

Prescription for a Turnaround

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By redesigning its management and compensation practices, Scripps Health became a model for its industry.

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By Susan J. Wells

Nine years ago, symptoms of financial distress were spreading fast at Scripps Health, a \$1.8 billion revenue nonprofit community health care system in San Diego.

Founded in 1924 by philanthropist Ellen Browning Scripps, the corporation was losing money, the chief executive officer had resigned after a no-confidence vote from physicians, nurses were leaving, and employee morale had hit rock bottom.

Under the leadership of CEO and President Chris Van Gorder, who took the helm in 2000 only four months after joining the company as chief operating officer, a new strategic plan was immediately rolled out that included rebuilding personnel and repairing staff relations.

Van Gorder met the crisis by implementing a transparent, participatory management style and creating a physician leadership cabinet, dramatically improving physician relations and creating a model for other health systems. The physician cabinet was both an initial move to ease tensions and a strategic action that built a collaborative and transparent approach to sharing clinical and business information.

Scripps' leadership team then streamlined business operations, built strategic alliances, enhanced internal efficiencies, and improved employee performance and satisfaction. Central to those achievements has been HR's implementation of a unified performance management system—one that focuses on leadership development, metrics, the recognition of individual and business-unit performance, and motivation of employees through compensation.

Having recovered from the losses and having engineered a considerable cultural turnaround, managers now look toward a \$2.2 billion, 10-year growth and expansion plan across the region. Current construction and expansion projects for 2009 will continue, Scripps officials say, and budget reviews will be done before beginning future planned projects.

Scripps Health system operates five acute-care hospital campuses as well as outpatient clinics and home health care services with more than 2,600 affiliated physicians and 12,000 employees.

Patient admissions and donations are up. International credit rating agency Fitch Ratings assigned an A+ rating in July 2008 to \$101.6 million in revenue bonds issued on behalf of Scripps. Employee turnover fell to 10.9 percent in fiscal 2008—enviously below industry standards of 13 percent in California.

Scripps has earned a number of accolades for its workforce improvements and innovation, including being named to *Fortune* magazine's 2008 list of America's "100 Best Companies to

Work For."

The People Challenge

From the HR perspective, multiple challenges were painfully clear when Van Gorder asked Victor Buzachero to join the company in 2001 as corporate senior vice president of human resources. Turnover was high. Communication channels were broken. HR professionals were not connected to operations and business needs.

Buzachero recalls the all-encompassing battle plan aimed at halting and reversing a dire prognosis. "We literally changed everything," he says. "We immediately connected workforce initiatives to operations and strategy, partnering directly with finance to drive the turnaround. And we made sure we were investing in the talent of our people."

How did HR leaders carry out and achieve such reform?

At the core of the revitalization lies a set of strategic workforce initiatives put in place when the strategic plan was implemented in 2001, including a comprehensive performance management plan that focuses on building employee-manager-leader relationships while minutely measuring and assessing the strengths and weaknesses of the workforce.

Here's a closer look at each facet of the program—and the impact of each.

Competitive Compensation

Among the first HR steps—critical components of the overall improvement strategy—was to invigorate compensation practices and policies, Buzachero says. This included instituting a semiannual review of job descriptions, conducting ad hoc position reviews when new duties are assigned, adjusting and correcting salaries based on years of experience and education, and performing evaluations annually for all employees.

Scripps offers salaries at the 65th percentile range of the market and provides a total compensation and benefits package within the 65th percentile of those offered by the health care market. The target level is used so that Scripps is neither the lowest- nor highest-paying employer. To stay competitive, its HR professionals study the labor and salary market each spring and fall and make biannual adjustments where necessary. "Because of these ongoing efforts," Buzachero says, "Scripps is really able to maintain market-competitive compensation."

For example, nurses constitute the largest job category at Scripps, and their wages on average are the second-highest for nurses in the San Diego region. Such high compensation for key clinical positions increases recruitment pools and retention rates.

In addition, employees receive merit increases based on annual performance evaluations. The appraisals encourage managers and employees to work together in measuring performance, setting measurable goals, identifying areas for improvement and recognizing exemplary performance. Based on the results, employees may receive up to a 5 percent increase in their annual salaries.

Bottom line: In fiscal 2008, Scripps allocated more than \$13 million for salary adjustments

and an additional \$18 million for merit increases; the average employee merit increase was 3.5 percent.

According to employee opinion surveys, the compensation strategies are working; in the 2008 survey, 68 percent of employees responded positively to the statement, "People are paid fairly for the work they do," compared with 54 percent in 2005.

The next piece of the performance management program was rolled out in 2004 when the HR team added an automated, online performance evaluation system that streamlines and simplifies the process. Managers track employee accomplishments and areas for improvement more easily, linking performance with job descriptions and creating comprehensive performance appraisals.

All employees are evaluated on their adherence to the Scripps core values—respect, quality and efficiency—within the behaviors section of every appraisal.

Same Values and Measures

"Our performance management process is an aligned process for all individuals throughout the organization," says Buzachero. "This includes board and senior executive management and the staff employees. All are held accountable for annual objectives."

Performance management is integrated into the annual planning, business strategy, financial and operations processes through collaboration among the HR, finance, strategic planning and operations departments. HR leads the goal-setting and perfects performance measures annually, Buzachero explains, and the whole process is documented, monitored and managed with an online "cascading" system that tracks whether targets are hit or missed for the entire system.

Keeping a Close Eye on Performance

Among the critical tools in Scripps Health's cache of sophisticated approaches to performance management is "The Eye Chart"—a large-scale visual tool that compares leadership performance and cultural engagement among departments at a glance.

"It takes raw data and transforms it into actionable knowledge," says Tom Olivo, who created the tool as founder and president of Success Profiles Inc., a consulting firm in Bozeman, Mont., that specializes in business performance measurement and marketplace research. Olivo has consulted with Scripps since 2002.

Using data from employee satisfaction surveys, the feedback is essentially converted into a bottom-up, multi-rater leadership assessment. You can instantly view departments that have healthy "mini-cultures of excellence," represented in green and yellow quartiles, and those that are struggling or failing, in orange and red quartiles. The chart also illustrates how front-line leaders compare with one another within an organization and how they compare with their peers nationally.

Departments in the "red" zone—or bottom-quartile, ineffective D-level leadership performance—are less productive than the average. Those in the "green" section—top-quartile, highly effective A-level leadership—are more productive.

The comparison is the first step in identifying where you need to act and with what sense of urgency, says Olivo. "When you can diagnose what leads to top performance, you make much better talent decisions," he says. The chart helps managers pinpoint what's good and not so good, and it has a way of "forcing action," he says. "It connects the performance management process to the talent management process."

For example, if a manager scores poorly in one area, he says, a question arises: "How can we help that leader, or decrease the complexity of the department? Then you can work on the best intervention to drive improvement," whether it is to coach the employee or to make the work more efficient.

"The crux is, does the organization really have the courage to truthfully, thoroughly and thoughtfully evaluate everyone in the organization?" Olivo says. "It can take a while for organizations' [leaders] to truly be able to say yes."

Scripps Health uses the charts to help executive and operational leaders make staff decisions—helping them "guide placement of managers and leaders throughout the organization for the best fit," says Victor Buzachero, corporate senior vice president, human resources. The charts array managers and leaders by the employee survey information, turnover, financial outcomes and patient satisfaction. "We find that the performance of the top-quartile performer outpaces [that of] the lowest-quartile performer by a factor of three."

—Susan J. Wells

Sharing in Success

Next, in 2006 Scripps launched a gainsharing program called "Success Shares." It was developed from employee comments and feedback and is designed to reward exceptional patient care and employees' contributions toward strong financial performance based on the overall performance of an employee's department or business unit.

"The idea is to pay special attention to teamwork as a cornerstone of performance," Buzachero says, "and this program allows us to recognize opportunities for a group as a whole."

Scripps paid out \$7.8 million to more than 9,300 employees for the Success Shares program in 2007. Seven of the eight business units met or exceeded the minimum patient satisfaction target and received payments, which were calculated using formulas based on a combination of patient satisfaction scores and financial objectives. The maximum payout was five days' pay, and the average employee check was \$900. Managers hand-delivered checks before the holiday season, and sites held rallies celebrating Scripps' success—complete with pompoms, hot dogs, cheerleaders and pride-building speeches from the CEO and hospital executives.

The payouts are a dramatic gesture that gets rave reviews from employees.

Kim Cross, a senior workers' compensation analyst at Scripps Administrative Health Services, appreciates the monetary reward and the fact that it's based on merit. "The dollar

amount you get every year will be based on the performance of your business unit," she notes. "It makes perfect sense to do it this way because we certainly don't want to see bonuses given out if we haven't been meeting our objectives."

Focus on Leaders

A critical part of performance management is two-way communication between staff and managers, Buzachero says. So Scripps managers get significant performance management education and training.

In 2008, five leadership competencies were added to every manager's performance evaluation: character, relationships, service, change and results.

In addition, as part of leadership development, the company uses online behavior profiles and assessments to gauge strengths and "struggle" areas. "Struggles aren't necessarily weaknesses," Buzachero says, They "can be overcome with focused effort."

In 2008, nearly 50 Scripps senior leaders completed these more-intense profiles. Supervisors used them to tailor coaching plans, place the right people in the right roles, manage talent and build teams. There are no "good" or "bad" profiles; "each person has a place where they can add value," he says.

A series of workshops slated to begin last January will further train managers to work with their employees to build and link individual performance to the major goals of the business—and to better connect accountability companywide. "We spend a lot of time educating everyone about how to make improvements," Buzachero says.

Accountability Reigns

The overarching accountability, interaction and follow-up that Scripps requires is a feat that not all companies accomplish, according to Bob Campbell, leader of the North American Talent Management practice of HR consulting firm Hewitt Associates. He cites a 2008 study conducted by Hewitt and the Human Capital Institute that found that managers are generally neglecting performance management and talent development.

While 92 percent of 700 business leaders polled said they recognize superior talent as providing a competitive advantage, only 7 percent of managers and 10 percent of senior executives are held accountable for developing direct reports through performance management processes, the study showed.

Inconsistent execution creates a hurdle, Campbell says. Most companies have fundamental talent management processes in place, such as workforce planning, high-potential development programs and succession planning. However, few consistently execute these programs across the entire organization.

"Organizations need to make performance management a shared business and HR responsibility," Campbell says, "where business leaders consistently emphasize the importance of talent management, are actively engaged in the process and hold themselves accountable in tangible ways for developing talent beyond the leadership levels."

In the end, Buzachero says, it's all about engaging the best people in the right jobs. Reborn in the midst of chaos, Scripps' performance management program has been overhauled, redeveloped and expanded through the years—culminating with a companywide plan that seamlessly incorporates all aspects.

Metrics serve as his guide: "If you can't find hard measures of why something's strategically important, you let it go," he advises.

"The performance management program is extremely vital to Scripps—whether we're going through a turnaround or continuing to revitalize and grow our culture," Buzachero says. "We're in the business of providing superior patient care and service, and we know we can only achieve this with engaged, committed employees."

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