



ALARMING SYMPTOMS

Most serious illnesses come on gradually. The first symptoms to appear may be small, hardly noticeable. Over time they become more pronounced and worrisome.

So it was with the Southeast Georgia Health System. In the mid-1990s, the hospital, known then as the

Southeast Georgia Regional Medical Center, appeared healthy. Buoyed in part by cumulative rate increases of 45 percent over the past few years, it was generating sizable profits. The hospital's balance sheet boasted cash and marketable securities of over \$60 million, and very little debt.

But during the next three to four years, things began to unravel. Perhaps the management company that ran the hospital was preoccupied with the \$60 million facilities expansion project in progress and was devoting insufficient attention to operations. Or perhaps the strong balance sheet and sizable income from investments had fostered a false sense of complacency.

When the stock market plunged in 1998, the hospital's income from investments tumbled sharply. Operational income had already been declining, because over the previous five years management had continued to add employees, while holding rates for services firm. The hospital began to experience a profitability squeeze.

Tensions always exist between the administrative personnel who manage hospitals and the medical staff who use them. The two groups derive their income from the same pool of patient fees, insurance payments, and Medicare reimbursements. To a significant extent,

it's a "zero-sum game." Actions by one party to increase its revenues typically diminish the revenues of the other party. The rising influence of HMOs and the corresponding pressures on the healthcare industry to reduce costs added to the strains during this period.

The doctors who practice in the community are crucial customers of the hospital. They have many alternatives if they don't like the services they are receiving. For example, they can choose to take their business to another medical facility. Or they can become competitors of the hospital by duplicating in their own offices some of the services offered by the hospital.

During this heated economic climate, many members of the medical staff cut back their usage of hospital services. As the medical center's cash flow tightened further, management postponed purchases of capital equipment and failed to properly maintain and upgrade existing facilities.

Relationships between the administrative staff and the medical staff deteriorated. The situation hit bottom in the fall of 1999, when the medical staff passed a vote of "no confidence" in the management company that ran the hospital. "It was an awfully unpleasant situation," recalls Dr. Harold Kent, who was chief of staff at the time.

The Southeast Georgia Health System is a state-empowered private entity. A nine-person board of directors, called the Glynn-Brunswick Memorial Hospital Authority, oversees all operations. Since the 1970s, successive boards had chosen to engage the services of professional hospital management firms to run the hospital. The current management firm had been in place since 1989. The hospital's chief executive officer and the chief financial officer were employees of the management company. They had responsibility for all day-to-day operations, including the hiring of the hospital's employees.

As community medical professionals withdrew their support, the hospital's revenues dropped dramatically. Losses from operations ballooned to \$1 million per month. Income from investments, which previously had masked the decline in operating profits to some degree, was no longer sufficient to plug the gap.

"At first it wasn't easy to see the full scope of the problems," admitted one member of the board. "The situation was kind of foggy. But we began to feel increasingly uneasy with some of the decisions management was making. And when we started to see the losses, red flags went up."

During this crisis the board met frequently, sometimes

daily. It was not unusual for board members to spend more than twenty hours per week on hospital business, in addition to holding down their own full time jobs.

The pressures were intense. Often the board was divided about what to do.

“Can we ride it out?” they asked themselves. “Should we change management companies? Should we get rid of the management company and take over management of the hospital ourselves?” All were frightening options with enormous risks.

But the risks of doing nothing were even greater. The problems were infecting employee morale and community confidence. Finally, in the late summer of 2000, a consensus emerged. Based in part on the advice and encouragement of local business leaders and physicians, the board voted not to renew the contract with the management company when it expired that October. They decided to look for a president and CEO to run the hospital. The medical center would again be a community-run institution.

“Getting rid of the management company and moving to a locally operated hospital was the biggest, scariest business decision I ever made in my life,” one board member told me. “But it made sense because of

the upside potential. We're in a growing area that we knew should support a first class medical center."

"Management companies may work fine," said Linda Pinson, a local business leader who currently chairs the board, "if their model fits your community. But the feedback we received from business and community leaders convinced us that our community needed something different."

Brunswick, Georgia, is on the Atlantic coast, about seventy miles south of Savannah, and seventy miles north of Jacksonville, Florida. A five-mile causeway links Brunswick with the beautiful beaches, attractive homes, high quality resorts, and championship golf courses of St. Simons Island and Sea Island. Historic, scenic Jekyll Island is a pleasant fifteen-minute drive south. The region is appropriately called the Golden Isles.

The Southeast Georgia Health System comprises two hospitals and several outpatient centers that serve an eleven-county population of approximately 250,000. The system's flagship 316-bed hospital is in Brunswick. A 40-bed community hospital is located some forty miles south of Brunswick, in St. Mary's, Georgia, the home of the U. S. Navy's East Coast ballistic missile submarine base.