

# Leadership and Successful Financial Performance in Healthcare

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## INTRODUCTION

During the past decades, a significant body of literature has been published on the subject of leadership and organizational performance. Most authors infer a positive correlation between excellence in leadership and organizational results. As expressed by best-seller authors,<sup>1</sup> transforming leaders move their organizations from good to great and sustain such performance in continuous search for excellence.

Top-notch leadership appears to correlate tightly with above-average organizational performance in many peoples' minds. Leadership attributes and activities that engender high-performance organizations have been the subject of considerable research, but an exploration of causality is often elusive or altogether absent. In this instance, causality is the relationship between a leadership activity, such as building a strong team, and another experience that is a direct consequence or result of the team building, such as improved competitive performance. Causality explores why and how having a strong team really matters to competitive performance.

The body of literature specific to hospital/health system leadership is developing rapidly as healthcare assumes center stage on the nation's agenda. Increasing costs and competition and safety and quality imperatives challenge healthcare executives to identify and apply successful leadership approaches common in other industries. Best practices in hospitals that use such approaches are increasingly available from associations and organizations serving the field.

This white paper aims to advance this process by identifying five leadership activities that consistently occur in financially successful not-for-profit healthcare organizations. We define successful organizations as those that achieve strong financial

results year-in and year-out. How do the leaders of these organizations achieve such results? Like other works before it, the white paper assumes a positive correlation between actions and results, and as much as possible explores the linkages or causality between these.

To identify the management activities that really matter in healthcare, we turned to some of the best and brightest executives in the industry. Chief executive officers and chief financial officers of ten not-for-profit hospitals and health systems granted us interviews, which occurred in July and August of 2008. Three senior executives of the credit rating agencies, who evaluate management and organizational performance on a regular basis, also participated in this project in order to provide a capital markets perspective (see sidebar on [next page](#) for full list).

The healthcare executives lead organizations that vary in type and size, ranging from small regional systems, to urban academic medical centers, to large multi-state health systems. Each organization experiences healthcare's current challenges, including increasing competition, reimbursement constraints, and significant capital requirements. Some of the organizations are in healthy markets with a good payer mix and patient demographics; some are not. Most experience competition from other hospitals in the region and from physicians and other for-profit players.

Independent of similarities or differences, the executives provided remarkably consistent input regarding what they consider the most important aspects of their jobs and, with inferred causality, the key factors contributing to organizational success. The activities were as follows:

1. Visioning in partnership with the board
2. Building and sustaining a strong and accountable executive team
3. Developing a high-quality, integrated plan
4. Skillfully executing the plan and managing the fundamentals
5. Building and maintaining credibility

We organized the white paper around these five activities and how these activities contribute to financial success. Whenever possible, the paper's key points are made in the executives' words.

**EXECUTIVES INTERVIEWED****Hospitals/Health Systems**

Joel T. Allison  
President and CEO  
Baylor Health Care System  
Dallas, Texas

Edward Murphy, MD  
President and CEO  
Carilion Clinic  
Roanoke, Virginia

Kenneth L. Davis, MD  
President and CEO  
Mount Sinai Medical Center  
New York, New York

Ralph W. Muller  
CEO  
University of Pennsylvania  
Health System  
Philadelphia, Pennsylvania

Peter L. DeAngelis, Jr.  
Executive Vice President and CFO  
Catholic Health East  
Newtown Square, Pennsylvania

William H. Nelson  
President and CEO  
Intermountain Healthcare  
Salt Lake City, Utah

David Kirshner  
CFO  
Children's Hospital Boston  
Boston, Massachusetts

Charles W. Sorenson, Jr., MD  
Executive Vice President and COO  
Intermountain Healthcare  
Salt Lake City, Utah

Alfred B. Knight, MD  
CEO  
Scott & White  
Templeton, Texas

Rulon Stacey  
President and CEO  
Poudre Valley Health System  
Fort Collins, Colorado

James Mandell, MD  
CEO  
Children's Hospital Boston  
Boston, Massachusetts

Robert V. Stanek  
President and CEO  
Catholic Health East  
Newtown Square, Pennsylvania

Peter J. McCanna  
Executive Vice President  
Administration and CFO  
Northwestern Memorial  
HealthCare  
Chicago, Illinois

**Rating Agencies**

Martin Arrick  
Managing Director  
Non-Profit Healthcare Ratings  
Standard & Poor's  
New York, New York

Jeff Schaub  
Senior Director  
U.S. Public Finance  
Fitch Ratings  
New York, New York

Lisa Goldstein (co-author)  
Senior Vice President/  
Team Leader  
Not-for-Profit Healthcare Ratings  
Moody's Investors Service  
New York, New York

**1. VISIONING IN PARTNERSHIP WITH THE BOARD**

The development of an organization's mission and vision is the responsibility of its governing board, while the CEO and senior leaders are responsible for assuring that the organization lives the mission and vision. There is broad agreement that high-quality boards provide effective management oversight and that exceptional leaders understand how to get thousands or even tens of thousands of people moving in the same direction, with the same vision and goals, and a shared sense of purpose.

**Collaboration Plus Accountability**

We believe that board governance and the relationship between the board and the executive team are primary issues that frame organizational success in the current healthcare environment. Financially successful organizations have leaders who can envision, engage, and execute. They also have boards that govern around explicit expectations and metrics, guided by an attitude that senior management will deliver expected results on a consistent basis.<sup>2</sup>

Both partnership and accountability are required. "We look at our boards as partners, but the board's role is also to hold management accountable," says Robert Stanek. "Whether conducted locally at an individual hospital level or on a system level, the governance approach at Catholic Health East focuses on strategic direction and on oversight of performance, as measured against the mission, values, and goals. Specific performance indicators, with metrics, targets, and measurement tools are identified, implemented, and monitored."

**Distinct Perspectives and Roles**

The board's ability to question senior management and not to "rubber stamp" whatever the CEO wants to do is critical. The successful organizations profiled here have populated their boards with financial and industry experts who are using their expertise from their own professions to question management's strategies. The board members educate themselves on the challenges in the industry and establish appropriate benchmarks to measure key financial and quality outcomes.<sup>3</sup>

The rating agencies look closely at board education, wanting to see a robust process, whether in the form of regular training sessions or executive presentations on some aspect of hospital operations. Target setting, such as days cash on hand or patient satisfaction scores, should occur jointly with the board and executive team, with stretch goals reflecting what can be achieved given the organization's past track record and future challenges.

Although the board-executive partnership involves a high level of interaction, “a clear distinction between board responsibilities and management responsibilities is vital for success,” comments Rulon Stacey. “On an annual basis, our management team and the board talk about specific responsibilities to assure that everyone is clear about who does what and everyone has training in their respective roles,” says Stacey. “Broadly speaking, our board sets policy; our management team implements that policy and runs the organization on a daily basis.”

A successful CEO learns how to build a board that challenges him or her—not one built in his or her own image. A successful CEO keeps the board informed, using language that all trustees understand, and learns how to collect and give the board bad news. The communication between the CEO and the board achieves the right balance between high-level strategic issues and operational implementation details. The CEO recognizes that he or she is different from anybody else in the organization because he or she is “the board in residence.” Some CEOs make the mistake of trying to be in the same club as their board. They are not one of them, but they are of them. There is a big difference, notes the partner of a leading executive search firm,<sup>4</sup> and this difference drives personal and organizational success.

## 2. BUILDING AND SUSTAINING A STRONG AND ACCOUNTABLE EXECUTIVE TEAM

Without exception, a key activity that executives cite as critical to how they achieve financial success is building and sustaining a strong team. “Success has little to do with me, but more to do with how we function within the organization as a team working toward our mission and vision,” says Peter DeAngelis.

Given the complexity of healthcare organizations and the turbulent environment in which they operate no one person can possibly possess the requisite insight, intellect, or knowledge base to position an organization for success. Reflecting this reality, interviewed executives rarely use the word *I*. “Use of the word *team* is pervasive in all we do, from planning through strategy implementation. These efforts are not the result of individuals working alone,” says William Nelson.

All of the CEOs described the importance of establishing an environment that enables the senior executive team to achieve success and then supporting the team on an ongoing basis. “Leadership is about creating a culture where people feel encouraged and energized to take on difficult things, rewarded for successes, and not fearful about prudent failures,” says Edward Murphy.

## FROM THE LITERATURE

A study of the impact of leadership characteristics on corporate stock return performance indicates that, in a turbulent environment, organizations with teams that have a CEO who dominates within the top management team performed worse than those without a dominant CEO.

*Source: Ashley, Allan and Jayen B. Patel: The Impact of Leadership Characteristics on Corporate Performance. International Journal of Value-Based Management 16:211-222, 2003.*

## Who’s on the Bus

Executive team building starts with having the right people in the top spots. Intelligence, alignment of values, and diversity of perspectives and ways of thinking are key criteria cited by the healthcare executives interviewed in our study. “Our most valuable asset is talented leaders whose personal values align with the values of the organization,” says Charles Sorenson. “The right competencies and a proven track record are also important, but we can’t compromise on values; it is paramount.”

“Group think happens real fast, so we take a lot of time to make sure that we have people who use different thought processes,” says Robert Stanek. We tease these out during the interview process, through watching the individual in his/her job, or by talking with colleagues who interact with the candidate. The intensive process for selecting senior executives at Catholic Health East involves multiple interviews with multiple people, who share their impressions thereafter. The only person who can approve the hire is the person to whom the candidate would report, but anyone interviewing the candidate can have veto power. Vetoes occur sparingly, but reservations are expressed more frequently and sometimes these knock a candidate out of the running at the discretion of the supervisory executive.

Kenneth Davis describes the need to recruit people whose personalities mesh together well in a task-oriented group: “Ability to work efficiently in a team and to see the bottom line are important. People with personality characteristics, such as a need to assume full credit for something or to fight with others about resources, are not good-fit candidates.” Other personal characteristics are important: “It’s easier to make nice people

smart than it is to make smart people nice,” says Rulon Stacey. “We always look for a combination of institutional mindedness, sheer brilliance, and drive,” comments James Mandell.

The interviewed CEOs carefully shape their senior teams, using individuals from within the organization and beyond. Generally, the management teams are not afraid to bring in new talents or new areas of expertise when needed to complement current skills and strengths and to make changes in senior management until the right team is in place. “Key for me has been recruiting and developing the senior leaders that can enable this organization to achieve maximum productivity and growth,” says Alfred Knight. “My efforts as CEO during the past eight years have been focused on getting and keeping the right people on the bus.”

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#### FROM THE LITERATURE

A recent survey in the corporate sector indicated that two-thirds of executives believed a CEO’s top job is to ensure a steady supply of the best management talent stemming from a clear business strategy.

*Source: “The ‘Where’ not ‘How’ of Leadership. Strategic Direction 20(6):33-35, 2004.*

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#### Decision Making

After assuring that the right people are in the top spots, the interviewed executives give team members their areas of accountability and let them manage those areas, delegating decision-making authority to the appropriate level. “Each senior executive is the CEO of his or her department,” comments Rulon Stacey. “They staff the department and make the decisions in the department.” Kenneth Davis notes this: “When I go on vacation and, because managers have so much authority and competence, no one realizes I’m away, I will have achieved my goal of being the best CEO in this region.”

Team decision making is present in each of the profiled high-performing organizations. “I have an unwritten rule in my tenure as CEO,” says Robert Stanek. “I want to be able to count on one hand the number of unilateral decisions I’ve had to make.”

Unlike consensus decision making, which can be “cripplingly slow” in a complex, multi-state organization, constituents in the participative decision-making process used at Catholic Health East are invited to provide input in the dialog. “Because we’re very clear on our overall structure as an organization, the right

people are at the table and involved with this process, but the end-result doesn’t have to be a consensus, just a comfort level about what’s been involved in making the decision,” says Stanek.

Effective leaders allow others to participate in and/or make important decisions, recognizing that engaging others actively in making organizational decisions yields better outcomes. Because no one person is all-knowing, the interviewed executives of high-performing hospitals act on the axiom that many minds are better than one. Teams operate as a cohesive group, with no one member dominating the discussions.<sup>5</sup>

#### Goals, Incentives, and Accountability

The interviewed executives cited the importance of interdependent goals, aligned incentives, and individual accountability for the executive team and staff organization wide.

In a number of the hospitals and health systems, multiple institutional goals, as articulated through an integrated planning process described later, cascade throughout the organization. “Our performance management and incentive programs at Baylor are connected to our four pillars, which are achieving best in class for quality, service, people, and finance,” describes Joel Allison. “We identify and monitor core measures for each of these, and tie everyone’s individual goals to the pillars, holding them accountable for goal achievement.” The board sets the targets and percentage incentive awards for achievement of targets at 30 percent for quality, 35 percent for service excellence, 25 percent for finance, and 10 percent for people.

At Northwestern Memorial Hospital, three high-level organizational goals—best people, best patient experience, and exceptional financial performance—each have defined deliverables, which in turn have identified strategies, tactics, and milestones. “These board-approved goals ultimately drive individual compensation, which aligns goals, incentives, and accountability organization wide,” describes Peter McCanna. Without such alignment, organizations are at risk for warring agendas.

A five-year study of “must-have” management practices in successful companies indicates that “winning” organizations design and support a culture that encourages outstanding individual and team contributions, holding employees—not just the executive team—responsible for success.<sup>6</sup> Ninety percent of the companies in the study tightly linked pay to performance. “The winners were scrupulous in setting specific goals, raising the bar every year, and enforcing those benchmarks. No bonuses, stock options, or other rewards were given when targets were missed,” note the authors.<sup>6</sup>



Intermountain Healthcare provides a good example of such behavior. In 2006, the board established the target of achieving 80 percent of 25 different stretch goals for clinical best practices. If achieved, the performance improvement program would have provided an incentive payment for executive and clinical staff. The organization came very close to the goal, achieving 76 percent completion. “Falling short of the goal resulted in a decreased incentive payment for a significant number of our senior administrative and clinical staff,” says Charles Sorenson. “But that wasn’t the most painful thing for them. Rather, the most painful thing was professional embarrassment that they had not accomplished what so many at Intermountain have come to recognize as our first priority—demonstrating significant improvement in clinical quality.” The result was increased resolve to improve performance in 2007. “That year, for the first time, we achieved 100 percent of our stretch goals in clinical quality. It was a matter of professional pride in doing a good job,” comments Sorenson.

The expectation of being a straight-A student is pervasive “when things don’t go according to plan and there’s a performance gap. We try to instill the fact that the best thing you can do once you identify a gap or problem is to share it and reach out for help. Accountability remains with the individual, but in a supportive culture, teams solve the problem more efficiently and effectively than individuals,” observes McCanna.

### Executive Team and Staff Development

Interviewed executives cite the importance of development initiatives for senior leaders and the entire staff. Given the relative newness of leadership development practices in healthcare, as cited in the literature,<sup>7,8</sup> their emphasis indicates that these high-performing organizations are early adopters of best practices from other industries (see sidebar).

#### FROM THE LITERATURE

While some aspects of leadership, such as core personality and values, are more or less fixed at an early age, other aspects can be developed even well into adult life and are the most likely to be changed through leadership development efforts. Such aspects include understanding the big picture, effective communication, leading innovation, directing change, and building trust.

Source: Tubbs, Stewart L., and Eric Schultz: “Leadership Competencies: Can They Be Learned? *The Business Review*, Cambridge. 3(2)7-12, Summer 2005.

### BEST PRACTICES IN HEALTH LEADERSHIP TALENT MANAGEMENT AND SUCCESSION PLANNING

- Linkage to organizational strategy and business priorities
- Multilayer succession planning and talent development
- Streamlined talent reviews and follow-up processes
- Rigorous, repeated assessment of potential
- Integrated use of a leadership competency model
- Emphasis on on-the-job experience and highly customized employee development
- Talent pool management
- Active involvement of senior management
- Dialogue with potential future leaders
- Tight linkage between talent management and external recruiting
- Executive “on-boarding” (devoting resources to assimilating new executives or executives in new roles)
- Tight linkage between talent management and compensation
- Establishment and tracking of metrics

Source: Sinioris, Marie E. (Ed.): *Best Practices in Health Leadership Talent Management & Succession Planning*. Chicago: National Center for Healthcare Leadership, 2006.

As described by the executives, leadership development takes many different forms, including regular (i.e., weekly) coaching or mentoring sessions, 360-degree feedback, skill-based training, quarterly leadership development institutes, business school management programs, or sessions for clinical and executive leadership, and many other educational initiatives.


Educational and stretch opportunities, such as job training options and job assignments in areas beyond normal responsibilities, and low turnover are indicators that these hospitals value talent management, seeking to groom their employees throughout the ranks. For example, the senior vice president responsible for strategic planning and the quality agenda at Northwestern Memorial Hospital is now leading an initiative for revenue-cycle process improvement. Making it onto the local, regional, and national lists of the best places to work, governance participation, and job empowerment are among the many indicators that the hospitals are doing an excellent job of employee professional development, note the rating agency executives.

A thorough development program for all staff is in place at Catholic Health East, with a competency model that defines goals and tactics for development at the executive/vice president, director, managerial, and supervisory level (see Table 1 for a portion of the program’s goals). In addition, a talent management group, consisting of members of the senior team and CEOs of system hospitals, reviews the profiles, skill sets, and training and development activities of more than 200 executives across CHE.

Continuity or succession planning for senior executives also varies from informal to highly structured. Baylor Health Care System’s high-end approach uses a customized multi-rater

assessment tool to identify and develop successors for each key management position and a leadership inventory tool, which provides a rich picture of personal attributes that underlie executive performance and is key to creating self-awareness and motivation, notes the system’s senior human resource executive. The University of Pennsylvania Health System uses acuity, ability to work in teams, accomplishment, and other criteria from the organizational development literature and rates 30-40 people to be groomed for leadership every two years. “The process forces us to be more objective and sometimes identifies people that may not have been at the front of our minds,” says Ralph Muller.

**TABLE 1: SAMPLE PORTIONS OF COMPETENCY MODEL**

	<b>MORE STRATEGIC FOCUS</b>  <b>LONGER TERM/FUTURE FOCUS</b>	<b>MORE TACTICAL FOCUS</b> <b>MORE IMMEDIATE FOCUS</b>
<b>COMPETENCY</b>	<b>EXECUTIVE / VP LEVEL</b>	<b>SUPERVISORY LEVEL</b>
<p><b>DEVELOPING PEOPLE:</b></p> <p><i>Commitment to ensuring that others reach their full potential, including design and execution of effective development strategies.</i></p>	<p><b>Building Organizational Talent</b></p> <p><b>Diagnoses capability and developmental needs—</b> Determines the mix and level of capability required by the business to support current and future objectives; assesses the key strengths and development opportunities of groups.</p> <p><b>Scans environment for developmental assignments—</b> Identifies developmental assignments and the potential learning in the assignment; matches assignments with individual developmental opportunities.</p> <p><b>Champions talent management—</b> Provides high visibility to individuals with potential; offers challenging managerial assignments that build confidence and credibility; provides such individuals with a personal vision for this future.</p> <p><b>Creates a learning culture—</b> Aligns support systems, accountabilities, and incentives, which ensures a learning environment.</p> <p><b>Ensures differential reward systems and processes—</b> Supports and advocates deserving individuals; actively pursues appropriate recognition, rewards, and resources for strong performers; when necessary, defends strong performers, even in the face of challenges.</p>	<p><b>Aligning Performance for Success</b></p> <p><b>Sets performance goals—</b> Collaboratively works with direct reports to set meaningful performance objectives; sets specific performance goals and identifies measures for evaluating goal achievement.</p> <p><b>Establishes approach—</b> Collaboratively works with direct reports to identify the behaviors, knowledge, and skills required to achieve goals; identifies specific behaviors, knowledge, and skill areas for focus and evaluation.</p> <p><b>Creates a learning environment—</b> As necessary, helps secure resources required to support development efforts; ensures that opportunities for development are available; offers to help individuals overcome obstacles to learning.</p> <p><b>Collaboratively establishes development plans—</b> Collaboratively identifies observation or coaching opportunities, training, workshops, seminars, etc., that will help the individual achieve important goals.</p> <p><b>Tracks performance—</b> Implements a system or uses techniques to track performance against goals and to track the acquisition and use of appropriate behaviors, knowledge, and skills.</p>

Source: Catholic Health East, Newtown Square, PA. Used with permission.

Most of the interviewed executives cited the importance of succession planning many years in advance of retirement for the CEO and other top executive leaders in order to minimize strategic and organizational disruption. A long-planned and seamless CEO transition occurred at Northwestern Memorial Hospital in 2006 and will soon occur at Intermountain Healthcare at year-end 2008. Poudre Valley Health System has a well-developed succession plan for both management and the board, whose members have four-year terms. The rating agencies typically probe for whether the organization has a succession plan when evaluating management and governance functions. The development and execution of successful succession strategies over a multiyear period assures continuity when there is management turnover.

### 3. DEVELOPING A HIGH-QUALITY, INTEGRATED PLAN

We believe that disciplined planning is a chief characteristic and common thread of the most successful hospitals and health systems. Driven by the board of trustees and executive team, such planning assures appropriate analysis, integration, and coordination of mission-based and strategic endeavors. Ingrained in the culture and occurring organization wide, rigorous planning in fact provides the framework to achieve positive results in all dimensions—strategy, clinical quality, physician engagement, operations, staffing, and financial performance.

#### Board Involvement, Mission-Driven, With a Long View

Executives at the profiled organizations cite the critical importance of planning in assuring the organization's continued ability to meet its mission in the community. The planning they describe starts with an engaged board of trustees and CEO, who set the tone for the organization, establish management expectations, and engender broad participation, ensuring that the organization makes a real commitment to planning.

"To meet our responsibility of being good stewards of our resources, we've put in place a very specific planning process involving a long-term capital and operating plan," notes Joel Allison. "While our margins compared to other industries are thin, planning enables us to identify the financial targets required to achieve our vision, reinvest in our people, and meet our mission into the future."

All the executives cited a long vision (five to thirty years) as important. For example, according to David Kirshner, Children's Hospital Boston takes a 15-year view of the uses and sources of capital to establish the context for the hospital's long-term success. Profitability is not the be-all-and-end all, but the means to the end, executives note. "We would never set goals to maximize

financial returns because we're focused on helping people understand that great care is terrible care if nobody can afford it," says Charles Sorenson. "Great financial performance allows us to enhance mission, and, as one of our board members articulated, 'mission is part of our DNA,'" comments Robert Stanek.

#### Strategy and Finance Linked

Planning guides the profiled organizations toward strategies accomplished within the constraints of financial capability. For example, Intermountain Healthcare's capital planning model enables executives to forecast strategic capital needs and the income required to support such needs over a 30-year period. From this planning model, the system's leaders develop a five-year financial plan, which is integrated with the long-term strategic plan, and updated each year. "This planning process has been at the core of being able to manage our organization in a financially prudent way," comments William Nelson.

Capital market players want to see an effective planning process with a long time horizon and realistic projections (see sidebar). Additionally, an organization that links strategy to financial projections demonstrates that it is using a disciplined process to set priorities and make tough decisions about required profit margins, capital expenditures, debt levels, and other financial issues. The absence of such financial projections that prove affordability completely discredits an organization's strategy.<sup>9</sup> Plans that include sensitivity analyses related to key

#### A CAPITAL MARKETS' PERSPECTIVE ON INTEGRATED PLANNING

"Many organizations are now integrating their strategic, financial and capital planning into one process. In years past, these analyses were often done independently with little integration. Overall, management teams continue to become more skilled and sophisticated in their planning with more information technology tools at their disposal to assist with forecasting.

"The hospital industry continues to be challenged by the ever-present threat of regulatory, policy and funding volatility, which we believe necessitates a strong commitment to planning. We have observed increased board oversight and engagement in planning activities as well as a greater effort by hospital management to include physicians and nurses into the planning process. We view these enhanced planning efforts favorably and believe that the integration of strategy, finance and capital will help reduce negative credit effects during periods of future uncertainties in the industry."

Source: Moody's Investors Service. *Not-for-Profit Healthcare Sector: 2008 Industry Outlook*, Jan. 2008

## EFFECT OF PHYSICIAN RELATIONS ON HEALTHCARE CREDIT

While the nation struggles with questions over healthcare reform, changes to the industry are forcing U.S. not-for-profit hospitals to answer a more immediate puzzle: how best to manage operations as relations with physicians continue to evolve.

In general, physician relations have become significantly more complex, and hospitals face greater risk of losing patient volumes due to shifting physician loyalties or competition from doctors performing services in their offices, outpatient centers, and physician-owned inpatient facilities. Hospitals have reacted to the increased complexity in a variety of ways, including employing more physicians, shifting to an employed clinic model, and forming joint ventures with physicians.

As physicians will always be an integral part of healthcare operations, their relationships with healthcare organizations—whether positive or negative—will continue to have an affect on not-for-profit credit ratings for years to come.

*Source: Standard & Poor's: Evolving Physician Relations Continue to Affect U.S. Not-for-Profit Healthcare Credit. Special Report, March 19, 2007.*

projections and assumptions are helpful in evaluating projects, note the rating agency executives. This enables the organization to understand best-case and worst-case impact of specific strategic scenarios so that contingency plans can be developed.

Cyclical, continuous planning occurs in all the organizations profiled here. "We plan 12 months a year; it never really ends," comments Peter DeAngelis. "And the better we plan, the better we can be at executing."

### Data-Based and Quality-Focused, with Clinician Buy-In

The interviewed executives identified the importance of collecting and analyzing data to "interpret the signals" from a very complex environment. "Whether looking at data related to Medicare and Blue Cross payments, demographics, or competitors, we assess what we should be doing over a multiyear period in light of our capabilities and mission," says Ralph Muller. "Leaders have to do everything they can to understand the business; this requires constant learning predicated on *really* understanding the organization's current reality in its marketplace and bigger environment," remarks Peter DeAngelis.

In describing an important leadership competency, a number of the executives noted "the ability to interact sufficiently with the macro-environment in order to understand major trends *while* simultaneously dealing with internal operations and the

organization's microenvironment. The quality of data analysis related to both environments is vital. So is the ability to flip back and forth between the big picture and organizational specifics in order to understand how external factors might be affecting the organization.

Due to the significant strategic, competitive, and financial ramifications of clinician alignment/engagement (or not), physician input and participation in the planning process are cited as critical by all interviewees (see sidebar for one rating agency's perspective). "Physicians and clinical staff are vital to our mission and strategy of providing safe, high-quality care, so we truly engage clinicians in our planning and decision-making processes," remarks Joel Allison. David Kirshner comments that more than 100 clinicians are involved in business planning at Children's Hospital Boston, which gives these clinicians "a deep understanding of strategy and finance, including the level of cashflow required to adequately reinvest in the organization."

The executives commonly mention assuring that quality initiatives are integrated within the strategic financial plan and putting quality "first on the agenda" operationally. Physician and nursing leaders shape the quality program at the profiled organizations. "Quality is a must for competitive and financial health," describes Peter DeAngelis. "If you cannot offer a quality product in a particular service line or area, take the resources and use them where you *can* create a quality product." William

## QUALITY AND THE BOTTOM LINE: WHAT THE RATING AGENCIES ARE SAYING

"Quality improvement is not just a goal unto itself, but also good for the bottom line."

— Standard & Poor's

"A strategy aimed at quality can result in improved market share and volumes, better ability to recruit and retain staff, lower nursing vacancy/turnover rates, improved financial performance and better credit position."

— Moody's Investors Service

"Fitch continues to believe that investment in capital projects related to quality and patient safety will be a differentiating factor in hospital credit quality ratings going forward."

— Fitch Ratings



Nelson describes the benefits of Intermountain Health's long-time strategic focus on best clinical practices: "As we reduce variation in clinical care processes, outcomes improve and costs decline, resulting both in improved care for our patients and, we believe, in improved overall performance for the organization." "High quality, safe care is cost-effective and financially prudent," notes Rulon Stacey. It must be part of an organization's plan.

In evaluating the leadership team and an organization's performance, the rating agencies look at service and cost efficiency, patient satisfaction, ability to recruit and retain highly competent physicians and nurses, and other attributes commonly ascribed to a "high-quality organization." Such factors can differentiate one organization from another, thereby affecting market strength, competitive differentiation, and overall financial performance, they note (see sidebar).

Consumers, payers, employers, and other stakeholders access national averages in infection rates, medication errors, and other safety-related data to determine whether the organization and its caregivers provide high-quality care. "It's easy for a hospital to say that it stands for excellence in patient care, but delivering such excellence requires relentless measurement and data analysis," remarks Kenneth Davis. "Tracking infections, bed sores, falls, and other adverse occurrences by unit, making sure that staff is accountable for those numbers, and never giving up on performance improvement requires dedication and diligence. Assuring that quality is more than lip service means making quality part of the culture and the plan.

The key output of the planning process described here is a fiscally sound business plan that provides the platform for both long-term and day-to-day decisions, enabling staff at all levels to respond to opportunities and challenges in a flexible, coordinated manner, note the interviewed executives. The plan outlines the organization's growth strategy and how it will pursue, fund, and monitor initiatives. It includes contingency planning, which aims to maximize outcomes while reducing business risk of failure and generating a profitable bottom line.

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#### FROM THE LITERATURE

In a research study aimed at determining the association between hospital strategic planning processes and financial performance, three dimensions of the strategic planning process were found to be positively associated with financial performance. Having a strategic plan, assigning the CEO responsibility for the plan, and involving the board in planning positively correlated to financial

indicators of net income and profit margin. "Further longitudinal studies are needed to evaluate the cause-and-effect relationship between planning and performance," concludes the lead author, Amer A. Kaissi, PhD, of Trinity University in San Antonio.

One survey published in the literature indicated that high-performing not-for-profit organizations also have boards that focus attention on strategic "matters of significant magnitude." These "strategic boards" develop plans to enact priorities and consistently monitor the implementation of priorities into action, notes William A. Brown of Arizona State University.

Commenting on the leadership skills needed to achieve high-quality care, Bruce M. Bartels, President of Wellspan Health said, "The ability to couple the use of resources with the attainment of quality is a critical leadership skill. This means managing finances without disrupting the quality of clinical service or customer service. The financial pressures from limited resources and more rapidly increasing expenses affect all aspects of service delivery. Balancing these opposing forces requires developing methods to constantly evaluate operating practices and policies."

*Sources:* Kaissi, Amer A., and James W. Begun: "Strategic Planning Processes and Hospital Financial Performance." *Journal of Healthcare Management* 53(3): 197-209, May/June 2008; Brown, William A: "Exploring the Association between Board and Organizational Performance in Nonprofit Organizations." *Nonprofit Management & Leadership* vol. 15, no. 3, Spring 2005; Bartels, Bruce M: "On Leadership in Healthcare." *Kaufman Hall Report*, Fall 2001.

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#### 4. SKILLFULLY EXECUTING THE PLAN

Having an integrated plan is essential, but it is not the whole picture, remark the interviewed executives. "Plan execution is what separates the good from the great," says Robert Stanek. "I would suggest that if you read the strategic plans of 50 healthcare organizations, you would probably find more than 85 percent consistency in the outlined strategies. The real leadership difference emerges with who can implement their plans, translating these into very, very detailed operational activities that enable the organization to achieve its targets."

## Managing the Fundamentals with Attention to Performance Indicators

The interviewed executives each describe the importance of day-to-day, month-to-month, and year-to-year management of “the fundamentals,” an activity that Edward Murphy describes as effective blocking and tackling. “We set our targets and build our budgets based on our plan, monitor our performance closely, and provide for adjustments or corrections that need to be made in order to stay on course,” notes Joel Allison. Keeping the organization on track as the plan is executed requires what Peter McCanna calls “a heavy dose of management discipline” and a willingness to “*not* duck the ugly and to be direct about what we do,” adds David Kirshner.

Physician CEO Alfred Knight structured the senior executive team for maximum attention to operating fundamentals. The organization’s chief medical officer is also the chief operating officer at the system level. “Truly integrating operations with the medical performance piece has been powerful for Scott & White,” says Knight.

Established as part of the planning process, target financial metrics for all of the profiled organizations include those used to establish creditworthiness in a particular rating category. For example, Children’s Hospital Boston uses Aa2 medians achieved by other similarly rated organizations as its standard to monitor organizational performance relative to peers, says David Kirshner. Financial ratios tracked closely by the leadership team at University of Pennsylvania Health System include operating margin, days cash on hand, debt-to-capitalization, and other indicators used by the agencies to set appropriate debt ratings. “Our goal is to assure that we maintain the inflation-adjusted real value of the organization’s financial assets by growing revenues more than expenses,” says Ralph Muller.

All organizations also closely monitor operational metrics using historical benchmarks and national data. For example, because growth is a key goal for Scott & White, Alfred Knight and the management team carefully review productivity indicators. “Department heads and senior executives examine nursing hours per adjusted occupied beds, average daily census, throughput, and other indicators on a frequent and rigorous basis,” says Knight.

## Benchmarking and Best Practices

Benchmarking in the profiled organizations often occurs across many performance domains. For example, during quarterly half-day meetings with each department chair at Mount Sinai Medical Center, every metric of the organization’s performance

is reviewed in “microscopic detail,” including fiscal, quality, utilization, referral, and many other measures. “The senior management team selects from a long list of metrics those that are most relevant to our critical activities,” says Kenneth Davis. “Valid and reliable internal and external benchmark data drive the process. “No excuse is accepted for not succeeding and proving ourselves with selected benchmarks, whether core measures established by the Centers for Medicare & Medicaid Services or our own patient satisfaction scores.”

“Challenging the status quo” should occur in all organizations, whether considered highly successful or struggling, comments Peter McCanna. “Part of our job as leaders is to *not* become complacent, but to raise the performance bar by always asking ‘how do we make performance better?’” James Mandell describes the in-depth self audit performed at Children’s Hospital Boston to “ask the tough questions, and look not at how great we are, but where we can improve.”

The effective sharing of best practices is one technique for improvement cited by numerous executives. “One of the most valuable aspects of being a part of a large system is the ability to share best practices,” comments Robert Stanek. “Our role as leaders is to figure out how to mine those practices and spread them across the organization.” CHE has established best practice Web sites, and councils where professionals of like disciplines across affiliated hospitals come together to discuss specific practices. Many of the profiled organizations also look for relevant best practices from fields beyond healthcare.

In summary, we believe that successful healthcare organizations define metrics for the achievement of strategies, measure performance against these indicators, and effectively devise and implement plans to respond to less-than-anticipated performance. The success or challenges an organization experiences in executing its strategy are borne out in its competitive performance, as reflected in utilization trends and market share, its care/services performance, as reflected in clinician and patient satisfaction, and its financial performance, as reflected in balance sheet and income and cashflow statements.

## 5. BUILDING AND MAINTAINING CREDIBILITY

None of the four activities described up to this point—visioning, team building, planning, and executing—would be possible without leadership credibility with key constituents, whether trustees, physicians, patients, employees, payers, employers, community leaders, capital market players, or others. As reflected in its definition, *credibility* has both an objective and subjective component—trustworthiness and expertise. However, according to the executives interviewed, both components are critical to

## CONTINUING DISCLOSURE GUIDELINES FROM A RATING AGENCY

High quality managers adopt a spirit of cooperation and an attitude of openness with the capital markets.

**On Completeness and Contents:** Fitch expects credits to disclose not only material events as defined by bond documents, but “significant” events as well. Significant events include all debt financings, small or large, off balance sheet ventures, acquisitions or divestitures, large scale nonroutine capital expenditures, and significant changes in major contract terms. Fitch defines a significant event as any activity that could affect financial performance, either short term or long term.

**On Management Responsiveness:** Above all else, management responsiveness to Fitch’s questions and requests for information is most valuable. Cooperative, forthcoming, and responsive management will be noted as such and viewed as a credit strength for bondholders.

*Source: Fitch Ratings: Continuing Disclosure Guidelines for Health Care and Senior Housing Credits. Health Care Criteria Report, October 24, 2002.*

## IN THEIR WORDS: A DAY IN A LEADER’S LIFE

**Variability is the norm:** If you’ve seen a day in my life, you’ve seen one day in my life.

**The week starts on the weekend:** I carve out an hour or two to lay out the priorities of the week.

**The day starts with exercise:** If you’re in healthcare, you ought to be setting the example for living a healthy lifestyle. You have to pay attention to your physical self to keep your mental self well.

**The first hour or two are mine:** My first hours in the office are spent with quiet time to reflect on big issues and decisions.

**Communicating is what I do:** I spend an enormous amount of time communicating in person, via email, and by phone. I do a lot of writing of individual notes to people.

**Meetings are a fact of life:** It’s a long day, and meetings, which usually start at 8 and go through 5, are the primary vehicle for getting things done. But if I’m not careful, meetings will consume me, so I have to block out time to walk around the organization to talk with people in each department.

**What would I do with an additional three hours in each day?** I would spend more time with the family. I would communicate even more, checking in with my team more frequently. I would spend more time reflecting about important decisions and directions. I would walk around the organization more. I would read, read, read.

organizational success. They advise that credibility can and must be established and maintained through regular, honest communication, transparency, doing what you say you are going to do, and openness to change.

## Communication and Transparency

Communicating with constituents is how leaders spend much of their day and, according to the leaders interviewed, and how they move the organization toward the achievement of mission, vision, and goals and successful performance (see sidebar on next page). “Hospitals and health systems are relational places, and relationships are built through communication,” comments Robert Stanek. “It’s not possible to over communicate.” “Our ability to communicate in an open and transparent way, in effect, makes our job executing strategy easier because our colleagues and other stakeholders understand why things are being done,” comments Peter DeAngelis.

“Credibility is about walking-the-walk, rather than talking-the-talk,” comments James Mandell, who practices at the hospital as a pediatric urologist two half days each week. “Building credibility in the organization is a constant, daily activity for senior leaders.”

“Transparency with patients, potential consumers, and payers is important,” comments Joel Allison. “For example, we post our quality outcomes so that everyone can see how we’re doing.” Committed to meeting or exceeding any standard that is set by an external organization, Baylor participates with Texas PricePoint, a Web site that provides hospital quality and charge information for consumers, and other information-exchange forums.

Regular communication and transparency build credibility with the credit rating agencies and investment community. Interviewees communicate both good and bad news about performance on a regular basis and more frequently if things are not going as previously projected or as significant financial and nonfinancial developments occur. The rating agencies view continuing disclosure practices as an element of management quality (see sidebar).

## FROM THE LITERATURE

Writing on what “really works” in winning organizations, Nitin Nohria and co-authors note as follows: “Certain CEO skills and qualities do matter. One is that ability to build relationships with people at all levels of the organization and to inspire the rest of the management team to do the same. CEOs who present themselves as fellow employees

### LEADER-TO-LEADER ADVICE

- Teams solve problems, not individuals
- Understand what's happening in your environment
- Keep mission, vision, and quality front and center and stay involved
- Stick with the process, maintaining a "long view" that includes growth
- Stay "on message" amidst heavy opposition, taking critical feedback seriously
- Be open to change
- Pay attention to leadership and team development
- Stop blaming the outside world
- Execution matters, so manage the fundamentals

### INDICATORS OF SUCCESSFUL MANAGEMENT FOR NOT-FOR-PROFIT HOSPITALS

- Mix of newer and tenured members to provide broad and diversified experience levels.
- Cohesive approach to managing operations with all senior members being able to articulate key financial and strategic objectives
- Balance of mission and financial strength with recognition of the need to satisfy various constituent groups while allocating limited resources and generating adequate cashflow
- Identification of potential operating risks and challenges and articulation of strategies to address the issues; acknowledgement of weaknesses
- Timely implementation of strategies, including reversals of strategies if warranted
- Establishment of conservative and consistent accounting practices and financial policies
- Development of a long-term strategic and financial plan with realistic assumptions and the flexibility to respond to unforeseen events

Source: Moody's Investors Service: *Indicators of Successful Management for Not-for-Profit Hospitals*. Special Comment, Aug 2005.

rather than masters can foster positive attitudes that translate into improved corporate performance."

Source: Nohria, Nitin, William Joyce, and Bruce Roberson: "What Really Works." *Harvard Business Review*, July 2003.

### True to Word, Open to Change

Doing what you say you are going to do builds credibility with all audiences. "With the capital markets, it's crucial for us to set realistic projections and then to meet those projections year in and year out," comments Rulon Stacey. A track record of under promising and over delivering or over promising and under delivering destroys credibility, note the rating agency executives.

Consistency and predictability are critical leadership behaviors cited by the interviewees. Stakeholders must know who leaders are and what they stand for, but leaders must articulate how they are being true to principle while simultaneously being flexible in a rapidly changing environment. *Predictable* and *flexible* are complementary words in this respect, notes one executive.<sup>10</sup>

Ability to stay on course with mission and vision and ability to show how selected strategies tie to the mission are hallmark attributes, but so is a willingness to listen and change course, as needed. "When there's push back, we need to listen to it, be nimble, and be willing to redirect if the criticism is deemed valid," comments James Mandell.

A summary of advice offered to other leaders by the interviewed executives and of indicators of successful management of not-for-profit hospitals from a rating agency appear as sidebars.

### CLOSING COMMENTS

The ability to address uncertainty in a complex, changing environment while generating positive financial results appears in theory to be central to effective healthcare leadership and organizational success. The link between these variables remains uncertain. It is clear from our experience and review of the literature only that different leaders have different styles, strategies, and approaches, and that there is no one path to success.

We did find consistency, however, in use of five specific activities by the healthcare executives interviewed for this white paper and in the perspectives offered by rating agency executives.

Through a collaborative partnership, involving distinct roles with distinct accountabilities, healthcare executives and



trustees shape an organization's mission and vision, which frame organizational success. With careful deliberation aimed at getting the right people in the right spots, CEOs build a strong executive team with aligned goals, incentives, and accountabilities. CEOs then let team members manage their areas of accountability, participate in decision making, and grow themselves and their staffs. Through collaborative development of a data-driven, integrated strategic financial plan, leaders better assure their organizations' ability to provide mission-based, quality-focused services in their communities into the future. In executing the plan with skill, senior executives manage organizational fundamentals, paying keen attention to performance metrics and to the identification and implementation of best practices from healthcare and beyond. Communication and transparency build leadership credibility, which senior leaders sustain through being true to their word and open to feedback and change as warranted by the input.

Perhaps some day, there will be a reliable and accurate way to quantify a causal relationship between excellence in leadership and organizational results. Until then, your comments are welcome.

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# Commentaries on Leadership and Successful Financial Performance in Healthcare

## Creating Unified, Inspired Levels of Greater Accountability and Leadership

by John F. Hogan, President, Johnson & Johnson Health Care Systems

The role of effective leadership in managing and addressing the major healthcare challenges of today has never been more critical. With the rate of growth in major chronic diseases predicted to grow faster than general population over the next decades, the cost and burden of caring for patients will challenge existing models for managing, financing and delivering care.

Healthcare providers continue to recognize many of the key challenges affecting our fragmented system and must change and adapt their course to improve patient care: the changing role of the primary care physician, caring for the under- and uninsured, healthcare access and financing, impacts of innovative technologies and treatments, emerging healthcare delivery and financial models, data management, regulation, emerging disease states, capital investments, and patients' engagement and willingness to participate in their own health management. Effective strategies must be employed that address each of the major challenges, while continuing to fulfill the primary requirement of effectively meeting the medical needs of the patient.

The five key factors contributing to organizational success outlined in the white paper provide a framework upon which an effective healthcare strategy can be developed and executed. Creating, mobilizing, and caring for the mission and vision of the organization is a critical role of not only the CEO and the board, but also a vital role of all members of the healthcare delivery model. It is important that the board involve multi-stakeholder coalitions to effectively develop and implement a vision and mission that reaches beyond just those elements that are considered attainable goals by hospital administration and clinical staff alone.

Building and sustaining a great team reaches deep into the effective organization. Leaders must profess and live the vision of the organization and draw members of their teams to become effective stewards of implementation. The concept of effective stewardship is critical in times of change and uncertainty. Hiring profiles, competency models, and goals and

objectives throughout the organization should be clear and understandable and directly tied to the realization of the mission.

Diverse constituencies within an organization (and even beyond the official boundaries of the organization) can be powerfully united by a shared commitment or set of operating principles that are deeply ingrained into the culture of the organization. Such a shared statement of commitment (for example, "Our Credo" at Johnson & Johnson) describes the organization's obligations to serve patients, employees, and communities with the highest integrity. Doing these things with excellence and fiscal responsibility will, in the long run, result in the requisite financial health of the organization for growth and reinvestment. (In the case of for-profit institutions, one of the stakeholders for this success is clearly the shareholder.) To instill and maintain this key cultural element, rather than allow it to become a framed document on the wall, is a primary responsibility of executive leadership. When done successfully, members of the organization, high and low, are unified and inspired to levels of greater individual accountability and leadership.

Developing and executing the plan to achieve the mission of the organization requires skillful management and dedication by the executive team. Open and honest evaluations of measured progress versus plan must be held frequently. The core principles of the mission and vision must stay true. Through a dedicated and mission-committed management team, effective outcomes relative to the patient should remain a top priority. Positive financial results are a likely product of an effective mission dedicated to the primary mission of improving patient health, outcomes, and the healthcare experience.

In summary, this white paper discusses five valuable elements of leadership. We might suggest supplementing them with the executive's accountability for setting the tone and enabling the personal leadership and decision-making capabilities of each employee, driving a clearer focus on the patient and community. This action ultimately fosters the creative engagement of the whole stakeholder system in successfully accomplishing the mission in a way that is financially sustainable.



## Common Ingredients to Creating a Successful Organization

by *Thomas F. Zenty III, President and CEO, University Hospitals*

Kaufman and Goldstein have successfully synthesized and brought into focus the common ingredients to creating a successful organization. Clearly, the participants interviewed for this article are world-class executives who represent very impressive and geographically dispersed organizations of all sizes showing consistent results against virtually all performance metrics. As such, there are only a few minor observations that can be added in response to the article's content:

**Visioning in Partnership with the Board**—For leaders involved in board relations, it would be instructive to glean more organizational information regarding board selection, development, and organization. Effective, engaged, and organized boards are a prerequisite to a successful visioning and implementation process if a true board/management partnership is to be achieved. In today's environment where boards are called upon to be more actively involved in strategic and tactical decision-making processes it would be valuable to know how successful organizations select, develop, and engage community leaders to serve as effective board members. Successful CEOs together with board leadership build a strong board, which is increasingly difficult to accomplish, and hearing how successful organizations complete this initiative would greatly contribute to the literature.

**Building and Sustaining a Strong and Accountable Executive Team**—Successful teams quickly realize that a values-driven, mission-focused team that functions within a leadership climate of open, honest, direct communication will prevail in prosperous and challenging times. It would also be interesting to better understand the alchemy where "it's easier to make nice people smart than it is to make smart people nice." Absent the ability to make this alchemy occur, Steven Sample's book, *The Contrarian Guide to Leadership*, is a succinct summary of how to hire the best executives. Further clarity around the benefits of identical, shared group goals versus individual goals, and the success or shortcomings of establishing a limited set of goals versus multiple goals (as identified by Northwestern and Intermountain) would benefit the reader as well.

**Developing a High Quality, Integrated Plan**—In the area of strategy and finance it would be helpful to know how, within their five year plans, these successful organizations choose the key "levers" to monitor on a consistent basis that bring the greatest potential for success, or failure, if not successfully managed. In large organizations with multivariate operational

requirements, it would appear essential to narrow those variables to a vital few to increase the probability for success.

**Skillfully Executing the Plan**—This section was helpful in creating an understanding that an unrelenting focus on achieving predetermined temporal and external benchmarks, best practices, and performance metrics are the hallmarks of these successful organizations. To enhance the readers' understanding of this attainment of these goals it would be beneficial to see examples of the processes used to create and measure achievement.

**Building and Maintaining Credibility**—This section clearly made the point about the value of trust, communication, visibility, and presence of the senior leadership team throughout the organization. Although implied, it would have made a powerful statement if active listening played a part in enhancing organizational effectiveness.

In conclusion, Kaufman and Goldstein captured the intent and essence of the characteristics of a successful organization regardless of their for-profit or non-profit status. They have created the foundation for empirical research that provides relevant, timely, and replicable practices in organizations that aspire to reach consistently higher levels of achievements.

