Jill Roberts had hoped that the situation would not reach this point, but now she knew she had to deal with it. Roberts was the Materials Manager at Worth District Hospital in the San Joaquin Valley in California. She had been wrestling with a nagging personnel problem involving the Receiving Clerk, Pete Smith, a five-year employee in her department. She recalled her recent meeting with the CEO, John Briggs, who had been appointed about six months ago, and their discussion about her personnel, especially the exchange about Smith:

   Briggs: “Jill, you’ve got to take disciplinary action with Smith if he doesn’t follow hospital rules about arriving for work on time.”

   Roberts: “But you know that Pete has regularly received outstanding performance ratings in all areas — except punctuality. He does have good work habits, he’s dependable, and he works well with other departments. He is just a little late on most days, but he always makes it up.”

   Briggs: “We have rules here for a reason. All the managers need to enforce the rules or, before long, maybe everyone will begin to arrive late! That creates problems in other departments. Most units don’t have as flexible a work load as Materials Management.”

   Although Roberts could understand Briggs’ concern, she thought that other departments in the hospital had more serious personnel problems that deserved his attention. I wonder if he is aware of all the shenanigans going on in the Radiology Department, she thought. That’s what he ought to be concerned with. Nonetheless, Briggs’ attention was now focused on the Materials Management unit.

THE MATERIALS MANAGEMENT DEPARTMENT

The Materials Management Department was responsible for contracting, purchasing, receiving, storing, and distributing supplies and equipment throughout the hospital. Supplies were the second largest hospital expense, exceeded only by nursing salaries. In fact, Jill Roberts had been hired with the express objective of helping control rising supply costs. Roberts supervised a staff of four in the Materials Management Department (see Exhibit 1). The Purchasing Clerk ordered
supplies via electronic data entry, and the Receiving Clerk received and transferred supplies in the warehouse and entered data on the inventory computer. Two Stock Clerks checked supply levels daily in each department, refilled them as needed, and entered data on items removed from the warehouse in the computer. In addition, warehouse maintenance and tagging of supplies for individual reimbursement were responsibilities of all the department staff. Although much of the work of inventory maintenance was computerized, offloading trucks, tagging items, stocking shelves, and refilling department supply levels required a great deal of manual labor.

The Materials Management Department was housed in a detached warehouse behind the hospital. The lack of heat in the winter and air conditioning in the summer could make working conditions quite unpleasant, unlike those in the hospital building. The summer heat in the San Joaquin Valley could reach 116 degrees, which made work in the warehouse especially difficult.

Rick Jackson, the Purchasing Clerk, had worked for the hospital for over ten years when Roberts arrived. Jackson had proved to be highly capable in his job although he was somewhat inflexible and tended to do things “by the book.” He insisted that rules were there to be followed, and he was careful to point out instances where others were not complying. He was a meticulous worker and devoted to the hospital where he had worked since he was 17. Although comfortable with the status quo and not always first to try something new or different, Roberts had found him willing to work with her to save money on supplies and seek less expensive alternatives for hospital needs. Jackson routinely arrived earlier and occasionally worked later than scheduled, but he nonetheless always clocked in at 8:00 a.m. and clocked out promptly at 4:30 p.m. He did not receive pay for this time “off the clock.” Roberts had pointed out to him that this was against hospital rules because, should he be hurt on the job, he would not be eligible for workman’s compensation and the hospital could become liable in other ways. Despite her concerns, Jackson continued to come in early, claiming that this was the only way he could get his work done, uninterrupted by vendor calls or by departments calling for supplies.

Soon after her arrival, Roberts had recruited Pete Smith from the Housekeeping Department because of his reputation as a dependable, hard worker. He began as a Stock Clerk and proved to be very reliable and dependable, apart from his arrival times, and was later promoted to the position of Receiving Clerk. The promotion was primarily one of status and some increase in hourly wage. Roberts monitored incoming supplies with care, finding shortages in shipping receipts that saved the hospital both time and money. His responsibilities as Receiving Clerk included the management of the storage area and the warehouse, and Smith had been able to implement changes that made supply picking and delivery more efficient.

Two Stock Clerks, Louise Carson and John Glass, were responsible for checking and refilling the supply levels in each department and for filling other orders as needed. They both were willing to help with other tasks whenever necessary. In addition, they were responsible for customer satisfaction with the department’s services. If any departmental staff had problems with supplies or deliveries, the clerks went to the department to discover alternatives and find solutions, referring major problems to Roberts.

The nature of the work in the warehouse allowed flexibility in scheduling workers, to some extent. She scheduled the staff to begin at 8:00, 8.30, or 9:00 a.m. to ensure that the Materials Management would be covered until 5:30 p.m. She felt that staff should be able to have some amount of choice about when they started their shift. But once they decided on their schedule, she asked that they stick to it unless they officially asked to change. The hospital had no policy or plans for flextime.
Roberts disliked the fact that Smith was 7 to 10 minutes late for work three or four times a week, but he always stayed to make up the lost time. In addition, Smith was rarely absent and seldom requested sick leave. In reality, his tardiness did not usually affect the departmental workflow, since the trucks rarely arrived for receiving before 9:00 a.m. However, there was paperwork to be completed, so Smith was not idle. She had offered to change his arrival time from 8:00 to 8:30, but Smith preferred the 8:00 time so he could end his workday before 5:00 p.m. Smith’s habitual lateness was an irritant to Rick Jackson, who periodically remarked to Roberts about it. When Roberts discussed the issue with Smith, for a few days he would report on time, but the regular pattern would soon re-emerge. Curiously, when Roberts questioned him about the reasons for his lateness, Smith gave vague responses and was unable to say why he had difficulty arriving at work on time. During his latest performance review, she decided to pressure him. Roberts brought him into her office:

Roberts: “Pete, why are you late? You only live a few minutes away. You do your work well. Why is this a problem? Is there something you have to do in the mornings that keeps you from being on time?”

Smith (shrugged): “I dunno. I’m just late.”

Unfortunately, this was all that Roberts could get him to say. He had not been particularly articulate in the past, and pressuring him didn’t help.

Roberts: “Can we do something to help? Can I buy an alarm clock for you?”

Smith: “I have one.”

She decided to drop it. She felt she wasn’t making any progress at all and, she reasoned, it wasn’t a big deal.

The hospital required annual evaluations of employees, judging them on task performance using fifteen items that included such factors as goals reached, obedience to supervisory directives, providing required reports, keeping health requirements current, and general attendance behaviors, which included tardiness. Hospital policy stated that each item counted equally. A five-point rating scale was used with 1 – failing, 2 – poor, 3 – average, 4 – good, and 5 – excellent. Employees who received an average score above 3.7 on the 15 items (the 3.7 performance standard had been set by the CEO and the Board) received a percentage increase based on the pay increase pool budgeted for the year. The departmental clerks, as well as Roberts, herself, regularly received favorable evaluation scores and were awarded pay raises annually. Although Roberts regularly rated Smith as only a 2 or 3 on general attendance behaviors, all of his other scores were high so this did not substantively lower his overall rating, thus he was eligible for yearly raises. During the annual performance reviews, Roberts had attempted to persuade Smith to report for work on time, but it had not made a lasting impression. Although Roberts was not happy with the situation, in the total scheme, Smith’s problem seemed a minor issue.

The Materials Management was a support unit, not involved directly in patient care like nursing or radiology. This gave the department a secondary status in the eyes of many of those who served the patient directly. Over the years, these factors had contributed to an “us versus them” mentality, or Materials Management employees against the front-line staff, which Roberts had worked hard to reduce, with some success. Although from time to time individual personality issues surfaced within the department, on the whole Roberts was pleased that she had a stable, productive work group that could function well even on the rare occasions when she was absent on vacation or sick leave. With the assistance of her staff, she had been able to exceed the cost containment goals set by each of the previous CEOs and had consistently
received strong performance appraisals. In fact, the CEO, Briggs, told her recently that he was pleased with her record of cost containment.

**CHALLENGING TIMES FOR WORTH DISTRICT HOSPITAL**

Worth District Hospital was a small, rural public hospital in the San Joaquin Valley in California. It was located 35 minutes from a large city (population 500,000), which had four large, multi-specialty hospitals, each with over 300 beds. Since its establishment in the mid 1950s, the Worth Hospital had grown to a 65-bed acute care hospital with a small skilled nursing unit for long term care and rehabilitation. It had a detached public clinic, a small surgery unit and an emergency room that, along with the inpatient services, was supported by limited assisting services, such as radiology (x-ray), dietary (food), maintenance, housekeeping, finance, and materials management. Worth Hospital had about 250 employees, including full-time and part-time workers, and was not unionized (see the organizational chart in Exhibit 2).

Worth Hospital management faced serious challenges. The hospital had high fixed costs (e.g., facility, equipment, and baseline professional personnel), but the patient populations had declined in recent years, limiting its operating efficiencies. Rather than coming to Worth Hospital for their care, most of the residents of the area went to the larger metropolitan hospitals that offered a wider range of care.

Worth also faced shrinking revenues from the results of cost-containment efforts of insurance companies under managed care programs, such as limiting reimbursements to below supply costs for some surgical procedures. Hospitals are dependent almost solely upon third-party payers (generally insurance companies and the federal and state governments) for payment of charges for patient care. The low levels of reimbursement had severely restricted hospital income. Indeed, for the last five years, expenditures had exceeded revenues. Worth Hospital was only one of approximately 45 small district hospitals in the Valley struggling with the decline in revenue, and five hospitals had closed in recent years.

The ongoing financial problems at Worth Hospital had caused some layoffs and other cost-cutting measures, resulting in low morale throughout the hospital. Staff members were sent home when there was not enough work to keep them busy, primarily when the hospital census fell below a certain level designated by top management. The Materials Management Department staffing level was relatively unaffected by decreased census, as the clinic, surgery department, and emergency room were generally busy with outpatient services even when inpatient census was low.

The human resource function at Worth consisted of one staff member who came into the job without professional training and little experience. Because of the limited human resource support, department managers sought assistance and guidance from their colleagues in dealing with discipline and other personnel problems. One constant worry of the managers was attendance and promptness. In the time-dependent hospital environment, tardiness and absences cost a considerable amount of money for some departments, particularly those directly involved in patient care. For example, overtime paid to nursing staff covering those late or absent could be prohibitive, as they were the highest paid.

The Radiology Department had a particular problem. Staff “covered” each other for tardiness, clocking each other in and out, a practice that the hospital rules stated was grounds for termination. This behavior was common knowledge throughout the hospital, and Roberts and other managers had discussed it with the Radiology Manager. However, when notified, he
refused to discipline those caught, as he had no replacements for them. In addition, his department had vacancies that could not be filled; qualified radiology technicians were not interested in working at small rural hospitals because of both the location and the pay.

In general, Worth Hospital was disadvantaged in its ability to attract well-trained medical professionals because of the limited shopping and entertainment in the community, a lack of amenities at the hospital and in the local area, and, especially, the pay that was lower than for hospitals in the nearby larger city. Those with higher educational qualifications found that opportunities at Worth were limited due to a lack of growth and little turnover in established positions.

THE NEW REGIME

For many years, the five-member hospital board had struggled with the financial challenge of running a hospital in an environment of managed care with reimbursement practices limiting both coverage of medical services and levels of payments. The board selected the chief executive of the hospital who was given a three-year contract with an option to renew thereafter. Although management salaries were not particularly high, sometimes well-qualified upper managers in metropolitan hospitals would seek the CEO position at smaller rural hospitals to gain experience, expecting to return to a top executive position at a larger hospital. The board had refused to renew the past chief executive’s contract, mainly because of his inability to accomplish the difficult if not impossible tasks of controlling rising costs and decreasing revenues. The elected board members were greatly concerned about the financial condition of the hospital, but, without experience in the industry, relied on the chief executive to remedy the problems that had developed over several years.

The new chief executive, John Briggs, held a graduate degree in management and had been Finance Manager in a major hospital for six years, where he had gained a reputation for initiating cost controls. In general, the Worth Hospital staff were pleased to have such an apparently well-qualified person at the top, particularly since the last two chief executives were generally considered failures in both financial and staff management areas. The gossip was that the new CEO had a different approach, and the chief operating officer (COO) and the chief financial officer (CFO) had some disagreements with him. They both resigned soon after Briggs’ appointment. Briggs hired a new COO and a new CFO from the staff at his previous hospital.

The new CEO wasted little time in attempting to tackle the financial and operating problems facing Worth District Hospital. At the first meeting with department managers, Briggs addressed several issues that concerned him. It became clear from his tone that he had not anticipated the severity of the problems facing the hospital:

This hospital is in serious financial trouble. We need to make massive, immediate changes in the way we do things around here. We are going to have to do more with less and get a higher level of productivity from the staff. As one of my first projects, we are going to review hospital personnel, identify unsatisfactory performers, and take actions to terminate them. I will audit all of the performance evaluations on everyone.
Pete Smith’s evaluation was due during the second month of his arrival, so Roberts took the paperwork to him for his review and signature. She had rated Smith as a 4 or 5 on most items, except for attendance and tardiness, where she rated him 3, with the explanation that he was late three or four days a week.

Roberts explained to Briggs that Smith was always just a few minutes late, but that he was rarely absent without cause and always made up the time. She also emphasized his excellent work and his ability to maintain high levels of productivity.

Briggs insisted that Smith conform to the rules, advising that he would be suspended if he was late again and fired if that did not work. Roberts responded by pointing out that her department had been successful in saving the hospital money and that firing Smith would not benefit the hospital. Briggs was unmoved. In an effort to shift attention to what she thought was a far more serious problem, Roberts asked whether similar steps were being taken in other departments, particularly in the Radiology Department. Briggs said that he was unaware of the situation but would check into it.

Roberts left his office knowing that her disagreement with the CEO was unresolved. She felt that firing Smith was not a solution. She wasn’t sure why Briggs had seemingly targeted the Materials Management Department for his first project. Maybe this was his way of establishing that he was the boss and that things were going to change, she speculated. She was sure that Briggs knew about the problems in Radiology, but thought that he was probably using Smith and the Materials Management Department — a support unit — as an example.

In her meeting with Smith, Roberts was candid about expectations for his work habits. If he wished to continue working at the hospital, he was told that he would have to report at the scheduled time. Roberts again offered to change the time from 8:00 to 8.30 a.m., but he refused the offer.

The next morning, when Smith was 10 minutes late, Roberts conferred with Briggs. Roberts had never formally disciplined Smith because she had not considered the problem to be sufficiently serious. Since Smith had never been formally disciplined, she insisted that the hospital policy and procedure should be followed, and he should have two written warnings before being suspended. She pointed out that it would prevent accusations of unfair dismissal later. Reluctantly, Briggs agreed. Roberts wrote up the incident, discussed the problem with Smith, and both signed the disciplinary memorandum.

The following morning, he was 10 minutes late again. Roberts again went through the disciplinary actions. Smith reported on time for the next two working days. On the third day, he was 7 minutes late. Roberts was stunned at his inability to arrive to work on time, even under such pressure. She sincerely liked him as a person, and there was no question that he was a good worker. If she suspended him, she knew there would be other problems. How would she replace him on short notice? How long would it take to train a new receiving clerk? Also, if he was gone, she would be faced with doing a lot of the receiving duties herself, including offloading trucks! And how could she explain to her workers that Smith was being suspended when they all knew that the Radiology staff routinely violated the rules without repercussions?

As Roberts walked back from the vending area to her office with a Coke in her hand, she felt the June summer sun bearing down. “Boy, it is going to be hot soon,” she thought, “and what a time to recruit a new Receiving Clerk!” But, as she thought about what to do, she remembered her conversation with Briggs.
Exhibit 1.

Organizational Chart of Materials Department

Materials Manager
Jill Roberts

Purchasing Clerk
Rick Jackson

Stock Clerks
Louise Carson and
John Glass

Receiving Clerk
Pete Smith
Exhibit 2.

Hospital Organizational Chart

- Board of Directors (5)
  - Chief Executive Officer
    - Chief Operations Officer
      - Nursing
      - Radiology
      - Dietary
      - Human Resources
      - Social Services
    - Chief Financial Officer
      - Accounting
      - Maintenance
      - Housekeeping
      - Medical Records
      - Administrative Services
    - Materials Manager