

CASE STUDY



PLUM HEALTHCARE

*How One Company engaged Arbinger,
the Remarkable Culture they created,
and the Industry Leading Results they Achieve*

This is not a typical case study.

Typically organizations seek help from Arbinger to solve problems of one kind or another. In 1999, a small team in the skilled nursing industry set out to create a company that would not be burdened by the persistent problems that most companies are constantly trying to solve.

Because Arbinger's work had helped other companies in the healthcare industry, this small team engaged Arbinger to assist them in building their company *from the beginning* on the foundational principles Arbinger teaches. The result is Plum Healthcare, the largest and arguably the most successful skilled nursing provider in California today.

The BUSINESS MODEL

The business model was simple. Acquire skilled nursing facilities on the cheap due to problems resulting from poor financial and clinical results. The first facility was financed for \$35,000. Others were had for nothing or next to nothing. In each case the story of the seller was the same, "No one can turn a profit in this facility. The challenges are simply too great." The small team, originally comprised of three facility administrators with no more than 10 years experience in the industry between them, were familiar with Arbinger. Acutely aware of the challenges that beset most companies in the industry, this team believed that the challenges in the facilities they would acquire could be overcome, *without exception*, if the company undertook to apply Arbinger's work to every facet of the organization. So began a close, often daily, work with Arbinger, initially with this small team of leaders and those hired to fill the basic functions of a minimally capitalized operation. As each facility was acquired, the facility administrator, clinical director, and staff of 100 to 200 employees, were introduced to the Arbinger core principles and invited to rethink their results and the way they went about their work as they never had before.

A Different Way of WORKING TOGETHER

Because Arbinger's work helps people focus on others, those who take Arbinger's work seriously are no longer content to think of their results simply as what *they* are able to accomplish. Rather, the results they now feel responsible for are the results of *others*.

Imagine an organization where the leaders are completely focused on helping others achieve results. What would this invite in the rest of the company? Imagine a company where every employee was invited to rethink their results to include not simply what they are able to accomplish, but what others are able to accomplish because of the way they work and help. In short, when people are deeply responsive to the needs of others, they become deeply responsible. Not responsible simply for what they are entrusted to achieve, but what others and the company itself is entrusted to achieve. This is what happened at Plum Healthcare. And it began with the leaders.

When asked about Arbinger's early work with the core team of leaders at Plum and the effect it had on the company, Plum's primary initial investor recalled,

“every one of the principle players brought baggage from a prior way of operating and what they had learned in the industry. It was remarkable what Arbinger helped these leaders discover about human motivation, why people operate in dysfunctional ways that get in the way of achieving results, and how to help themselves and others recognize their own weaknesses and change. It wasn't just powerful concepts, it was a deeply collaborative way of working together that invited the very best of every person, at every level of the company.”

One administrator commented, “The feeling at Plum was dramatically different than the company where I had been. It became quickly apparent how much leadership matters. Leadership creates a culture, and culture drives results. My interactions with the leaders of the company have deeply influenced me. I've always known they really have my best interest at heart, even in difficult conversations. Because this is the way the leaders at Plum are with me, I have changed and become that way with those that report to me and they in turn have developed as people and employees in the same way I have developed.

Sustaining THE CHANGE

This way of working that is completely others focused was sustained by a true focus on the end recipient of Plum's services, *the patients and their families*. Another administrator remarked, “Other companies talk about how much they care for their patients and their patient's families, but when it comes right down to it, financial success matters most, even at the expense of doing the right thing for the patients. What amazed me at Plum was that they didn't just talk about putting the patients first, they operated that way. When a decision needed to be made that boiled down to saving a dollar or providing for a patient, you knew what was expected of you: provide the BEST for the patients.” The result? Plum attracts more and more patients, and the kind of employees and leaders that truly care for the patients and their families.

ATTRACTING *and* TRANSFORMING TALENT

When Plum would acquire a new facility, some members of the facility team--and often the leader--would struggle to leave behind the traditional ways of working that companies unintentionally engender in employees. However, “over time the people who didn’t thrive in this Arbinger way of working gradually dropped away,” said the investor. “The result was that the company seemed to be renewed and increasingly strengthened by people who loved to work in a responsible way.” Attracting the best talent in the industry was critical to Plum’s success. But the best talent was often burdened with the same challenges as the staff in the facilities Plum was acquiring. Having conceived their results and way of working together in an Arbinger way, the leaders at Plum insisted that the talent they brought into the company must be found in people who could change and embrace this new and very different culture. The transformations in people were remarkable. The Plum Director of Rehab Services, whose vast corporate experience in the industry was just what Plum was looking for, experienced this transformation first hand when she was introduced to the Arbinger way of working at Plum.

I was shaped in previous employment to be closed, self-protective, and blaming. I was very controlling, and others were afraid of me. This affected my relationships both at home and at work. Then, at Plum, I encountered Arbinger for the first time. Until then I had thought I was doing okay, but now began discovering that I was not really who I should or could be and that I was not nearly as effective with others as I thought. As I began discovering this, I changed. I think it was even a bit miraculous. Publicly one of my team members told everyone how different I was. I found myself far less controlling, far less stressed, and far more fun to be around. Perhaps most significantly, my whole team improved. I became a far better leader and we all became a far better team—more efficient and more effective in our work. Encountering Arbinger was a turning point in my life, and really, in the life of all those who report to me.

Overcoming CHALLENGES

Acquiring deeply dysfunctional facilities with significant clinical and financial challenges provided the facility leaders and their teams an opportunity to test the practical application of the Arbinger principles they were learning. One facility administrator who joined Plum in these early years recalled:

“As a new administrator in a newly acquired facility I faced a huge problem. Costs had been allowed to skyrocket, and I had to find a way to rein them in. This included eliminating some positions and reducing compensation in many. It seemed impossible to do this in a way that wouldn’t absolutely destroy morale and create even greater risks for our success. But as I tackled the problem, I followed Arbinger principles closely and the results far exceeded anything I could have imagined. Most took the cuts very well, and one person who was not even slated for a reduction volunteered to take a cut in salary to help. One person started out angry in our talk and then ended up hugging me at the close. Though not easy, I never imagined that this process would go as well as it did. I owe the difference entirely to Arbinger.”

Speaking of the challenges at Plum and the impact of Arbinger, the primary investor noted, “As we watched Plum grow we became increasingly impressed with the fact that the operational problems that beset almost all companies consistently did not rise to crises, but were anticipated and resolved by the facility leaders and their teams. Also unique to Plum was the help that each facility afforded each other. I have visited many meetings where it was evident that administrators had worked hard to help their colleagues in other facilities analyze and solve problems because that is what responsibility required. It was clear that the Arbinger training of leaders at every level of the company was the driving force behind the unique collaboration that was happening across the organization.”

RESULTS

In 2005, with 9 facilities in operation, the leaders at Plum looked to accelerate the company’s growth through recapitalization. As investors looked at Plum’s facility results compared to Plum’s competitors, the results spoke for themselves.

	COUNTY AVERAGE	PLUM FACILITIES
<i>Stanislaus County</i>		
<i>County Averages compared to Plum Facility 1</i>		
Occupancy	90.60%	91.70%
Net Revenue per Bed	\$55,116	\$83,296
<i>San Bernadino County</i>		
<i>County Averages compared to Plum Facility 2</i>		
Occupancy	89.40%	94.80%
Net Revenue per Bed	\$51,374	\$75,210
<i>County Averages compared to Plum Facility 3</i>		
Occupancy	89.40%	94.40%
Net Revenue per Bed	\$51,374	\$68,674
<i>Orange County</i>		
<i>County Averages compared to Plum Facility 4</i>		
Occupancy	82.50%	81.40%
Net Revenue per Bed	\$59,263	\$56,793
<i>San Diego County</i>		
<i>County Averages compared to Plum Facility 5</i>		
Occupancy	85.70%	91.80%
Net Revenue per Bed	\$54,149	\$64,575
<i>County Averages compared to Plum Facility 6</i>		
Occupancy	85.70%	94.20%
Net Revenue per Bed	\$54,149	\$67,134
<i>County Averages compared to Plum Facility 7</i>		
Occupancy	85.70%	92.20%
Net Revenue per Bed	\$54,149	\$69,674
<i>County Averages compared to Plum Facility 8</i>		
Occupancy	85.70%	92.50%
Net Revenue per Bed	\$54,149	\$57,636
<i>County Averages compared to Plum Facility 9</i>		
Occupancy	85.70%	85.60%
Net Revenue per Bed	\$54,149	\$59,294

LASTING COMPETITIVE ADVANTAGE

Remarkably, Plum has maintained a 35% compound average growth rate over the last twelve years. Annual revenues have grown from 3 million in its first year of operation to 500 million in 2010. Of course, revenue is no guarantee of profitability and the cost to maintain a competitive advantage in the markets where Plum operates have steadily increased since the company was founded. Additionally, reimbursement for the majority of the patients Plum serves is under the control of state and federal government budgets and fluctuates annually. However, despite escalating market demands to reinvest heavily in its operations and the uncertainty of the effects of government budgets on reimbursement rates, Plum has maintained industry leading profit margins.

But Plum does not cut corners on costs in order to achieve these margins. Plum invests millions of dollars annually to renovate and refurbish their facilities and purchase updated medical equipment. Most significantly, the largest operational cost at Plum is the labor force. State regulations require skilled nursing facilities to maintain a daily ratio of 3.2 patients to 1 clinical staff member. Plum facilities are consistently staffed 6.1% higher than the state staffing average, and 11% higher than their direct market competitors. Why? Decisions relating to staffing at Plum are *always* made by the facility according to patient need. As one administrator explained,

“We are entrusted by the company to make the important decisions at the facility level. Staffing is no exception. Each facility is different and within the facility we staff according to the needs of our residents, not according to a blanket company guideline designed to minimize cost. We are given the freedom to invest in our care responsibly and the revenues we produce are the result.”

When asked what drives this deep responsibility in their operators, Mark Ballif, CEO and Co-Founder replied, “When we conceived our work in an Arbinger way, we acknowledged that if we wanted our operators to be responsible for the results they are entrusted to achieve they had to be responsible for making the decisions that impact those results. When we saw our operators as people, we no longer needed to manage their decisions.” Operators at Plum are responsible for their results because they have been entrusted with the responsibility to make the decisions that affect their results.

QUALITY CARE *and* OUTCOMES

Substandard quality of care is identified by both state and federal regulatory agencies. Deficiencies in quality of care higher than a G (G and higher deficiencies indicate that actual harm resulted to a patient) identified by the state agencies at all Plum facilities from 2008 to 2010 totaled 6 deficiencies, compared to an average of 29.25 deficiencies of the same severity at competitor companies. Additionally, federal citations at Plum facilities were 34% less than the average number of citations received by competitor companies. Not surprisingly, the quality of care and consistent clinical outcomes achieved at Plum has resulted in reducing legal claims to 93% less than the industry average in the region of their operation.

GROWTH

By the spring of 2011 Plum had grown to 23 facilities in 3 states. Plum managed revenue growth and value creation while maintaining its reputation in the local communities and markets it serves because of Plum's consistent quality of care. For this reason Plum's relationship with the regulatory agencies that oversee Plum's clinical performance is unique in the industry. Many healthcare providers have an adversarial relationship with regulatory bodies primarily because financial targets are too often met at the expenses of clinical outcomes. Conversely, Plum's relationship with the state and federal regulators is one of mutual trust precisely because Plum has discovered that investing in the highest clinical outcomes is the surest path to the industry leading financial success they have enjoyed.

For this reason, when a major competitor with 27 facilities looked to sell, Plum was the clear candidate. Not surprisingly, the regulatory agencies which approve transfer of ownership were not only obliging but eager for the acquisition to occur. In 2011 Plum more than doubled the size of the company becoming the largest and arguably the most successful skilled nursing provider in California. In 12 years Plum has grown from 85 to almost 7500 employees, and maintains a reputation unparalleled in the industry.

A REMARKABLE CULTURE

"The most interesting fact," said the initial primary investor, "was that the Arbinger approach, which became the Plum way of operating, wasn't manifest primarily in rhetoric with a lot of buzz words and empty talk, but rather in people just doing extraordinary things. I understand that it is difficult to identify the effect of a management initiative, but at Plum, what they have become can be seen in what they have been able to accomplish because of this unique culture. That is what Arbinger delivered. Because of Arbinger, Plum has a special edge such that everything they do binds them together as a closer and more collaborative team." This culture was summed up by one administrator who said, "because of our work with Arbinger, every employee at every level of the organization is invited to discover how they might be a problem for others without realizing it. This discovery often illuminates the ways they impede others' success as well as their own. In this culture of self-honesty people are able to define their own work and results by the success others are able to achieve because of them. Because this way of being together as co-workers is deeper than behavior, it invites ongoing self-motivation and self-evaluation. In fact, it is not uncommon for people to regularly ask, "how can I be better for others?"

"Since introducing Arbinger to our company, we have tripled revenue and operating income margins, decreased staff turnover to better than half the industry average, and received 93% fewer claims than the industry average in our region. All of this is the direct result of conceiving our results and doing our work in an Arbinger way."

PAUL HUBBARD, CO-CEO and CO-FOUNDER, PLUM HEALTHCARE

