

Boosting Engagement While Cutting Costs -- Parrish Medical Center

Yes, it's possible. Here's how one hospital turned the budget over to its employees and reaped a windfall.



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Massive layoffs. Facilities closing. Profits declining. Full-blown economic recession. This is the stuff that creates angst and sleepless nights for today's CEOs. While many leaders find themselves looking for a way out of this morass, they also tend to assume that the burden of doing so rests solely on their shoulders.

Not so for George Mikitarian, president and chief executive officer of Parrish Medical Center (PMC) in Titusville, Florida. Mikitarian and his executive management team run a 210-bed, 1,025-employee, nonprofit healthcare facility in North Brevard County, where economic trends mirror those of the nation.

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And they're about to get worse. The Space Coast will lose a major employer when the Kennedy Space Center closes the shuttle program in 2010. And while estimates vary, it's likely that at least 3,500 workers will lose their jobs. So PMC is bracing for the impact: fewer patients seeking medical care, others delaying care due to increased co-pays or fear of lost work days, and the possibility of greatly increased indigent care. In this climate, PMC had to figure out a way to cut costs now -- and keep them down for the long haul.

Here's what's most surprising about PMC's approach to this looming crisis: The facility moved downsizing to the bottom of its list of responses. PMC is the only local hospital that hasn't cut staff and has publicly stated that layoffs will be its "last strategy." "You see

healthcare organizations laying people off, and it's not helping [the hospitals'] situation," says Mikitarian.

What made the difference?

Parrish executives first tried reducing costs -- as a way to avoid layoffs, the hospital made clear to employees -- using a lean Six Sigma process that just didn't save enough money. They also tried cutting costs informally with contests and competitions. Short-term gains were made, but not to the extent needed to avoid layoffs.

So PMC decided to leverage an existing communication strategy it dubbed "Town Hall meetings" to explore further budget cuts. "We needed a lot of time with staff to explain what we were foreseeing, what our logic and theories were relative to where healthcare was going," explains Mikitarian. "We were trying, without gloom and doom, to educate [our staff on] why we thought we had to make some cost reduction moves to really engage people in conversation."

PMC has a culture of inclusion, and it seemed natural to involve employees in budget decisions that would affect all of them. For instance, over the past eight years, PMC employees have been updated monthly on performance in five areas:

- patient satisfaction (service)
- employee satisfaction and employee initiatives (people)
- quality goals and initiatives (quality)
- any new program market growth initiatives (growth)
- the hospital's financial condition

Copies of PMC's performance results are posted each month at the Titusville city library and city hall and on PMC's Web site, at its health and fitness center, and in every building on the hospital's campus. So there was already a communication structure in place -- which PMC calls a "game plan" -- that could be adapted for large-scale discussions like the ones PMC leaders knew they needed to have.

PMC's proactive communication strategy set the stage to deliver unpleasant news. "It's hard to establish credibility and trust and a relationship [with employees] if you haven't been doing it all along," says Mikitarian. "And that's what's required when you have to hunker down and get to the meat of things."

Town Hall meetings (also called the PMC "family budget discussions") were led by Mikitarian. At these meetings, employees received an update on the state of the economy from the CEO and were reassured by him that layoffs were a last resort, but it would require the commitment of every employee to help find ways to reduce expenses and cut costs. Employees had the opportunity to ask questions and share their ideas during the Town Hall meetings. But there were still a lot of good ideas out there, and PMC leaders wanted to hear them -- and they wanted to make sure that the 1,025 staff members also heard from leadership. During their monthly department meetings, every manager asked employees for ideas to cut costs while maintaining or improving service.

Between the Town Hall meetings and departmental meetings, PMC staff members came up with 315 budget-cutting ideas that were passed on to the communications and service excellence department. That department categorized employee ideas into areas like

salary/benefits, recognition/rewards, patient experience, and new revenue possibilities and entered them into a spreadsheet.

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The spreadsheet then was sent to department heads for their review. This group investigated the likeliest possibilities and conducted focus groups with employees. "If you start making arbitrary guesses about [where to] cut instead of strategically looking for the biggest bang for the buck," says Mikitarian, "you can create a list and get all excited and start accepting all of the ideas, then wind up just irritating people and gaining nothing for it."

PMC leadership was scrupulously careful with the ideas they implemented; yet the first round generated \$3.6 million in cost savings for the hospital. And, because these ideas came from employees, buy-in was essentially ensured -- most of the people who were affected by the cuts approved of them before they were even given a green light.

"We continue to keep people informed [throughout the cost-cutting process] about the status of their recommended cuts," says Mikitarian. "You don't want to turn around one day and discover that no one's following the ideas you thought they suggested and were okay with three or four months ago. So we want to make sure that we continue to communicate where we are with their recommended cuts and keep reporting back to the employees."

The engagement journey

Meanwhile, as PMC was beginning its cost-cutting initiative, the hospital was launching its third employee engagement administration using the Gallup Q¹², a 12-item survey that assesses and reports on employee engagement down to the workgroup level. PMC could have forgone one or the other -- but the hospital realized that ignoring engagement could undermine the purpose of the Town Hall meetings. Simultaneously juggling both initiatives was, as PMC Human Resources Manager Roberta Chaildin put it, "very interesting -- and a little nerve-racking," but they managed.

Three years ago, PMC implemented its employee engagement program because it had hit performance plateaus. The hospital wanted to know what was driving outcomes so it could improve its performance results. So while employees were evaluating their work environment for ways to trim costs, PMC was scrutinizing workgroups to see whether every employee had what he or she needed to engage. And that scrutiny was as well-organized as the cost-cutting idea spreadsheet.

After the employee engagement results had been tabulated and distributed, every department conducted follow-up action planning, choosing a couple of Q¹² items to focus on. (See graphic "The 12 Elements of Great Managing" and article "What to Do With Employee Survey Results" in the "See Also" area on this page.) Mikitarian attended the action-planning sessions of the 10 departments with the lowest engagement scores. Their action-planning sessions were more detailed than those of other departments, had more steps, and included more accountability.

All PMC employees also attend weekly huddles, an idea PMC borrowed from The Ritz-Carlton. (See "How The Ritz-Carlton Manages the Mystique" in the "See Also" area on this page.) At these 10-minute meetings, PMC employees discuss "care partner stories." "We

talk about how we are living the vision, values, and the mission of the organization," says Natalie Sellers, PMC's director of service excellence. The huddle ends with a "care circle discussion," which is a guided question and answer session that encourages employees to think about applying the principles of the story to their department, their patients, and each other. "It's a very simple concept, but very effective," says Sellers.

It's also mandatory. All employees are required to attend the weekly huddle. And if they are in a meeting, they bring along whomever they're meeting with to the huddle. "We've done it with applicants in human resources if they're there at huddle time," says Chaildin. "We've had salespeople gather around the table with us."

The 12 Elements of Great Managing

To identify the elements of worker engagement, Gallup conducted many thousands of interviews in all kinds of organizations, at all levels, in most industries, and in many countries. These 12 statements – the Gallup Q¹² – emerged from Gallup's pioneering research as those that best predict employee and workgroup performance.

1. I know what is expected of me at work.
2. I have the materials and equipment I need to do my work right.
3. At work, I have the opportunity to do what I do best every day.
4. In the last seven days, I have received recognition or praise for doing good work.
5. My supervisor, or someone at work, seems to care about me as a person.
6. There is someone at work who encourages my development.
7. At work, my opinions seem to count.
8. The mission or purpose of my company makes me feel my job is important.
9. My associates or fellow employees are committed to doing quality work.
10. I have a best friend at work.
11. In the last six months, someone at work has talked to me about my progress.
12. This last year, I have had opportunities at work to learn and grow.

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Proof of success

Gallup's engagement research has shown that the ratio of engaged to actively disengaged employees provides a macro-level indicator of an organization's health. When compared to all organizations in Gallup's employee engagement database, companies with a ratio of 5.4 engaged employees to every 1 actively disengaged employee are beginning to build a critical mass of people who are working toward improved outcomes; world-class organizations have an engagement ratio of near 8:1. That's what Mikitarian wanted for Parrish: world-class employee engagement levels -- and a waiting list.

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"Seven years ago, our dream was for there to be a waiting line in human resources to get a job at this hospital, and everybody laughed," says Mikitarian. "We had 27% turnover, vacancies everywhere, 100 agency people [contract employees], and employee satisfaction at about 20%. The atmosphere was just churn and burn. But we knew success meant we'd be fully staffed, and people would be waiting to get a job here. That's when we'd know we have made it."

And that's just what happened. The waiting list is lengthy. And PMC's 2008 employee engagement results showed that the hospital had 10 engaged employees for every 1 actively disengaged employee. "The more our people work together, the more they learn the systems, the more they understand the expectations, the more we empower them, the more successful we will be," says Mikitarian. "And that's where we are today. There's a waiting list to get a job here -- and by the way, we pay our people, myself included, at the 50th percentile salary-wise."

That doesn't mean, however, that PMC isn't hiring. Three years ago, PMC had many unfilled positions, particularly in nursing. Because its staff is so much more engaged now, turnover is greatly reduced, and PMC isn't depending as much on agency personnel, which saves the hospital \$3.5 million on agency nurses alone. However, PMC does have some holes to fill in leadership positions. The hospital is using Gallup to find the right leaders, even if that means leaving jobs unfilled for a time -- engagement is just too valuable to risk selecting the wrong person for a leadership role.

And the risk *is* great. Engagement at PMC started with, and depends on, its leaders. "It's been a very difficult transition for us," says Mikitarian. "But in every department that we have transformed from managing and directing to leading, from leaders who try to be in control to just be in charge, to learning the difference between being the boss and being a servant [leader], we have seen incredible results."

Leaders who can't see the value of engagement, or who can't spur it if they do see it, are too risky to hire. So far, PMC's engaged employees have saved the hospital at least \$7.1 million, which is a significant amount for a small hospital in a time of big economic challenges. And because PMC's leaders keep asking their employees for ideas -- and employees keep providing them -- the hospital expects that \$7.1 million is just the tip of the iceberg. According to Mikitarian, however, the real financial windfalls are not from what PMC does, but from what it doesn't have to do.

"If you're a CFO trying to figure out if this engagement stuff is worth it, I'll tell you -- you don't have to compete on a hospital-by-hospital, market-by-market basis," said Mikitarian. "You're competing to improve your own culture and the engagement of your employees. The creativity employees will show, the productivity improvements made, the turnover reduction, all that aside; you don't have to compete as significantly on salary. Competing on a salary-by-salary basis with other organizations is not a financially viable strategy long term; you can't keep it up. Engagement, though -- engagement builds on itself."