

From the Verge of Bankruptcy to Triple Profits in Two Years

The Rescue of Westchester Oncology and Hematology

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Introduction

The nine physicians at Westchester Oncology and Hematology found themselves in a serious quandary just two years after their transition from an academic practice to a private practice. Their practice patterns had not changed significantly, even though their economic base had, and they were approaching a financial disaster that seemed impossible to survive. They owed over \$6 million to creditors and were continuing to fall behind more than \$200,000 each month. The organization was mired in a culture of distrust, confusion and despair about the future, and was starved for excellent leadership.

The President of the New York group became acquainted with a professional medical group administrator, introduced him to his physician peers, and together they engaged Ken Woods, CMPE to tackle the significant challenges of their survival. The story of the group's turnaround over the next two years is simply astonishing, and yields timeless lessons for medical executives and physician leaders everywhere.

Management Assessment

Ken Woods was no stranger to medical management. The 50-year old executive was trained in healthcare management in the military, had experience as an entrepreneur in importing/retailing and in developing a professional seminar business, and had worked successfully in four different medical groups around the Midwest over the past twenty years. He had benefited from membership in the Medical Group Management Association for fifteen years and continued his professional development by attaining certification as a Medical Practice Executive through the American College of Medical Practice Executives.

His introduction to Westchester Hematology and Oncology was fortuitous for all. Ken was ready for a change from his position as the administrator of a Brooklyn clinic, and eager for a challenge that would test his managerial skills at new levels. The physicians recognized their need for fresh perspectives and strong leadership, and were eager to reward their new administrator for his performance with an incentive compensation package. The match was a natural one.

In his first months on the job, Ken began to get a sense of the magnitude of the challenge. He quickly gained insights about the people, the organizational culture, the financial conditions, and the administrative systems he had to work with. Key

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discoveries included the following:

- The physicians were all excellent practitioners and leaders in their field. Their combined interests in academic leadership, research and patient care gave them extraordinary opportunities for being on the national and international cutting edge in oncology and hematology. Despite their professional brilliance, the group had suffered from a lack of organizational leadership to match their academic excellence. They had deferred many of the core functions of administration to a secretary they retained from the academic practice, without providing the leadership and oversight demanded by their new responsibilities as private practitioners. The physicians had not held each other accountable for wise business decisions in the hope that simply practicing good medicine would be sufficient to sustain the group economically.
- It took a few months to get a clear handle on the economic realities due to the serious shortcomings of the practice's information systems. Cash-basis financial statements ignored the stash of unpaid bills in the administrative clerk's office. Accounting services provided by a disinterested CPA firm proved to be of dubious value and had been maintained at extraordinary cost. The accounting firm had also introduced a billing consultant to the group. The billing consultant had compounded the group's financial difficulties with what turned out to be improper advice at high costs. Meanwhile, creditors were calling on a daily basis, affirming their demands for debt repayment, and expressing alarm about the continuing needs for borrowed funds. Debts reached just over \$6 million at their peak, including \$3.2 million owed to the group's major vendor for crucial oncology medications. Meanwhile, the billing processes were tangled in a web of inefficiency and crisis management. Charges were being entered 20 to 30 days after the date of service, payments were posted inconsistently, and the manager had convinced the physicians that the practice was functioning at its maximum capacity.
- The staff was disheartened at every level. There were poor selection processes in place, and little or no training for new employees, resulting in high turnover and low morale. Even long-term employees were looking for new jobs, exhausted by the chaos of day-to-day survival. Each physician had retained an expensive, personal executive secretary from their academic setting. The secretaries dealt with patients referred through the medical school while receptionists at each of the three offices tried to centralize appointments for the physicians. The inherent conflicts resulted in turf battles, duplication of effort, and diluted communications between the physicians and their frontline receptionists. As long as physicians continued to get their regular paycheck, they remained oblivious to the details of their business. Their inattention further frustrated the staff, hungry for answers, guidance, and leadership.
- Productivity patterns showed wide variations between the nine physicians and four nurse practitioners. Two of the physicians were highly productive, but two others were drawing more in salary alone than they were generating in receipts. The group was supplementing their less productive peers' benefits and overhead to the tune of about \$500,000 each per year. The remaining five physicians were pursuing their own blends of academic, research and patient care interests without regard to the financial impact of their schedules and priorities. The nurse practitioners were not generating billable services, but instead were duplicating the efforts of their assigned physicians.

Board meetings in the early months of Ken Woods' administration focused on assessing the breadth and depth of the group's financial situation. Physicians expressed concerns about the integrity of particular staff, thinking they must be victims of dishonest employees. Each month, Ken came back with perspectives and benchmarks about the physician productivity patterns, and with updates on the financial condition of the company. He shared full reports with all physicians rather

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than limiting distribution to the senior partners as had been the experience in the past. He relentlessly called each physician to be accountable for his or her own practice patterns and for their corporate business decisions. His insights made reasonable sense to the highly logical group, and trust for his leadership grew.

Management Plan

Ken Woods was not discouraged by what he saw in the early months. On the contrary, the challenge seemed to engender an enthusiasm that quickly became contagious. With his own unique blend of forthrightness and humor, he set a tone for change that swept the organization as a breath of fresh air. The two physicians who were subsidized by the group now understood how they did not fit in a private practice setting. They each found other positions and left the group. Three nurse practitioners followed them, leaving the group to rebuild itself with seven physicians and one nurse practitioner.

The situation got worse before it got better. With two fewer physicians available to repay the debt, the creditors got even more nervous than they were before. Within four months of his arrival, Ken Woods had to introduce his group to the option of declaring bankruptcy. He did not serve as a buffer between the physicians and the creditors, but rather called upon the physicians to forego paychecks for two months so the organization could get back on track with its lenders. That got the physicians' attention clearly focused on their business decisions, and served as a major turning point for the group's destiny.

Now that they were fighting for their survival, the physicians and the administrator were willing to look at every decision, every potential for cutting costs, and every opportunity for business development. Within months, they had implemented the following actions:

- Five of seven executive assistants were terminated, and patient appointments were centralized through the reception staff at each facility.
- Another accountant was identified to provide financial services to the group. The former accounting firm was dismissed, as was their closely related billing consultant. The new accountant had relevant experience with medical practices, and was far more responsive to the group's needs for management information at lower professional fees. The administrative clerk's employment at the practice came to an end. The accountant took over responsibility for accounts payable, and also fielded calls from creditors, giving them a valid and credible picture of the organization's financial viability.
- A billing director was selected to provide new leadership in the billing and collections department. Ken Woods had identified a promising young woman at a nearby practice who demonstrated outstanding knowledge and an exemplary work ethic. He gave her the opportunity to organize the workload, select and train the staff, and to focus on optimizing reimbursement for the group.
- He re-organized the management team so each location had someone to be responsible and accountable for selecting, training and managing the receptionists. Together the site managers and their teams began to build a strong and consistent patient flow.
- Physicians each examined their own schedules and priorities using the new information Ken Woods shared with them about the profitability of each activity. They also began to see each other's productivity for the first time, which served to instill a healthy dose of internal competition. They began to discern how patient care activities provided the support for research and teaching, and how to manage their priorities according to the needs of the group. Some physicians found it difficult to believe that adjusting their priorities would actually result in bonuses, which had been so elusive, but they trusted their new leader enough to make the changes.

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The early results of these efforts were encouraging. The monthly cash flow began to be consistently positive for the first time since the group established the private practice. Ken Woods negotiated a refinancing plan with the vendor who was owed \$3.2 million, and began to retire the bank debts with regular payments. Patient visits at each location grew from a daily average of 25 to more than 60 patients per day. The physicians started to scramble for more office time than they previously thought possible. They began to finally see a light at the end of the tunnel, although the best projections still called for at least four years to reach a debt-free condition.

After they turned the corner to positive cash flow, Ken Woods began to concentrate on accelerating the pace of change. He granted broad authority to his managers, pushing them to do more than they thought themselves capable of. He insisted that they solve the problems in their own areas of responsibility with minimal guidance from him. He allowed them to make their own mistakes in management, but made sure that each experience became an opportunity to learn. He mentored them and encouraged them at every step of the way. One manager described her boss as "reeking of positive-ness." He saw to it that each manager had the tools needed to do their job well, including the skills and incentives to perform at ever-increasing levels of productivity. Each manager was given a monthly incentive budget to distribute among their staff as they saw fit. The incentives were used to celebrate excellent performance at each level as it happened, rather than being confined to bureaucratic formulas. Managers were also rewarded with incentives based on their performance. The morale of the staff began to blossom, and employee turnover dropped dramatically. As employee skills and stability grew, physicians' motives to get out of debt also grew, resulting in increasing the organization's capacity to see more patients.

Over the following two years, the pace of business development quickened rapidly. The physicians surprised themselves with their potential for productivity, and the billing and collections department was able to catch up, keep pace, and feed information back to the physicians to enhance their efforts. Ken Woods had been strongly influenced by the book One Minute Manager by Kenneth Blanchard, Ph.D. and Spencer Johnson, M.D. He shared the book with his physicians and staff, and developed a culture that held managers accountable for their areas of responsibility with minimal guidance from the top. He consistently focused their attention on the overall goals of raising the profitability of the practice. His management style was characterized by humor and positive encouragement, blending a no-excuses expectation with a personal interest in each employee.

Results

Two years and three months after Ken Woods arrived, he called a special board meeting. It was a note-burning party, and the physicians took great delight in celebrating the retirement of the last of the group's debts. Then they turned their attention to another challenge with which they had not become accustomed. Deciding on a new bonus structure was the final icing on the cake. When the negotiations were finalized, total physician compensation had grown by over 300% in just two years, in addition to retiring a massive debt. Physician productivity was well beyond the 90th percentile for the specialty, overhead and collection ratios were well in line with industry norms, and the staff was able to celebrate Christmas like never before.

The Christmas party that year was exceptional as well. Ken Woods had personally boycotted the Christmas parties of the first two years. Vendors had funded the parties in the past, but Ken insisted that he would not come until the group could pay for it themselves. The third party was the charmer, and the sense of celebration was palpable. The administrator rendered a gentle roast of each physician, keeping the whole group in stitches. He in turn was the recipient of gifts from every corner of the room, and was congratulated for his outstanding leadership.

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Lessons Learned

The astonishing turnaround for Westchester Oncology and Hematology offers timeless lessons for physicians and medical group administrators everywhere.

- **Even the most hopeless economic challenge can be salvaged.**

The physicians were literally on the verge of bankruptcy, which would have been devastating to each of the physicians and to their staff, and extraordinarily disruptive to the care of patients facing serious illnesses. The chaos and confusion of the situation could easily have been overwhelming. The circumstances called for vision beyond the current evidence.

- **Real change comes only when people are personally responsible and accountable for their own actions.**

Each physician, each manager, and each staff member had to take responsibility for their own actions. Incentives helped to focus everyone's attention on the activities that produced the greatest result in the least time, but financial incentives were not the only solution. Ken Woods encouraged each staff member to pay attention to their own capabilities, helping them to see that they were competent and capable of more than they believed possible. Key managers now have their staff solving many of their own problems. In many cases, problems never reach management before a solution is in place or actions to improve have already been initiated. Problems are now viewed as opportunities to succeed. Change is constant and exciting.

- **Attitudes are as vital as systems.**

The administrative systems and structure required reorganization to be sure, but the motives for significant change had their roots in constructive discontent for the status quo. That discontent was met by a can-do attitude rather than by resignation to the chaotic conditions of a dysfunctional organization. Positive attitudes can't be bought in the same way systems improvements can, but they are priceless in their effects. Ken Woods successfully broke down the territorial attitudes of physicians and staff, and created a non-threatening environment that supported experimentation and fresh ways of thinking about both longstanding problems and new challenges. The systems changes began with the positive attitude of one person, but that leadership mind-set quickly became contagious, infecting the whole organization.