenants.

The consultant recommended many things, including that the hospital reduce its labor costs and manage productivity, develop a fundraising strategy and raise funds to complete the emergency building, evaluate programs and services for fiscal viability and contribution to critical services, grow market share in higher growth services by recruiting and retaining physicians in specialty core services and restore the administration and board relationships with the medical staff.

Here's some of what OMC did:

- Bought a productivity system to benchmark against hospitals of similar size. Removed poor performers from the staff and eliminated services. "It is easier said than done, because there are always political sensitivities with every single program we have…"

- Finished construction and opened the emergency department it in 2010. Emergency room visits rose from 20,627 in 2009 to about 27,000 in 2012. "It was a sign the hospital was fighting its way back…. It was a huge positive for the hospital and the community…"

- Began reviewing clinical charts in 2009 for accuracy and completeness and improved reimbursements by more than $2 million in two years.

- Began a rolling, three-year, long-range planning process in 2009, involved members of the board and senior managers in planning, and created a 12-year building plan.

- Also in 2009, they implemented an aggressive strategy for physician recruitment. The vice president of medical affairs took control, an in-house physician recruiter was hired and OMC decided to recruit only specialists. There were primary care doctors in private practice in the community and hiring more to staff the hospital would have sent the wrong message. What the community lacked was specialists. OMC is in a rural area and needed to find doctors who would fit in, so they screened heavily. Candidates invited in were greeted with hospitality baskets and activity bags for their children. Their spouses had their own itinerary and babysitters were provided for the physician dinner. "Sometimes it is the little things that make a difference." OMC was able to hire 57 physicians in three years -- and retained 50, for a retention rate of 87 percent.

- OMC decided to become a regional medical center for specialty services. The digestive health and liver specialty launched in 2011 and lasted only a year. "It was a service we just couldn't afford." And Zechman said if he had to do it over again, he might rethink wound care services, which don't make money although though they are badly needed.

- OMC improved physician engagement and relations with events and social activities, marketing activities, recognition and leadership opportunities.

- The hospital board, once out of touch, now has a Governance Institute membership and does an annual self-assessment. There is full transparency between the board and the administration, which creates trust so they can get things done. They deal with strategy issues during board meetings and do the detail work in committees, which involve physicians.

- The administration also practices full transparency on quality and financial matters with its employees. Staffers get bumps in pay rather than presents after 10, 15, 20 and 25 years of service. They have access to an employee pharmacy that barely breaks even and the Christmas hams and turkeys that disappeared during the lean years are back.

- Zechman and other hospital leaders are visible in the community, and Zechman meets quarterly with three advisory groups made up of business leaders, government leaders and community members.

- When OMC wanted to refinance its debt, it went to the local banks, which formed a coalition and reduced the hospital's interest rate by almost 50 percent.

The results of all this work? Days cash on hand rose from 24 in 2007 to 101 in 2012; the operating margin rose from -2.36 percent in 2006 to 6.1 percent in 2012; total operating revenue rose from $97 million in 2006 to $137 million in 2012; and the community views the hospital as best in the area in 9 out of 13 areas surveyed.