

# STRATEGIC PLANNING FOR A TURNAROUND

## *A Two-Facility Missouri System Recaptures the Leadership Position in Its Local Market*

**I**n mid-1998, St. John's Regional Medical Center, Joplin, MO, found itself in a financial crisis. As a result, St. John's board of directors and its parent system, Catholic Health Initiatives (CHI), Denver, were forced to make a set of critical decisions to avert economic disaster.

To recover its market dominance, St. John's new leaders obviously needed to launch and carry through a major turnaround initiative. In this article, we describe how that was done.

### **BACKGROUND TO A CRISIS**

St. John's is a full-service, tertiary-level rural health care system with 392 inpatient beds, comprehensive outpatient diagnostic and treatment services, and approximately 2,000 clinical and support staff. St. John's operates two hospital facilities: the main medical center, in Joplin, and a small critical access hospital in southeast Kansas.

In southwestern Missouri, the Joplin facility

serves approximately 157,000 residents. Altogether, however, the hospital provides tertiary care services to some 700,000 residents of a 19-county region that also covers parts of three other states: Arkansas, Kansas, and Oklahoma. In 1996 St. John's became a member of CHI.

St. John's is the regional leader in cardiovascular, oncology, orthopedic, and trauma services, with approximately 18,000 patient admissions and 142,000 outpatient visits annually. In fiscal 2002, its net operating revenue exceeded \$228 million. St. John's patient reimbursement is heavily skewed towards a government payer mix because its population base is older and more rural than the average. More than 14 percent of the region's residents are over 65 years of age; farming constitutes its economic basis. Medicare and Medicaid patients generate about 56 percent of St. John's total annual net revenues.

A competing health care provider, also located in Joplin, has slightly fewer total beds than St. John's. Several other smaller primary and secondary care level, not-for-profit hospitals, ranging in size from 16 to 150 beds, are scattered through the region.

During the early 1990s, St. John's received national recognition for its rapid growth and financial success. In 1996 the hospital commanded more than 60 percent of the local community's market share of inpatient admissions.

### **THE DECLINE OF MARKET DOMINANCE**

When St. John's two local competitors merged in 1994, the new entity instituted an aggressive integrated-delivery strategy, staffing its system with employed physicians. Having purchased physician practices in surrounding communities, the new system was able to encourage patient referrals to its own Joplin facility. (Today nearly all of the 130 primary and specialty physician members of this

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system's medical staff are employees.)

The new system also launched a capital investment campaign, adding significant new facilities and services that had previously been available only at St. John's. And it implemented an intense marketing campaign touting the development of its new, state-of-the-art specialty services. These strategies created fierce competition for patients between St. John's and the new system.

By the close of 1998, St. John's local market share of inpatient admissions had eroded to 53.4 percent, a loss of 6.6 percent market share in three years. In June 1999, the extent of St. John's financial losses was evident. St. John's posted a bottom line operating loss of \$24 million, representing a negative 14 percent operating margin.

CHI consultants conducted a comprehensive assessment of St. John's situation and found six major reasons for the decline:

- Ineffective leadership and decision making by senior management
- Operational costs that were inconsistent with declines in business and market share
- Excessive capital spending on external development ventures rather than on the replacement of critical equipment and physical plant in the main hospital facility
- A steady decline in the amount of advertising and marketing dollars devoted to promotion of key clinical service lines, compared to those spent by the competing new system
- Complacency on the part of St. John's management regarding operational excellence and quality issues, resulting in the undermining of patient and physician satisfaction
- Loss of major managed care contracts to the competitor

In November 1998, to address this deteriorating situation, a new president and CEO was hired. In early 1999, the new CEO replaced nearly all of the senior management team. He also reduced St. John's workforce by more than 120 persons, a move that (since many of these people were management team members) was intended to streamline decision making and reduce unnecessary overhead costs. Severance pay and outplacement assistance were offered to all employ-

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ees affected by the layoffs.

#### PLANNING THE TURNAROUND

St. John's new leadership team undertook an extensive evaluation of all aspects of its hospital operations, financial management, physician relations, and business development actions. The team's findings—both positive and negative—were then reported to CHI and St. John's board,

employees, and medical staff. In the past, St. John's had shared limited information with stakeholders about the organization's performance. Their report came as a total surprise to most people in the hospital and the community at large.

Given the evaluation's findings, the new management team made a number of changes critical to internal operations; these changes improved financial performance but did nothing to recapture market share. Then, starting in the summer of 1999 and extending over the next six months, the team instituted a comprehensive strategic planning framework to refocus the organization's energy and identify critical planning issues.

St. John's CEO invited CHI's corporate vice president for strategic planning to collaborate in the initial planning effort. He helped assemble an internal planning team consisting of himself, St. John's senior vice president of marketing and business development (who became the team's chair), CHI representatives, board members, physician leaders, and management representatives from throughout the organization.

Over a four-month period, the internal planning team held meetings with each group of stakeholders (including clinical, support, management, physician, and patient representatives), reviewing the historical data and frankly discussing the strengths, weaknesses, and perceived opportunities for and threats to the organization. From these discussions, the team crafted a framework for a new three-year strategic plan.

In 2000 the team engaged a national survey firm to conduct a study of the community's perception of its health care environment. Because this firm had conducted similar studies in other communities, it was well placed to compare results. The survey measured:

- Key “drivers” of patient satisfaction
- Area residents’ reasons for choosing one hospital rather than another
- The major causes, as area residents saw them, for the deterioration in St. John’s market share performance

It became apparent that customer perception of St. John’s as the best hospital for various leading service lines had declined significantly between 1998 and 2000 (see Table 1). The survey also showed that public awareness of the new competing system had increased dramatically. The study underlined St. John’s urgent need to improve its image if it were to avert further erosion of market share and deterioration of financial performance.

Having learned the reasons for the decline, St. John’s board and managers made a firm commitment to strengthening the promotion of services. They began by totally revamping their marketing and public relations strategy, tripling the advertising budget for fiscal 2000.

### THE STRATEGIC PLANNING FOUNDATION

The members of St. John’s new management team, in planning their meetings with stakeholders, had adopted the ideas of George A. Steiner, a strategic planning expert. “For managers at all levels, strategic planning is interrelated with the management process,” Steiner writes. “Strategic planning is not something separate and distinct from management.”<sup>21</sup>

The team realized the importance of gathering input from key stakeholders in order to establish universal “buy-in,” as Steiner suggests. The team’s collaborative planning effort, as led by the CEO, provided a vital link between management and the board. It established the overall corporate plan and key strategies aimed at stimulating organizational growth and financial success.

However, as Steiner notes, the role played by an organization’s chief planning officer—in St. John’s case, the senior vice president for marketing and business development—is not an easy one.

The relationship between the corporate planner and the chief executive officer is a complex, delicate, and sensitive one [Steiner writes]. The planner simply must be compatible with the chief executive officer and complement his interests and abilities. If the fit is not good, the planner will be ineffective. . . . The planner must manage complex relationships among many managers and staff, often where there is sharp conflict, and retain respect, good will, and trust of those involved. The ideal choice for a corporate planner, according

to one observer of the job, is “a man who is both philosopher and realist, theoretician and practical politician, soothsayer and salesman and . . . he probably should be able to walk on water.”<sup>22</sup>

In fact, St. John’s staff at first generally resisted the strategic planning process because in the past the process had had little if any positive impact on organizational direction and management decision making. During the busy days of the management crisis, strategic planning was conducted without stakeholder acceptance and implementation was not done well. Then, after the members of the new management team took over, they spent several months gaining the confidence and participation of line managers at all levels of the organization and obtaining buy-in from influential physician leaders.

The new management team used something called the “*Hoshin* process” in developing priorities and clear focus on critical planning issues. *Hoshin* is a Japanese approach to strategic planning and quality improvement; it “means a core belief, an intellectual pole star or reference point. In continuous improvement, the *hoshin* is customer needs. The best examples of *hoshin* perspective go far beyond meeting immediate customer requests to anticipate and even implant ideas customers would never have thought of on their own. . . . The *hoshin* perspective involves a sophisticated interplay of market analysis, technology analysis, creativity, and role-playing leading to breakthrough inventions and fundamental redesigns.”<sup>23</sup>

St. John’s appeared to have a desperate need for a *hoshin*—a focus on the important issues regarding the organization’s long-term future. In adopting the *hoshin* process, the new management team began by, first, organizing several meetings involving managers and caregivers, and, second, reviewing internal and external performance and demographic data while gathering input and building consensus among the diverse clinical groups

**Table 1: Need for a Turnaround**

The need for a turnaround at St. John’s was indicated by surveys that showed a decline in public perception of some of its services.

Services	1998	2000
Cardiac services	41.0%	34.1%
Trauma services	32.3%	30.1%
Cancer services	31.2%	21.5%
Orthopedic services	25.0%	20.9%

throughout the health care system. The kick-off meeting was an all-day, off-site session that included more than 80 managers and supervisors. Ultimately, the *hoshin* planning process involved approximately 245 people, a number representing 10 percent of all stakeholders (2,000 employees and 230 physicians). Because it evolved from this collaborative process, the new strategic plan was a dynamic and living document for all stakeholders.

According to Marian C. Jennings, a health care management expert, senior managers must provide their boards with honest, timely, and concise facts in order to ensure that salient points of discussion surface during the strategic planning process. As Jennings puts it, "The board's informed commitment to the organization's vision and strategic intent is imperative. Informed commitment means that from the beginning and throughout implementation, the board must fully understand the potential capital and human cost of change, accept the risks associated with strategic intent, and be prepared to allocate or reallocate the resources needed to achieve the agreed-upon objectives."<sup>4</sup>

Throughout St. John's strategic planning process, the new management team kept board members well-informed of the critical issues affecting operations, briefed them about community needs, and made sure they better understood the marketplace environmental and competitive trends.

The team proposed to the board three critical success factors:

- Exceptional organizational performance
- Enhanced organizational aggressiveness
- Improved physician strategy

The team outlined a strategic planning process based on these factors to achieve success. As the process evolved, the board had regular updates and annual planning retreats.

#### THE STRATEGIC PLANNING PROCESS

During the strategic planning process, the board and senior management were asked to thoroughly evaluate the hospital's strengths and weaknesses, the opportunities perceived for it, and the threats perceived to it, concerning both St. John's as a whole and each of its main clinical service lines. In open, frank, and honest discussions,

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brainstorming and prioritization techniques, St. John's leaders identified, first, the critical areas needing attention and, second, the action steps that would address deteriorating performance.

As a starting point for the turnaround process, the new management team took a look at the organization's mission and vision statements, to make sure they were consistent with St.

John's core values. Those core values are:

- *Reverence* for the individuals and communities served
- *Integrity* in collaboration with each other
- *Compassion* in healing efforts
- *Excellence* in how things are done

In June 2000 the board approved updated mission and vision statements, setting the foundation for the new strategic plan. According to the updated mission statement, St. John's will "nurture the healing ministry of the Church by bringing it new life, energy and viability in the 21st Century." According to the new vision statement, St. John's, "guided by our Values and Mission, [will] continue to be the preferred health care provider, promoting healthier lives, and being the recognized leader in providing quality, cost-effective care for the people and communities in the Four-State region we serve."

During the initial *hoshin* sessions, the management team presented historical data and elicited comments from the various groups involved, resulting in hundreds of suggestions about ways to improve the bottom line and "grow" the overall business. After that, the team narrowed down the list of suggestions, setting priorities and retaining only those ideas that could realistically be implemented. The last step in the *hoshin* process was to identify the issues deemed absolutely essential to the organization's success.

Once the *hoshin* process was completed, the internal planning team met with eight to 16 representatives from each of St. John's eight major service lines. The team took special care to include physicians in the discussions. Key physician leaders actively participated in service-line planning sessions, helping develop process-improvement strategies and measurable out-

comes. In the end, to ensure a close connection between physicians and other clinical personnel, the team invited the entire medical staff to attend the service-line sessions to review and comment on the findings of individual work groups. The medical staff's suggestions were incorporated into St. John's corporate and service-line strategies. This final planning-assessment product was then presented to senior management for its review and input.

### **THE STRATEGIC PLANNING PRODUCT**

With the strategic planning process well under way, the internal planning team prepared a document to present to the board at its annual planning retreat in October 2000. Board members were given the planning materials two weeks before the retreat to help them evaluate the information and prepare questions about it. The CEO intended to keep formal staff presentations at the retreat to a minimum, maximizing time for discussion among board members concerning the setting of realistic goals.

The board, management team, internal planning team, and physician leaders agreed to focus key resources and energies on eight "critical strategic initiatives." These were:

- Exercise strong, effective leadership
- Maintain leadership in major clinical lines
- Improve operational performance
- Actively market the hospital's strength
- Increase number of primary care physicians in St. John's network
- Strengthen the viability of St. John's employed physician practice group
- Expand managed care contracts and promote inclusive arrangements
- Address aging equipment and facilities

In 2001, management expanded the strategic plan to include detailed three-year business plans covering the four strongest and four weakest service lines and outlined operating performance goals, capital equipment, and facilities reinvestment plans.

A second edition of the strategic plan, developed in 2002, incorporated seven complementary focus areas:

- Enhance clinical quality
- Maximize human capital
- "Grow" market share
- Improve the payer mix
- Update information systems and their applications
- Maintain excellence in medical technologies
- Reinvest in the physical plant and implement a long-range master facility plan

The management team identified the major risk factors involved in the updated strategic plan and outlined them for the board. As the plan was implemented, the board tracked it on a quarterly basis, making adjustments in the plan's evolving status.

### **IMPLEMENTING THE PLAN**

Following the adoption of the three-year strategic plan, the internal planning team, working closely with the new management team, assigned roles, responsibilities, and specific timelines for each of the strategic initiatives. An implementation plan was put on St. John's in-house computer network, thereby enabling managers to track the key initiatives' progress.

The strategic plan also guided the new management team in the development of new business plans intended to appropriately allocate resources and capital for major acquisition or building projects.

The management team monitored the critical success factors concerning particular St. John's executives; these factors were then reviewed by the CEO and forwarded to the board (with explanations of variances from the targets) on a quarterly basis. This disciplined approach encouraged a strong culture of success and accountability throughout the organization. The strategic planning process thus worked to educate, challenge, and motivate stakeholders in a manner consistent with the management philosophy espoused by Peter Drucker: "Management is doing things right; leadership is doing the right things."<sup>5</sup>

As the strategic plan's performance goals and benchmarks were achieved, they were made occasions for celebration, including the awarding of performance incentives to the employees meriting them. These celebrations helped reinforce the relevance and importance of St. John's planning process.

### **A SUCCESSFUL TURNAROUND**

St. John's experience indicates that successful strategic planning should include three key components:

- Collaboration and input from employees, physicians, board members, and key members of the community during the planning process
- Communication—frequent and open—with all stakeholders
- Celebration that shares the glory of success, recognizing all contributors to it

The result of St. John's strategic plan is perhaps best summarized by a September 2001 item

in *FitchRatings*, an online subscription service that reports changes in credit ratings:

[Catholic Health initiatives'] management has engineered and supervised very impressive turnarounds within several of its markets. . . . St. John's Regional Medical Center, Joplin, Missouri, improved from a \$26.8 million operating deficit in fiscal 1999 to a positive operating surplus of \$2.4 million in 2000 and \$12 million in fiscal 2001. . . . Although the size of these selected turnarounds is impressive, *Fitch* views the sustained improvement of these turnarounds as more significant.

As it became apparent that turnaround would be sustained, physician and staff attitudes improved noticeably throughout St. John's. As the organization posted achievements, recapturing market share that had been lost to competitors, it was increasingly clear that St. John's commitment to frank and honest communication had helped rebuild trust among managers, physicians, and members of the board.

The turnaround's continuing success can be seen in **Table 2**. Between fiscal years 1998 and 2002, St. John's showed a 31 percent growth in patient admissions, with only a slight drop in 2002. Market share of local inpatients steadily improved, climbing from an all-time low of 53 percent in 1999 to 55 percent in 2002. St. John's present goal is to reach 57 percent of local market share in a five-year horizon. St. John's dramatic growth in volume and improved financial performance has generated sufficient excess cash to allow it to move forward with a major capital reinvestment proposal, including a \$70 million phased renovation and expansion program over the next several years.

As Michael Pence, a former board chair, said in a letter of October 10, 2002: "I am confident

that without the use of collaborative strategic planning these past four years, St. John's would be a failed or failing hospital today. Instead we are a top performer because we involved the board and all levels of management in producing a clear, concise and simple rolling three-year strategic plan each year that only focuses on the few key strategies most critical to our progress."

No wonder, then, that when the updated version of the strategic plan was presented to the board at the 2001 annual planning retreat, its members gave the management team a standing ovation. □

*John R. Griffith, one of this article's authors, is also a coauthor, with Kenneth R. White, PhD, and Patricia A. Cabill, JD, of Thinking Forward: Six Strategies for Highly Successful Organizations, which will be published in July by Health Administration Press, Chicago. Dr. Cabill is of course the founding president and CEO of Catholic Health Initiatives, Denver. Both she and Dr. White have written for Health Progress.*

## NOTES

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2. Steiner, pp. 72-73.
3. John R. Griffith and Kenneth R. White, *The Well-Managed Health Care Organization*, 5th ed., Health Administration Press, Chicago, 2002, p. 449.
4. Marian C. Jennings, ed., *Health Care Strategy for Uncertain Times*, Jossey-Bass, Chicago, 2000, p. 234.
5. Peter F. Drucker, *The Effective Executive*, Harper & Row, New York City, 1966, p. 6.
6. *FitchRatings*, September 28, 2001, p. 4. (*FitchRatings* can be found at [www.fitchratings.com/corporate/more\\_information.cfm](http://www.fitchratings.com/corporate/more_information.cfm).)

**Table 2:** Key System Performance Indicators during the Turnaround

	FY '98	FY '99	FY '00	FY '01	FY '02
Admissions	14,692	13,877	15,536	18,156	17,708
Average daily census	219	209	212	229	231
Total revenue (in thousands)	\$195,155	\$168,256	\$183,287	\$209,271	\$228,471
Share of local inpatient market	57.4%	53.4%	54.3%	54.7%	55%
Charity and community benefit (in thousands)	\$7,561	\$17,282	\$18,101	\$15,504	\$25,346

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