Case L
It's a Balancing Act: Improving Clinical Operations at Blackwell Medical Center

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Pedro Santana is the departmental administrator for the department of surgery at Blackwell Medical Center, one of three large academic medical centers in Eastern City.

At Blackwell there are two lines of authority—the hospital line and the school of medicine line. The hospital is profitable. The department of surgery operates under the medical school, where there are separate lines for faculty

practice and managed care contracts. The chief of surgery, Dr. Will Blinick, reports to the dean of the school of medicine and the president and CEO of the medical center.

The medical center has 19 clinical departments and 12 nonclinical departments. The department of surgery, which has 45 full-time and 85 voluntary attending faculty, is one of the largest and fastest-growing departments in the school. Since 2006, the department has added 15 surgeons. The medical center subsidizes them at an annual rate of $7.9 million each year. This support is used to offset physician salaries and cover operating overhead, such as ancillary staff malpractice and programmatic expenses.

The Chief's Priorities for the Departmental Administrator

Dr. Blinick's priorities for Santana are financial: growth in practice revenues and ensuring the fiscal health of the department. The dean of the school of medicine sets financial targets for the chairs. Surgery targets for 2009 are revenues of $31 million, net collection rate of 85 percent, accounts receivable days of 80 or less, and operating within budget.

Santana's Challenges in Meeting Financial Targets

The following are the department's four biggest challenges for 2009:

1. *Space.* The dean is constantly urging the chair to recruit more surgeons, but the department has no place to house them. Practice space is full, and new recruits need clinical space. The department has no effective process for space allocation.
2. *Net collection rate (NCR) target.* The NCR target is based on a national benchmark. Practicing in New York presents different challenges that make achieving this target difficult to reach. Two-thirds of the department's practice revenue comes from seven surgeons who do not participate in insurance plans. While these physicians generate more revenue because they are nonparticipating, their accounts receivable take longer to collect and negotiate. To meet the NCR target, the department must change its strategy, such as considering writing down its charges or inputting contractual allowances sooner, which might negatively impact its revenue potential.
3. *Recruitment issues.* While the department has a standard recruitment process for bringing a new physician on board, the nuances are different

on a case-by-case basis. Specifically, the process for obtaining funding and space to support each recruit is not standardized or timely. In addition, the department has no system to track the necessary approvals for all aspects of the recruitment process. This lack of organization creates frustration for the department and for the person being recruited. The medical center is working to develop a more standardized process.

4. *Managed care systems.* The department has no mechanism in place to find out in real time whether the managed care companies are paying appropriately. As a result, Santana does not know the revenue opportunities that surgery is missing (such as over- or underpayments by insurance companies). The centralized managed care office holds the details of managed care contracts, and it will not share these details with the department of surgery or with any department.

Challenges as Viewed by the Department of Surgery

Dr. Mike McKenzie, the associate chief of surgery, suggests that the chief of surgery wears four hats: clinical, academic, research, and administrative. In an uncertain time, he is trying to grow all missions, which are different from each other and not consistent. "It's a balancing act," he says.

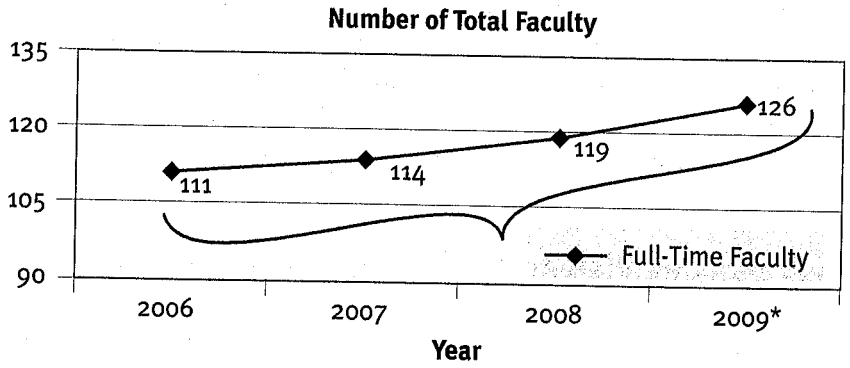
McKenzie suggests, "We need at least 50 percent more staff to do what we're supposed to be doing, and we have already grown 40 percent over the past few years. With one-third less space, we've doubled our visits. We had an agreement with attending surgeons that we would not expand space beyond these walls. But times have changed, management has changed, and we have new leadership. Full-timers now admit 70 percent of the patients, whereas we used to admit 30 percent of the patients. We need to reconsider our options." Exhibit IV.6 shows the surgery department's areas of growth.

According to McKenzie, "The hospital views our department as a savior. The medical school has seen tremendous growth in revenues. Our practice plan belongs to the school, as a wholly owned subsidiary. Now we're working on customer service and quality. The faculty practice administration wants centralization; we think we can do it better. Our strategy is to keep demonstrating how good we are."

The chief of surgery, Dr. Blinick, spends 30 percent of his time in clinical practice and 70 percent on departmental affairs, clinical best practice, education, research, and business and development. His three goals for 2009 are (1) clinical excellence, (2) medical and surgical advancement, and (3) generating a profit. He says these goals are aligned with the goals of the hospital and the medical school. Management is the central instrument that allows the chief to operationalize these goals seamlessly and effectively.

Dr. Blinick indicates that the hospital and the school support the department financially and help in developing administrative strategy. As examples, they provide legal support to develop contracts and marketing support through advertising. Dr. Blinick says that Santana is doing a spectacular job. "His priorities are in order, and he's moving the ball down the court. Santana manages people well, creates a positive environment, and is a hard worker."

EXHIBIT IV.6
Surgery: Areas of Growth



*Projected
Source: Department of A&P Files.

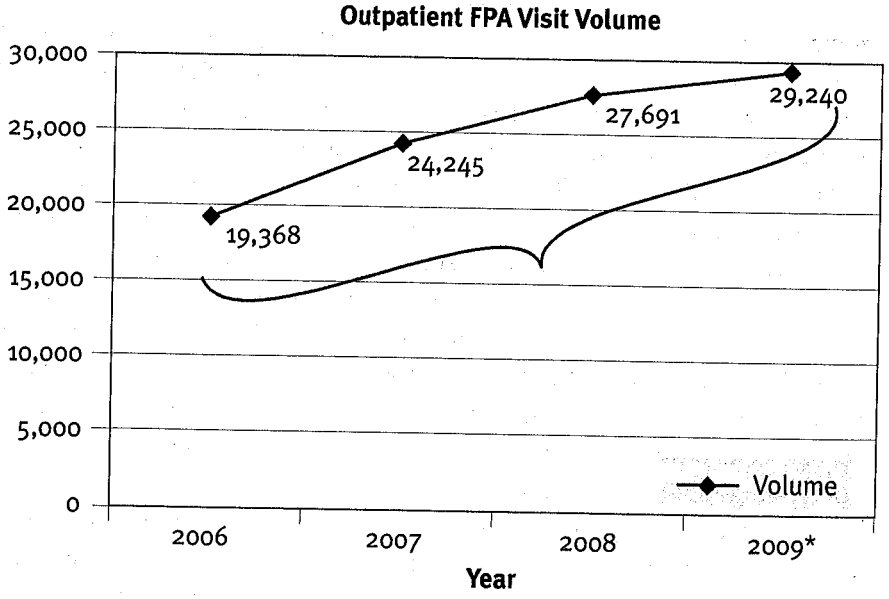


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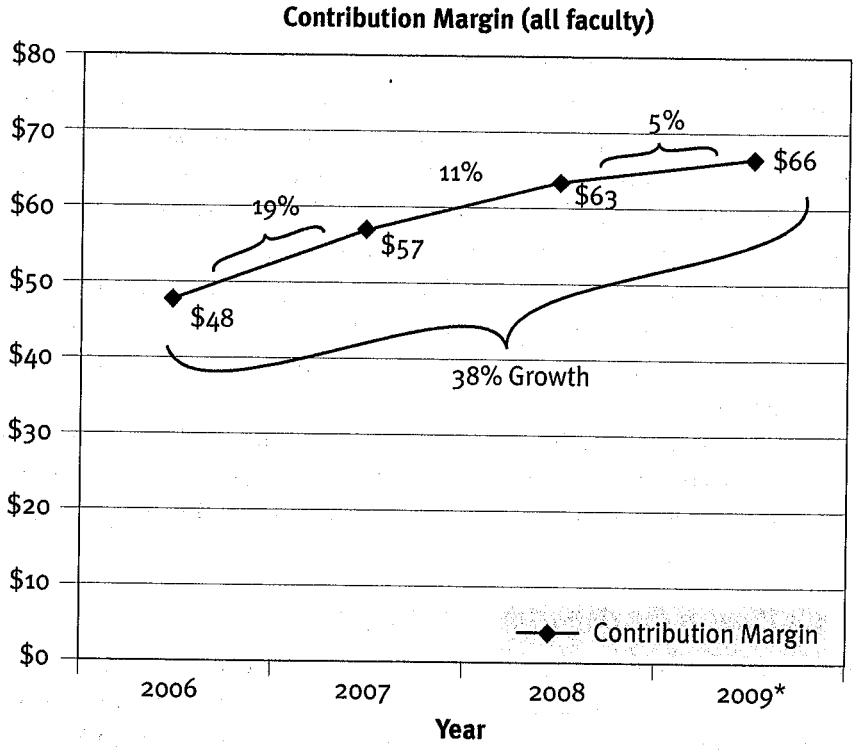
EXHIBIT IV.6
Surgery: Areas of Growth (continued)



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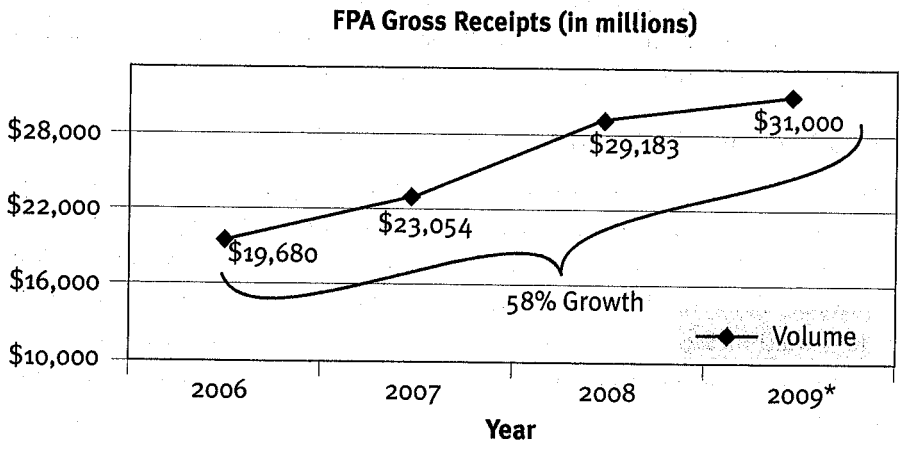

*Projected
Source: FPA Scorecard/IDX.

The Medical School's View

Dr. Bruce Percy is associate dean for operations at the medical center and VP for school of medicine operations. He was formerly dean of the dental school. According to Dr. Percy, none of the departmental administrators report to him—they report to their respective chiefs. "We have to get things changed by consensus." He also does not have any reporting line to the medical center faculty practice administration (FPA). His current time is spent as follows: 30 percent on contracts, offers, and business plans; 30 percent on departmental work for clinical and nonclinical departments; 20 percent on faculty compensation; and 20 percent on research, budgeting, compliance, and human resource activity.

Percy's goals for 2009 are as follows: (1) raising the level and education of departmental administrators, (2) reducing costs and keeping the school fiscally prudent by breaking even, and (3) establishing a voice in the FPA.

Percy's View of the Department of Surgery

Percy says that while the department is doing well overall, "they [surgery] have decided the compensation of certain surgeons without sufficiently involving us [the medical school], so the school loses a lot of money because the incentives were based on relative value units rather than on the relationship between revenues and expense. Also, many of the surgeons get 50 percent of the receipts, while the corresponding overhead for them is way over 50 percent. The formula doesn't make sense to us, and more and more the hospital is asking the school to help pay for these shortfalls, even though they [the hospital] are encouraging these types of deals."

Percy's View of All Departmental Administrators

There is variation in department administrators' performance, and their bosses are the department chairs. Percy believes many of the departmental administrators lack the appropriate skills set and experience in managing clinical operations. "My office has to provide much oversight and micromanagement. Chairs should be advocates. But administrators must keep the medical center out of trouble. Maybe we should tie some of the administrators' compensation to this."

Case Study Questions

1. What can Percy do to facilitate a more meaningful relationship with both the chairs and the administrators?

2. Should faculty compensation be left to the individual departments to determine? Who else might be able to assist with this process?
3. Conceptually, is it acceptable to have faculty who do not generate a profit? If so, how are these losses typically covered?
4. Should the faculty practice be centralized or decentralized? Why?

Conversation at Tony's Coffee Shop

On December 20, 2008, three departmental administrators discussed management issues, and a summary of their discussion follows:

Sam Sabathia (cardiology administrator): Another financial crisis. The cardiology chair wants to keep recruiting, and the dean of the medical school wants us to cut costs and show a profit.

Liz Burnett (medicine administrator): Well, at least we're employed. Bruce Percy wants us to enroll in a leadership development program. That's certainly going to keep me from getting a lot of my work done.

Joe Rodriguez (orthopedics administrator): Pedro Santana has some special circumstances going for him in surgery. First of all, it's surgery, and second of all, his chair understands business and is not hesitant to push for what he wants.

Sam Sabathia: But Pedro runs a good show, too. His accounts receivable days are way down. Their overhead percentages are down. Surgery gets good ratings on quality and customer service. They make money for the hospital.

Liz Burnett: It's a lot easier for them to get what they want.

Joe Rodriguez: But what is Pedro doing right, and what can we learn from him?

Sam Sabathia: Pedro doesn't always spell out precisely what he's doing. He's got a lot of staff and good staff. Dr. Blinick has a business background, and he is focused on bringing in a lot of revenue. He's got a strategy in mind, even if it's in his head, and he acts on that strategy.

Liz Burnett: So how do we get the support to allow us to produce the numbers that Dr. Percy wants?

Joe Rodriguez: And what do we want, and how do we get the support that we need from our chairs?