This case was excerpted from a Harvard School Of Public Health case study authored by Jane Roessner, Ph.D., as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

CASE: SPARROW HOSPITAL
ORGANIZATION TRANSFORMATION (PART A)

Background: Sparrow Hospital (Lansing, MI), was founded in 1896 by a group of one hundred women who felt their fast-growing city needed a place to provide quality care to the sick and injured. In 1910, Margaret Sparrow, one of the founders, approached her husband for a donation of $100,000 and a gift of land. Sparrow Hospital was built on East Michigan Avenue, the broad boulevard that runs through the heart of Lansing, directly to the domed Capitol building. Today, Sparrow is a 687-bed regional teaching hospital, the largest in Mid-Michigan, with a staff of over 600 physicians and 3600 employees. Sparrow treats approximately 160,000 people each year, serving an eight-county population of nearly one million.

Prior to the major changes of the past few years, Sparrow Hospital was thought of by members of the staff, Board, and town alike, as a “sleeping giant.” In the mid-size city of Lansing, Sparrow had always been the major hospital; more than twice the size of the next largest hospital in town, it had never known significant competition. The financially comfortable cost-plus-reimbursement environment that prevailed from 1965 to 1984 contributed to the “sleeping giant” image; there was no external pressure to contain costs or streamline operations. Sparrow’s employees were loyal; when you took a job at Sparrow, you became part of “the Sparrow family;” many Sparrow employees spent their entire career working at the hospital.

Sparrow’s CEO was a prime example this longevity, leading Sparrow from 1958 until 1990. He guided the organization through major changes in reimbursement for services, from philanthropy and commercial insurances (from 1958 to 1965) to cost-plus reimbursement (1965 to 1984) and into the era of DRG reimbursement (1984 to 1990). He was responsible for securing Sparrow’s position as the leading hospital in its primary service area.

In the 1980s a variety of factors combined to bring change to an institution that had for years been a pillar of stability. The “sleeping giant’s” first wake-up call came in 1983, with the introduction of DRGs. Although Sparrow’s financial success cushioned the immediate impact of DRGs, by 1986 financial problems brought on by DRGs were undeniable. In 1987, in response to heavy financial losses, Sparrow implemented a massive layoff–10% of the workforce, across the board. In 1988 a successful unionization drive by the nursing staff challenged the image of “the Sparrow family.” A major issue in the campaign was the nurses’ feeling that “administration doesn’t care about us." The final, and most profound, signal that change had come to Sparrow was the CEO's announcement, in 1989, that he would be retiring in October, 1990.

The Traditional Sparrow Culture: The "old culture" of Sparrow Hospital is described by Vice Presidents, managers, and front-line employees in remarkably consistent terms. They describe Sparrow as a traditional top-down organization. Things got done by "going through the channels" and "following the appropriate chain of command." Communication was closed; the hospital's strategic plan was not shared beyond the administrative offices on the second floor. Planning at the department level, in the absence of knowledge of an overall plan, was at best hit-or-miss:

> *"I believed that somebody in administration had a plan, but it was a closely guarded secret. So you had to test by putting proposals forth, and infer by how they were received whether or not they fit in with the plan. The answer most often was 'no, that is not the plan.'"*

Department managers were informed after decisions had been made, then expected to do as they were told. Departments were self-contained entities. Information wasn't shared with other VPs, but shared only within the confines of a department. During this period, major groups kept to their tasks: nurses did nursing, physicians practiced medicine, and administrators administered. The relationship between administration and medical staff was traditional. A long-term Sparrow employee explains:

> *"There was no structure for physicians to express their needs and get them met. There was a 'good old boy' network–six to twelve doctors who were able to meet with administration when they wanted, express their needs, and get them met. When it came to ordering a $60,000 piece of equipment, the doctor would never get an answer until the issue was pressed in a meeting. Then one of the 'in-crowd' would go off and see if he could get something done."*

Sparrow's traditional culture was paternalistic. On the one hand, employees describe the organization as nurturing: once employed by Sparrow, it seemed you would never lose your job. Problems were swept under the rug.

Yet, at the same time, there was a deep sense of insecurity: a feeling, as one employee put it, that "your job might be gone in a minute, and you could be sure you wouldn't know until the last minute. The bad news always came from the second floor on a Friday afternoon."

By the end of 1988, morale at Sparrow Hospital had reached an all-time low. "We had reached a point where the organization was at gridlock," a VP explains. Sparrow was characterized by barriers between departments and a paralyzed decision-making process.

Transitional Culture: "The Uncommon Leader": In February, 1989, Sparrow contracted with Management House, Inc., a Chicago-based management consulting firm, to train executives and managers in an organization renewal process called “The Uncommon Leader”–“TUL” for short. It was hoped that TUL would help solve the gridlock problem, “loosen the place up, and make people more aggressive, make the place more fun.” The first wave of TUL training included Sparrow’s executives and managers, sixty people in all. The second wave, begun in July, 1989, included 220 managers and “informal leaders.”

Promoting “values-centered management,” the impact TUL had on the culture of Sparrow Hospital was far beyond what had been anticipated. In a symbolic rejection of formality and hierarchy, no suits or ties were allowed in TUL training sessions. It was decided that Sparrow employees would be called “Associates”–a semantic change (complete with capital “A”) symbolizing the new spirit of empowerment. A Celebration Committee, formed with the sole purpose of “putting more ‘fun’ into the organization,” planned hayrides, a Mexican fiesta, and a mid-winter beach party. For most participants, The Uncommon Leader was the first time Sparrow had undertaken management training in a coordinated way.

At TUL sessions, groups made lists of what was wrong with the organization. Teams were formed on the spot to tackle problems on the list. Each team had thirty days to study its assigned problem and come up with solutions. Two hundred problem solving groups were formed in all. Project teams were a way to break down barriers between departments, meet people from other departments, and see issues from other points of view. Coworkers became new friends. They had been coming to work at the same place, in many cases for years, but had never met one another on a social basis. Suddenly, work was a fun place to be. As one Sparrow Associate explains, “We had gotten religion. We were going to be more friendly. We were going to work in a more participative style. And we had these new values.”

The managers participating in TUL developed a list of “values” espoused by the organization, referred to by the acronym “ESPRIT”– standing for Excellence, Service, People, Responsibility, Innovation, and Teamwork (see sidebar). The values became a standard for personal behavior as well as for judging the behavior of others. In the heyday of TUL, “Associates” challenged one another openly and often for “not living the ESPRIT values”:

> *“We could talk to one another about how a decision was consistent or inconsistent with the values. For example, if a nurse had difficulty with a resident, the nurse could say, ‘It’s not okay that this doctor left his patient in bed for ten hours when he could’ve been discharged.’ It gave us a way to talk about behavior, and a way to judge behavior against the values. ESPRIT was about being responsible, working toward quality, believing that teamwork is better than individualism.”*

TUL was a time of throwing out sacred cows and, along with them, much of the traditional Sparrow culture. Instead of doing things “because that’s the way they’d always been done,” people would ask, “Is there a better way to do this?” and form a team to find a solution. Over the first twelve months, hundreds of problem solving teams implemented improvements.

> *"Now, if you see something that isn't good enough, you try to fix it on your level. Before, that was unheard of: you would have told your immediate supervisor, who'd have told her manager, who told the VP, who told the Senior VP. After TUL, things got done so much quicker, and so much more efficiently. It was unbelievable."*

Instead of keeping to one's department, people became colleagues, problem-solvers, and friends across the organization. Traditional hierarchy–boss vs. employee–was replaced with a conviction that the customer was everyone's boss:

> *"TUL taught me that I'm not a boss. 'Boss spelled backward is double S-O-B.' That's not what I want to be. I feel more like a coach than a boss. I'm not afraid of helping out. I don't believe in saying 'no.' If our customers ask for something, it needs to get done..."*

Instead of accepting the ways people treated others, the new message was that everyone, regardless of rank, was empowered to judge other's behavior according to the ESPRIT values.

The Changing of the Guard: Sparrow's CEO of 28 years left the hospital on a positive note. After weathering financial problems, the organization was once again profitable. Recognizing that organization gridlock had set in, the departing CEO ushered in a profound cultural change from a hierarchical culture to a highly open and participative environment, through the [TUL] organization development program.

Following the CEO's retirement announcement, in December, 1989, a search committee worked through the spring and summer to select a new CEO. It was clearly the departing CEO's wish that his successor be the recently promoted Chief Operating Officer. The COO was well-respected, and more importantly, was the "change champion"–the person responsible for bringing TUL to Sparrow. He had been instrumental in articulating the ESPRIT values, and he was leading the development of the new, evolving culture at Sparrow.

On September 7, 1990, the Sparrow Board convened a meeting of hospital management Associates for the announcement of the new CEO's appointment. The Board Chairperson heightened the drama, and prolonged the suspense, by prefacing her announcement with a glowing list of characteristics and career accomplishments of the new CEO. "And that person is," she concluded, "...Joe Damore."

The news was a complete shock; the Board had not chosen the person management expected, but had gone outside the organization. In the words of a Sparrow nurse, "When they announced Joe's appointment, you could have heard a pin drop. You felt like you were at a funeral."

Why had the Board chosen an “outsider”? Did he have any idea who Sparrow was and how hard Associates had worked through these months of changing their culture? They had been told that the idea of a values-centered organization wasn’t going to be a fad; they were in it for the long run. What if this new CEO didn’t think this was the way to manage? What if he didn’t believe in the new emerging culture?

Discussion Questions:

1. What are some of the risks of systemic organization renewal?

2. Did the internal candidate for the CEO job lose out because of the change effort? Why or why not?

3. What challenges/problems does the new CEO face as he begins his work at Sparrow?

4. If you were Joe Damore, what would you do <u>first</u>?