

REPORTING ON

# WHAT WORKS FOR CITIES

## Will Hospitals Become the New Vanguard in Urban Economic Development?

The importance of hospitals to our quality of life extends well beyond the healthcare services they provide. They are also major drivers of economic growth. This report expands upon “New Incentives and Opportunities for Hospitals to Engage in Local Economic Development,” an article by Kim Zeuli, ICIC, published in the Winter 2015 issue of IEDC’s *Economic Development Journal* (Volume 14, Number 1).<sup>1</sup>



Hospitals are particularly important to inner cities. They create more inner city jobs than any other sector.<sup>2</sup> Hospitals have added 190,000 jobs in inner cities since 2003, and they are the largest employers in 77 of the largest 100 inner cities.<sup>3</sup> They also create accessible jobs. Two-thirds of healthcare jobs require an Associate's degree or less.<sup>4</sup>

“ TWENTY PERCENT OF THE NATION'S 1,250 LARGE, NONPROFIT HOSPITALS ARE LOCATED IN AN INNER CITY.”<sup>5</sup>

A number of these hospitals already engage in robust economic development initiatives in their communities. Their commitment is motivated by their mission to public health and, in an increasingly competitive industry, their self-interest in creating conditions that help attract and retain employees and increase patient satisfaction. Over the last fifteen years, the healthcare field has also explored the potential impact of upstream investments, such as affordable housing and poverty reduction, which address the social determinants of health.

In this issue of *Reporting on What Works*, we highlight four hospitals from across the country that serve as models for other institutions that now may be reconsidering their roles in their communities in response to these trends and new community incentives in the Affordable Care Act. Our focus in this report is on hospitals that are implementing local purchasing and workforce development programs. It is our hope that their efforts will provide guidance and inspiration for other hospitals looking to create significant community benefits and expand their role as healthcare catalysts.

“ SOME HOSPITALS HAVE BEEN VERY PROACTIVE ABOUT THINKING ABOUT COMMUNITY BENEFITS,” SAYS PHILIP GONZALEZ, A PROGRAM DIRECTOR FOR THE HEALTHCARE ADVOCACY NONPROFIT COMMUNITY CATALYST. “IN OTHER CASES, HOSPITALS HAVE NOT WORRIED MUCH ABOUT COMMUNITY BENEFITS, AND HAVE DONE WHATEVER IS CONVENIENT. THEY WILL FIND THAT THEY HAVE TO BE MUCH MORE PROACTIVE.”<sup>6</sup>

## Bon Secours Hospital: Baltimore, Maryland

For decades, Bon Secours has been a strong anchor in Baltimore and especially in its distressed West Baltimore neighborhood, which was the setting for much of the television crime drama *The Wire*. While the hospital's activities link back to its history as a charitable institution founded by nuns, the hospital had also found that its immediate environment was making it hard to recruit top-notch staff.<sup>7</sup> More recently, the hospital also began to focus more on social determinants of health. According to Edward Gerardo, Director of Community Commitment and Social Investments at Bon Secours Health System, “It's in everybody's best interest to raise the standard of living in our communities.... If I'm going to try to keep people healthy, I've got to address social determinants. The CEO of Bon Secours wants to make sure we're doing things to provide people the opportunity to stay healthy.”<sup>8</sup>

As just one illustration of Bon Secours' community initiatives, the hospital spent 12 percent of its total operating expenses on community benefits in 2012. By comparison, most hospitals in Maryland devote between two percent and six percent of their operating expenses to community benefits.<sup>9</sup>

The hospital's local spending supports the growth of West Baltimore businesses. In 2011, six percent of Bon Secours' total procurement, or \$2.4 million, went to 87 suppliers

### Map 1: Bon Secours Hospital and Baltimore's Inner City



Source: ICIC; American Community Survey 2007-2011



located in its West Baltimore neighborhood.<sup>10</sup> According to a study commissioned by the hospital, that \$2.4 million generated another \$302,568 in indirect economic impact through the purchases made by Bon Secours' local vendors from other local companies.

For the City of Baltimore as a whole, including the West Baltimore neighborhood, Bon Secours spent \$14.9 million, or 37 percent of its total procurement, with 337 local suppliers.<sup>11</sup>

Like many hospitals, Bon Secours uses national purchasing organizations to help obtain favorable pricing. However, contracts with such organizations can make it difficult to purchase locally. In 2011, about four percent of Bon Secours' procurement dollars went to women or minority-owned vendors. Bon Secours decided it made good business sense to increase their spending with local, minority, and women-owned businesses and worked with new diversity vendors to help achieve that goal.

To find appropriate vendors, the hospital met with local diversity councils and other nearby anchors. Eventually, Bon Secours had the most success finding new diversity vendors by using a database provided by Equifax, which allowed the hospital to search within a 10- or 20-mile radius for different categories of products and services.

Bon Secours was able to identify about \$2 million that it believed could be converted to diversity vendors. If successful, that would bring the hospital's local diversity spend up to about nine percent of its total. In the first few months of its efforts to shift procurement, the hospital increased its local diversity spend to six percent from four percent. Now Bon Secours is considering creating its own registry on its website to better communicate with and reach out to potential vendors.

## The University of Texas MD Anderson Cancer Center: Houston, Texas

In 1989, the State of Texas Historically Underutilized Business (HUB) legislation was passed, prompting Houston's MD Anderson Cancer Center to initiate a supplier diversity program. Eventually, the program evolved to include federal contract compliance under the U.S. Small Business Administration (SBA) as part of the hospital's government contracts. Marian Nimon, Associate Director and Small Business Liaison Officer with MD Anderson, says

the SBA request provided a "kickstart" to the hospital's efforts to use more small vendors. The hospital has recognized many benefits to the program: "It helps both the hospital with new qualified suppliers as well as supporting the local economy."<sup>12</sup>

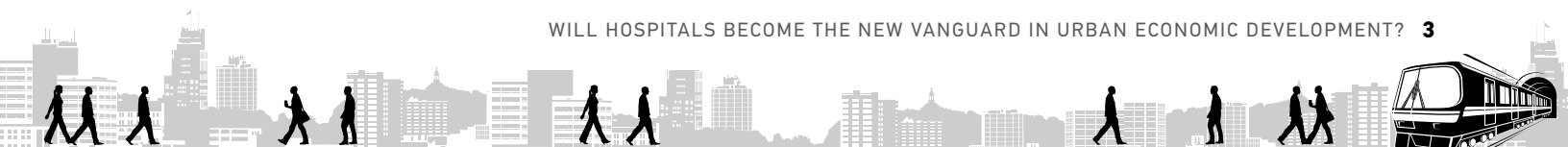
Texas defines a HUB as a business that is within defined size guidelines and is at least 51 percent minority or women-owned.<sup>13</sup> By 2013, MD Anderson was doing about \$93.1 million, or about 8.6 percent, of its total procurement spending with HUBs. Other small businesses account for approximately another four to five percent of their total spend.

### WHAT IS A HISTORICALLY UNDERUTILIZED BUSINESS (HUB)?

To qualify for Texas's statewide HUB program, a business must be a for-profit entity that is based in Texas, is at least 51 percent minority, woman or service-disabled-veteran owned, and falls under SBA-set size standards. HUB certification is free and is valid for four years. The business is then registered in the state's publicly-searchable HUB Directory, which state agencies and other organizations use to find potential vendors.<sup>14</sup> As of December 3, 2014, there were 13,371 HUBs in the directory, which represent just over two percent of all Texas establishments.<sup>15</sup>

MD Anderson uses a variety of strategies to encourage HUBs and other small businesses to compete for its business. It consistently solicits bids from them, using advocacy groups and small business organizations to expand its reach, and promotes opportunities at networking events outside of MD Anderson. It invites HUBs and other small businesses to give presentations showing that they have the capacity to do business with the hospital.<sup>16</sup>

HUBs and other small businesses are provided with information about how to do business with the hospital, how to get registered as a supplier, and relevant contacts within the hospital's supply chain management group. MD Anderson provides on-campus training to new, would-be suppliers, detailing the competitive bid process and providing information about the needs of procurement officials.



In some areas, MD Anderson has been challenged in finding HUBs or other small businesses that can fulfill its needs. A breakdown of the hospital's 2013 spending with HUBs<sup>17</sup> shows the disparity of spending in different procurement categories, and the relative difficulty of finding viable HUB vendors:

- Building construction: \$14.1 million, or 24.1 percent of total building construction spending
- Special trade construction: \$7.7 million, or 14.7 percent of total special trade construction spending
- Professional services: \$9.7 million, or 66.1 percent of total professional services spending
- Other services: \$27.6 million, or 11.7 percent of total other services spending
- Commodities: \$34.1 million, or 4.9 percent of total commodities spending

"Our historically underutilized business spend is very good," says Nimon, "but our area of opportunity is narrow. MD Anderson is highly specialized as a cancer research and treatment center. Most of our pharmaceutical spending is on oncology drugs."<sup>18</sup>

That means Nimon and her staff have to get creative. Furniture is a good example, she says. "Some furnishings may be Steelcase, and the manufacturer's reps must sell that brand. But other items such as chairs are more accessible." If she sees no opportunity for a small diverse supplier to bid on a high-value item, "maybe there's an opportunity when it comes to delivering it."<sup>19</sup>

To help smaller companies develop the capacity to become suppliers, MD Anderson also has a mentor-protégé program, which pairs HUBs or other small businesses with larger, more established suppliers. In the case of Summus Industries, a HUB in technology and business services, MD Anderson arranged for Cardinal Health, one of the world's largest manufacturers and distributors of medical supplies, to become a mentor. Cardinal assisted Summus in revising its marketing materials, strategic plan, elevator pitch and web site. It also helped Summus change its business model and develop a succession plan. To date, more than 35 HUBs have participated in MD Anderson's mentoring program.

Doing business with small, diverse suppliers puts money back into the local community, says Nimon, strengthening the local tax base and eventually, benefitting the hospital as well. Nimon also says that using small, diverse suppliers helps the hospital have a portfolio of the most dedicated

suppliers, which is a must in order to provide for its patients. "The smaller suppliers embrace our institution," she says. "They're not just trying to make commission."<sup>20</sup>

## Health Careers Collaborative of Greater Cincinnati: Cincinnati, OH

As noted above, hospitals are major employers in their cities. However, they don't always hire residents from their surrounding neighborhoods, which is critical to economic development, especially when they are located in an inner city. Even when anchor organizations have the will to hire more local residents, this goal is often difficult to achieve. Portions of the local labor force may not have the necessary skills for many healthcare positions.

The Health Careers Collaborative of Greater Cincinnati (HCC) seeks to address this challenge. It runs programs enabling both current healthcare employees and unemployed workers to earn Associate's degrees and certificates in health-related fields. These programs allow individuals access to career tracks that may not have been available to them before, and also help alleviate the region's shortages of skilled healthcare workers.<sup>21</sup> HCC currently includes eight partners, including University of Cincinnati Academic Health Center (UC Health) and four other healthcare organizations that collectively represent half the healthcare jobs in the region. A recent analysis shows that both the Associate's program and the certificate program provide significant return on investment to the participating anchors.

### ABOUT THE HEALTH CAREERS COLLABORATIVE OF GREATER CINCINNATI (HCC):

HCC was initially started in 2003 by a hospital and two universities to strengthen workforce training in the health industry, and has since grown into an employer-led partnership that now includes five hospitals and healthcare organizations in Cincinnati: University of Cincinnati (UC) Health, Cincinnati Children's Hospital Medical Center, TriHealth, Mercy Health, and Home Care by Black Stone. The employers partner with local community colleges and universities to provide the training. The hospitals annually provide \$1 million in funding to HCC, and it also is funded by grants from the Department of Labor, Employment & Training Administration American Recovery and Reinvestment Act (ARRA), the Greater Cincinnati Workforce Network, and the United Way of Greater Cincinnati.<sup>22</sup>



Ninety employees participated in HCC's degree programs between 2005 and 2013, at a cost to their sponsoring institutions of approximately \$1.82 million.<sup>23</sup> These costs were primarily for tuition and for filling open positions when participants were able to move ahead in their careers. The program benefits totaled approximately \$2.04 million, mostly in decreased recruitment costs.<sup>24</sup>

HCC's certificate training program had even more dramatic results. Between 2005 and 2010, 525 people completed the program. The net cost per person was \$102, but the net benefit was \$4,869, mostly because of lower turnover and recruitment costs. The total benefit, across the program, was \$2.6 million. That does not include other ancillary benefits, which HCC's members believe are substantial: improved job performance among participants, increased diversity, and progress toward the hospitals' community service mission.<sup>25</sup>

The collaborative has embraced a number of innovative tactics to ensure that students who enter the certification and degree programs are able to complete them. Before enrollment, employees are screened and tutored to make sure they're adequately prepared to tackle academic coursework. The employers pre-pay tuition, so employees don't have to carry the costs of tuition while they're waiting for reimbursement. Also, participants get bumped to the top of waitlists for clinical requirements, which generally have a one- to two- term wait. That increases retention in the program and encourages students to finish.

## Martin Luther King, Jr. Medical Campus: Los Angeles, CA

Communities that are building a new hospital have the opportunity to be intentional about the role of that new anchor in their community.

The reopening of Martin Luther King, Jr. Medical Campus in Los Angeles was one such instance. The hospital, first built after the race riots of 1969, had long been seen as a community-focused institution. Unfortunately, by the 1990s, it had a reputation for substandard care, and it appeared that the hospital would have to be shut down.

Fortunately, county supervisor Mark Ridley-Thomas recognized the importance of the hospital to the community, says Carolyn Hull, Executive Director at Los Angeles County Economic Development Corporation / L.A. PLAN. "He saw that even if the hospital came back and were

**Map 2: Martin Luther King, Jr. Medical Campus and the Inner City of Los Angeles**

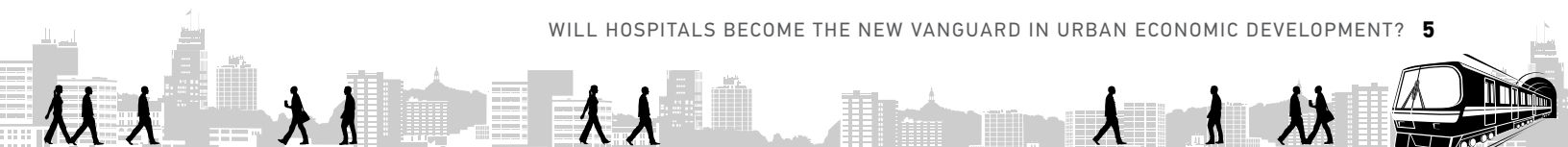


Source: ICIC; American Community Survey 2007-2011

redeveloped, it would be a failure if the community couldn't participate in the new economic development that would be created."<sup>26</sup> By 2010, a master plan for the area and a technical assistance report had been completed, but, says Hull, "There was no road map for how this would be implemented."

To help bring its plans to reality, the hospital working group turned to ICIC. ICIC applied its anchor institution strategic framework to analyze opportunities for the hospital to invest in its community. Key stakeholders were convened to develop a shared understanding of priority projects and ICIC developed an implementation plan that included priorities for workforce development and local purchasing to support small business growth. The plan is still in its first phase – Hull points out that it's hard to decide on a detailed procurement strategy, for example, when the hospital has yet to hire procurement officers.

In workforce development, the first step was to create a working group and to select an employer champion (this was accomplished when the hospital recently hired a head of human resources). The hospital will examine each occupation that could potentially be included, identifying participating employers and potential funders. The hospital will also identify community organizations to assist in training and to develop a curriculum for each occupation.



In purchasing, the hospital has agreed to work closely with other local institutions, convening procurement task forces made up of representatives from each. By looking at the experience of other institutions and finding categories of spending in which group purchasing organizations are less dominant, the task force should be able to identify a short list of target categories in which it would make sense to try to purchase locally, and to identify high-potential suppliers in each of those categories. It can then develop supplier support and development programs that will be ready when the hospital's spending ramps up.

## Conclusion

Across the country, innovative hospitals are taking new approaches to the creation of community benefits, spurring economic growth and helping to create healthy communities with a variety of initiatives. In some cases, that means imagining a new medical campus with an eye toward creating shared economic opportunity. In others, it's about innovations that make workforce development programs more appealing and more successful, or about committing institutional purchasing dollars more mindfully.

In all cases, these groundbreaking institutions are redefining their roles as healthcare providers. By making valuable and long-lasting contributions to the social, economic, and physical health of their neighborhoods, they're helping to ensure their own economic futures, as well as the health of their communities.

OCTOBER 2015

## ABOUT ICIC

ICIC is a national, nonprofit research and advisory organization founded in 1994 by Harvard Business School Professor Michael Porter. ICIC's mission is to drive economic prosperity in America's inner cities through private sector investment that leads to jobs, income and wealth creation for local residents.

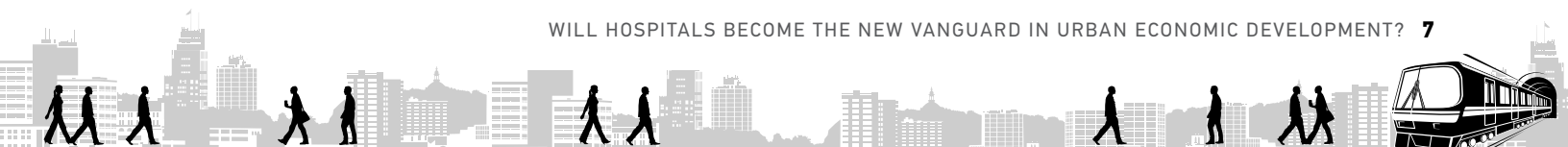
## ACKNOWLEDGEMENTS

*ICIC would like to thank the following people for their contributions to this report: Kim Zeuli and Lena Ferguson, ICIC; Kimberly Weisul, One Thing New; Edward Gerardo, Bon Secours Health System; Marian Nimon, MD Anderson; Carolyn Hull, Los Angeles County Economic Development Corp.; and Philip Gonzalez, Community Catalyst.*



## Endnotes

- <sup>1</sup> The article is available on ICIC's website ([http://www.icic.org/ee\\_uploads/pdf/Zeuli\\_EDJ\\_Winter2015\\_final.pdf](http://www.icic.org/ee_uploads/pdf/Zeuli_EDJ_Winter2015_final.pdf)) and, for IEDC members, on IEDC's website (<http://www.iedconline.org/documents/members-only/new-incentives-and-opportunities-for-hospitals-to-engage-in-local-economic-development>).
- <sup>2</sup> Source: US Census Bureau Zip Code Business Patterns, 2011; ICIC's SICE database; ICIC analysis.
- <sup>3</sup> Source: American Hospital Association Annual Survey data, 2011; US Census Bureau Zip Code Business Patterns, 2011; ICIC's SICE database; ICIC analysis.
- <sup>4</sup> Source: Bureau of Labor Statistics, 2012.
- <sup>5</sup> Source: American Hospital Association Annual Survey data, 2011; US Census Bureau County and Zip Code Business Patterns, 2011; ICIC's SICE database; and ICIC analysis.
- <sup>6</sup> Philip Gonzalez, telephone interview, June 16, 2014.
- <sup>7</sup> David Zuckerman et al., *Hospitals Building Healthier Communities: Embracing the Anchor Mission*, March 2013, <http://community-wealth.org/sites/clone.community-wealth.org/files/downloads/Zuckerman-HBHC-2013.pdf>.
- <sup>8</sup> Edward Gerardo, telephone interview, June 16, 2014.
- <sup>9</sup> Sarah Gantz, "On a Mission: Bon Secours Hospital Spends Big on Its Community as It Barely Breaks Even," *Baltimore Business Journal*, September 27, 2013, <http://www.bizjournals.com/baltimore/print-edition/2013/09/27/on-a-mission-bon-secours-spends-big.html?page=all>.
- <sup>10</sup> Richard Clinch, *The Economic and Community Impact of Bon Secours Health System Operations on the City of Baltimore 2011*, 4, October 2011, [http://www.jacob-france-institute.org/documents/bonsecours\\_report%20final\\_2011.pdf](http://www.jacob-france-institute.org/documents/bonsecours_report%20final_2011.pdf).
- <sup>11</sup> Clinch, *The Economic and Community*, 10.
- <sup>12</sup> Marian Nimon, telephone interview, July 2, 2014.
- <sup>13</sup> "Historically Underutilized Business (HUB) Program," Window on State Government, accessed December 3, 2014, <http://www.window.state.tx.us/procurement/prog/hub/>.
- <sup>14</sup> Statewide Historically Underutilized Business (HUB) Program, *Texas Is Your Business*, accessed December 3, 2014, [http://www.window.state.tx.us/procurement/prog/hub/hub\\_brochure.pdf](http://www.window.state.tx.us/procurement/prog/hub/hub_brochure.pdf).
- <sup>15</sup> Source: Texas HUB directory (<https://mycpa.cpa.state.tx.us/tpasscml-search/index.jsp>), accessed December 3, 2014; US Census Bureau County and Zip Code Business Patterns, 2011; ICIC's SICE database; ICIC analysis.
- <sup>16</sup> "What Works: Hospital Procurement Strategies That Support Small Businesses," Inner City Exchange (blog), entry posted May 7, 2014, <http://www.icic.org/connection/blog-entry/what-works-hospital-procurement-strategies-that-support-small-businesses/bp>.
- <sup>17</sup> Ibid.
- <sup>18</sup> Nimon, interview.
- <sup>19</sup> Ibid.
- <sup>20</sup> Ibid.
- <sup>21</sup> "Health Careers Collaborative of Greater Cincinnati," Partners for a Competitive Workforce, <http://www.competitiveworkforce.com/Health-Care.html>.
- <sup>22</sup> "Funding Sources," Health Careers Collaborative of Greater Cincinnati, <http://www.healthcareerscollaborative.com/resources/funding-sources>.
- <sup>23</sup> "Health Careers Collaborative of Greater Cincinnati," Partners for a Competitive Workforce, <http://www.competitiveworkforce.com/Health-Care.html>.
- <sup>24</sup> Joel Elvery and Christopher Spence, *Greater Cincinnati Workforce Network: Health Careers Collaborative of Greater Cincinnati, Return on Investment Report 2011*, <http://www.workforce-ks.com/Modules/Show-Documents.aspx?documentid=2154>. Source is for all statistics in section.
- <sup>25</sup> "Health Careers Collaborative of Greater Cincinnati," Partners for a Competitive Workforce.
- <sup>26</sup> Carolyn Hull, telephone interview, June 25, 2014.





ICIC launched the ***What Works for Cities*** campaign to engage city stakeholders and address some of the nation's greatest urban economic and business development challenges. Through reports, webinars, convenings and case studies, ***What Works for Cities*** brings to light initiatives that are successfully growing industry clusters, strengthening business environments and supporting the growth of individual firms. Learn more at [whatworksforcities.com](http://whatworksforcities.com).

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