

# TRADING PLACES

## *Two Hospitals Adjust to a Sponsorship Swap*

**T**ough times call for creative solutions. Amid all the mergers, acquisitions, and network formations, one innovative and perhaps unique arrangement emerged in 1993, when two St. Louis-based Catholic healthcare systems traded hospitals to strengthen their ability to compete in increasingly integrated markets. Even though the hospitals were transferred from one Catholic system to another—a relatively easy adjustment compared with many new alliances—their administrators and employees still had to deal with the inevitable trauma of change.

### **BACKGROUND**

On December 31, 1993, the Carondelet Health System transferred sponsorship of St. Joseph Hospital, Kirkwood, MO (a suburb of St. Louis), to SSM Health Care System in exchange for SSM's St. Mary's Hospital in Blue Springs, MO. The trade made sense from a geographic perspective. St. Joseph was Carondelet's only St. Louis hospital, and it was isolated from all other system members. Likewise, St. Mary's was the only facil-

ity in the Kansas City area belonging to the SSM Health Care System (SSMHCS). Since Carondelet had a hospital in Kansas City, the "swap" brought St. Mary's closer to another member of the Carondelet system (Saint Joseph Health Center), strengthening both of the institutions' positions in the competitive Kansas City market. And the swap allowed St. Joseph of Kirkwood to join a system with a strong presence in St. Louis.

"One thing that spurred this was all the mergers taking place in the past three years," said Michael Zilm, president of St. Joseph of Kirkwood. "Three years ago, patient volume was declining for the first time in St. Louis, and hospitals were aligning with one another, and we were determined to be proactive. Although the hospital was doing well, we didn't see a good future as a stand-alone in St. Louis."

Zilm said that St. Joseph's administrators began consulting with the board of trustees and the Sisters of St. Joseph of Carondelet (the system's and hospital's sponsor). They decided that a sale of the hospital was the best approach.

**Summary** On December 31, 1993, the Carondelet Health System transferred sponsorship of St. Joseph Hospital, Kirkwood, MO, to SSM Health Care System in exchange for SSMHCS's St. Mary's Hospital in Blue Springs, MO. Even though both systems and hospitals involved in the deal were Catholic, the hospitals' staffs had to adjust to cultural changes.

After the letter of intent was signed at St. Joseph, the lines of communication were kept open throughout the transition. Assurances and explanations of the benefit program alleviated major tension and removed fears. Information on benefits became the essence of an employee newsletter that the hospital

put out every few weeks.

St. Mary's Hospital chief executive officer also placed a high value on communications. At St. Mary's, in answering employees' questions, administrators found uncertainty gave way to relief when they learned the hospital would remain Catholic and not-for-profit. Still, employees experienced a period of anxiety.

Employees at both hospitals were more concerned about losing their jobs than they were about the transfer of sponsorship. Despite this uncertainty, employees at both hospitals feel the recent trade to another system has strengthened their position.

"We then identified SSMHCS as the system to deal with, since they had a very similar culture. The medical staff was also comfortable with their style," Zilm continued. Once that decision was made, St. Joseph's management stayed out of the negotiations. "It was all done at the system level, between SSMHCS and Carondelet," he said. "Because of the time involved, the rationale was that if top hospital management was involved, hospital operations could begin to deteriorate."

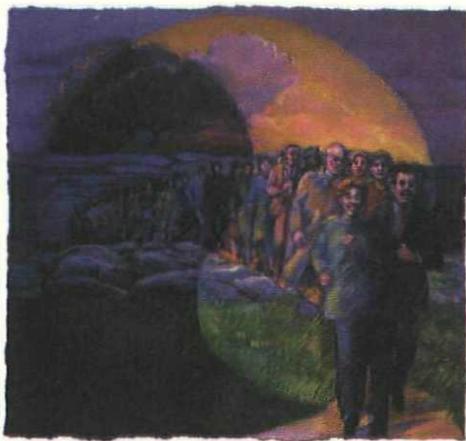
At the other side of the state, N. Gary Wages, St. Mary's CEO, noted that the Blue Springs facility was concerned about who it was going to network with. "How was an institution going to be supported by a corporate system that has needs around the country?" Wages wondered. St. Mary's and SSMHCS decided to look at some alternatives. "SSMHCS and Carondelet were probably on the same wavelength, going down parallel tracks, and they touched wires and decided it made sense to do the swap."

Even though both systems and hospitals involved in the deal were Catholic, the hospitals' staffs had to adjust to cultural changes. Zilm characterized SSMHCS as centralized with a strong corporate office. Carondelet is decentralized, with a small corporate office staff and strong local control. Despite these significant differences, the two systems' mission and values are similar, an important factor in easing the transition for the two hospitals.

### CULTURAL CHANGES AT ST. JOSEPH

The sponsoring congregation (Sisters of St. Joseph of Carondelet) had reserved powers, Zilm noted. St. Joseph's control, however, came from a local policy-making board, comprising 18 members—9 lay businesspeople, 4 sisters, 4 physicians, and Zilm.

"From the time I started in 1990, the management style was entrepreneurial," Zilm said. "Management had very open communication with employees, and we worked with them, the managed care companies, and the sisters closely. Very little was secret in the organization because



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### CULTURAL TRANSFORMATION

leave in the wake of a major change. "You can't afford to lose them, either by their not having buy-in to the process or by them moving to another position," he said. In what may well be a unique arrangement, as negotiations began, Carondelet and SSMHCS got a contractual commitment from the hospitals' vice presidents in order to assist with the sale and ensure stability.

"This," Zilm said, "signaled a two-way commitment. Top management staff did have some fear of losing their jobs, but the contracts alleviated that fear." At the same time, the arrangement indicated to hospital employees that the leadership would remain stable.

**Communications** St. Joseph's management team continued their policy of open communication when it came to the swap with SSMHCS. "Leaders shouldn't be afraid to openly talk to people about merging and consolidating," Zilm advised. "When the president believes the hospital has to affiliate, he has to start talking about it to the board, to the system, and to the congregation—even before knowing who the partner will be or what the arrangement will look like."

Zilm recommended agreeing on as many details as possible before a deal is announced, noting that the SSMHCS-Carondelet letter of agreement ran 60 to 70 pages. "The one being transferred or sold is in a weaker position if it's announced and then doesn't go through. This seems tedious to executives who think conceptually, but you do need every detail worked out."

Right after the change was announced, Zilm held his regular quarterly meeting with employees to address their questions and concerns. "Employees had been nervous about standing alone when all the other hospitals in the area were merging," noted Mark Richardson, operating

we wanted the employees to be a large part of what we were accomplishing." Despite the inevitable changes that accompanied the sponsorship transfer, St. Joseph's administrators committed to retaining as much of the hospital's culture as possible.

**Leadership Support Issues** A primary requirement for a successful transition, Zilm said, is ensuring that the top management team does not

room materials manager. "So it was a relief when we were acquired by SSMHCS. We went to manager meetings and open forums with the staff, and communications went well. We felt more secure in our jobs."

Most employee questions related to the fringe benefit programs, explained Ed Reardon, vice president of human resources, who retired in December 1994. Assurances and explanations of the benefit program alleviated major tension and removed fears.

"Information on benefits became the essence of an employee newsletter that we put out every few weeks with the paychecks and at other times if needed," Zilm said.

After the initial announcement, vice presidents met with the department heads, who reported back to their employees. To continue open communications, monthly department and division meetings help surface questions. In addition, staff can ask Zilm questions by filling out "Message to the President" forms that are kept near the cafeteria.

"When a question comes up through the ranks, the answer goes down through the ranks because the more openly department heads can speak to issues, the more credibility they have," Reardon said. "So I don't go down and talk to the housekeeping department unless the manager there invites me. Instead, I tell the department head the answer, and he or she passes it on."

Despite these efforts, employees naturally felt some anxiety surrounding the change. "We knew

something was afoot in October 1993, but we didn't know what," said Carol Roeder, director of cardiopulmonary rehabilitation. "That was a little scary. Everybody wanted to know, and I'm not sure they believed me as a manager that I didn't know either."

She added, though, that the administration did a good job of including and informing everybody when the time came. In a meeting with the department heads, Zilm explained the trade, indicated how much work was involved, but reassured them that there would be no major changes in St. Joseph's atmosphere or administration.

This reassurance was also important for many of St. Joseph's cardiac and rehabilitation patients, who have strong ties to the hospital, Roeder said. "They told me they come here because it's so small and friendly, and they wondered whether this change was going to affect the way we take care of them. After talking to Mr. Zilm, I reassured them that we were still going to be St. Joseph Hospital. We're part of a larger organization with solid financial backing, but we have retained our closeness to the patients."

**Transition Plans** For a transition to succeed, those who are making the change should be the ones to write the transition plan, without being in too big a rush, according to Zilm. "The timing is crucial," he said.

To ease the transition, hospital and system leaders decided not to touch employee benefits for a year. "Rather than stabilizing costs, we were looking at stabilizing employment," Reardon explained. St. Joseph immediately adopted and published the SSMHCS job security policy, which gives employees—now including St. Joseph employees—first crack at jobs within the system and gives employees who are at risk to be laid off immediate rights to any other job in the system for which they are qualified (even over another qualified system employee whose position is not being eliminated).

"Because of this transfer policy, we have lost some staff through promotions," Reardon noted. "There are opportunities in other hospitals that are not available here. But this keeps the people from having to leave St. Louis when they change jobs."

Despite employees' general satisfaction with the transition, Richardson noted that employees still have concerns about services consolidating and jobs being eliminated, as has happened in other St. Louis hospitals. Still, he said, "most people feel secure in their position or at least that within the system they will be able to keep a job."

St. Joseph's staff planned the initial transition to

## LESSONS FROM THE FIELD

- Do what you can to ensure that the management team does not leave in the wake of a major change.
- Consider the needs and feelings of medical staff when looking at possible partners and arrangements.
- Keep communications with employees as open as possible. Reassure them that the organizations have similar values and missions, answer their questions immediately, and give them as much information as possible. Relay information in person and also in writing.
- Agree on as many details as possible before a deal is announced.
- Reassure patients and community members about the possible impact of any major change.
- Maintain the status quo as much as possible. If you do need to make a change for some other reason, make it clear that it is not related to the transition.
- Be careful not to make promises you will not be able to keep.
- No matter how well you handle the transition, expect some tension and fears among employees.

integrate part of its operations with SSMHCS—starting with quality assurance and risk management, areas for which SSMHCS has well-developed systems. St. Joseph will also adopt SSMHCS's continuous quality improvement (CQI) system and has already started using its strategic planning process.

**Effects on Employees** The trade was especially difficult for the four Carondelet sisters who

stayed on at St. Joseph, since they were no longer the hospital's sponsors. "The Sisters of St. Joseph historically had a strong commitment and presence in the hospital. We were pleased when the employee-sisters agreed to continue to work at the hospital," Zilm said. He added that the change was also hard on some of the long-time employees who had allegiance to the sisters; however, the continued presence of some sisters made the transition easier.

The top managers have seen the most changes, starting with the dissolution of the local policy-making board. "SSMHCS has such a different corporate structure we didn't try to make the existing board fit that mold," Zilm explained. Physicians also lost a place on the decision-making board, although they are now included in an advisory board just formed.

Zilm said physicians have supported the trade. "One of the main reasons we chose SSMHCS was the compatibility of the medical staffs," he said. "If we had gone with one of the other big, non-Catholic systems in town, it would have been a problem."

### ST. MARY'S TRANSITION

Compared with St. Joseph's administrators, who initiated discussions about acquisition by SSMHCS, administrators at St. Mary's Hospital had quite a different experience. The hospital had engaged a consulting firm to help review the options available, given the changing environment because of health reform and the fact that St. Mary's Hospital of Blue Springs was the only hospital within the metropolitan area sponsored by SSMHCS. As a result of its work with the consulting firm, the hospital had identified a number of

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options and had made a presentation for the system planning committee regarding implications of various options.

In late summer a further meeting was held with the system staff, representatives of St. Mary's, and representatives of system hospitals in St. Louis. They explored how to strengthen the marketplaces in St. Louis and Kansas City. At that time, the possibility of working with the

Carondelet Health System was discussed. Later in the summer Wages was notified that negotiations had reached a level with the Carondelet Health System and that the two systems would be contractually entering into a period of due diligence to consummate the transfer. Those negotiations took place in St. Louis, and hospital administrators were kept informed of the process but were not involved in the negotiations.

Randy Myers, vice president of human resources, reported that "there was a sense of loss and a real feeling of grieving by staff members. But at the same time no one questioned the rightness of the decision. Even though they were going through a significant transition, they recognized the necessity of the change and the viability of the organization because of it."

Myers said that the hospital's lack of involvement in the negotiations meant employees were caught off guard by the change and had a harder time adjusting. "But I don't know if the leadership could have told us without jeopardizing the security of the discussion," he said. Still, even when employees cannot be informed ahead of time, Myers advised answering their questions immediately. "I think we needed to get the sisters involved in giving the employees reassurances that we would go on and the mission wouldn't change," Myers said. "People don't realize to what extent employees value working for the mission."

Michele Schaefer, executive vice president and chief operating officer, said that after the announcement "there was a sigh of relief and positive feeling that we were going to stay Catholic and not-for-profit." At the same time, she said, employees feared—and still do to some extent—that St. Mary's would eventually be taken

over by Carondelet's larger Kansas City facility, Saint Joseph Health Center. "So I think most employees had mixed emotions," Schaefer said.

Because the news of the transfer was sprung on them so suddenly, St. Mary's managers did not receive any special training in dealing with their and employees' reactions and emotions. "We all got caught up in it and worked through it together," Myers said. "We went through a grieving process, and then we were ready to go on."

Employees started to feel better, Myers said, as they heard reassurances that the hospital would not change and learned more about the new system. "It was very reassuring when we saw their values were similar."

After the transfer, three Franciscan Sisters of Mary elected to stay at St. Mary's, while one left for reasons unrelated to the change in ownership. Before the transfer, one Carondelet sister had been hired. "It was good to have a sister of St. Joseph of Carondelet working alongside the Franciscan Sisters through the transition," Myers said. "We want to keep our Franciscan heritage but we also want to establish our ties with the Carondelet Sisters of St. Joseph."

Sr. Michel Crooks, FSM, director of mission, noted that "it has eased the trauma for the staff to have the sisters stay. They figured that if we stayed, it couldn't be that bad." Sr. Crooks has new responsibilities for mission and values training, and she said the Carondelet sister on staff is a tremendous resource. "We're not doing anything new yet," she said, "but we will be. We have to tailor activities to our situation." Sr. Crooks added that "you can't go in and change an organization overnight. First you need to get to know one another."

**A Transparent Transition** St. Mary's administrators have done everything they could to ensure that any changes since the transfer are transparent to employees. "From the beginning, we were told that Carondelet wanted to keep things basically the same," Wages said. "Most important, the culture and Catholic values are still there." Wages believes it helped that he and the Carondelet

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 changes transparent  
 since the transfer.

System CEO held meetings with employees to give assurance that things were remaining basically the same. "Our employed staff physicians were particularly relieved to know that the administrative staff was committed to the transfer and were staying."

Myers said that the two systems' similar cultures and histories have made the transition "immensely easy."

In addition, St. Mary's

employees were able to adapt to the changes more readily because of their experience in the hospital's total continuous quality management program, he said.

Schaefer advised, however, that leaders use care when they make promises. "Employees were told that their benefits would not change, but when it came time to try to implement that, we ran into some snags. Fortunately we made it through, but not without some finagling. I would advise that managers be cautious and say, 'We'll try our utmost to make it as transparent as possible, but we may be faced with some changes that will impact you.'"

**Changes Since the Transfer** Although most employees have not been affected by the trade, "it has not been easy in terms of some of the administrative hoops we've had to jump through," Myers said. The loss of a lot of the administrative mechanisms available through SSMHCS has made for a difficult year for the human resources staff.

A major area of concern was employee benefits. For example, St. Mary's had to arrange for its own insurance for employees. Similarly, data processing is more decentralized in the Carondelet System, and St. Mary's had to buy a new computer system. And the hospital will have to redevelop its CQI system since losing SSMHCS support.

Another big difference since the transfer is the opposite of the situation experienced at St. Joseph: St. Mary's now has a local board, which can initiate plans subject to approval by the system. "It takes a lot more of my time, but it's kind of nice to report to a board," Wages said. Half the board is made up of community members (with the remainder being women religious and

physicians), so the hospital is getting more feedback and active involvement from the community than it had before, Wages said. However, because this new board was formed at a time of rapid changes in healthcare, "it's been difficult to give them sufficient training and understanding of what is going on."

Being able to make decisions quickly through the local board is an

advantage of the transition, Schaefer said. "One of the most frustrating things for physicians in the past was having to go through a time-consuming process with corporate" to get decisions made about issues such as equipment requests, she said. "Now people feel freer to make decisions and to talk to board members to get things ironed out and decisions made more quickly." Another significant change since the sponsorship transfer was the initiation of a shared governance model in nursing. "Although these changes were not directly related to the transition, the move to Carondelet sped up the changes," Schaefer said. When the vice president of nursing, a Franciscan sister, left after the transfer, instead of replacing her, the hospital established a nursing council to govern the nursing department, involving a core council of three representatives and three advisory task forces for finance, professional development, and standards and policies.

Aside from the nursing governance model, "we purposely did not do a lot of other major changes at the time ownership changed because we wanted to be sure that they were not perceived as being a result of the transition," Schaefer said. "And if we did have to make some changes for some other reason, we tried to communicate that they had nothing to do with the transition."

#### **AN UNCERTAIN FUTURE**

For both hospitals involved, the transfer between systems did not solve all problems. "Sometimes we just exchange one worry for another," Roeder said. "A year and a half ago we worried about being a stand-alone hospital. When we merged, some still wondered if it would be enough."

Indeed, employees are more concerned about

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St. Joseph Hospital's existence than its becoming part of SSMHCS, Reardon reported. Despite the advantages of the trade for St. Joseph—including increased acquisition of physician practices, new managed care contracts, and new programs for the elderly because of managed care—the healthcare environment in St. Louis remains competitive. "We were hurt-

ing patient-wise, but some people thought once SSMHCS was here, everything would be all better," Reardon said. "It didn't happen that way, and it wasn't intended to happen that way."

Similarly, concerns about the future at St. Mary's are not directly related to the transition. "Managed care has been successful in squeezing the days out," Wages said. Even though admissions have increased, the lower lengths of stay are forcing St. Mary's to look at reengineering, or "rightsizing," he added. The hospital has not laid off any workers since 1982, "but we're not immune even though we're in a growth area. How we deal with these issues is going to be a real test of our value system in terms of justice and fairness."

Although being part of the Carondelet system has brought some advantages, St. Mary's still needs to collaborate with providers outside the system. Along with Saint Joseph's Health Center of Kansas City, St. Mary's is a member of Mid-America Health First, an integrated delivery network under development that will also involve Episcopalian, Seventh Day Adventist, Methodist, district, and children's hospitals. Wages noted that most of the facility's integration activities are directed toward the network, rather than Saint Joseph's alone.

Roeder summed up the tensions: "I think because healthcare reform is in such a state of flux right now, you don't know what is going to happen to us or any other hospital. There's still a feeling that there's a major conglomerate out there that's going to take over, and there's still quite a bit of uncertainty about the environment." Despite this uncertainty, employees at both hospitals feel the recent trade to another system has strengthened their position. But they are not ready to relax yet. —Susan K. Hume