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How to Heal a Hospital

The Story of How Stevens Hospital Became Swedish/Edmonds

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When you think about your company's future survivability, and you consider partnering with a larger organization, do you get a sick feeling in your gut? Or do you look forward to the new choices you may have?

Mike Carter, a health-care executive in charge of a hospital in the Pacific Northwest, found himself in this situation and can offer some tips for fixing problems by affiliating with the right partner. The lessons learned can apply to most any industry.

By emphasizing certain business practices that included gaining the respect of employees, physicians and a community, Carter and his executive team successfully negotiated a business partnership with another health system – a growing trend in health care these days. The affiliation now offers a solid bottom line and the expansion of health services, instead of the death spiral Carter says once appeared unavoidable.

Mr. Fix-it

Just five years ago, Stevens Hospital was a public hospital in need

Mike Carter, Swedish/Edmonds Senior Vice President & Chief Administrative Officer

Background: Brief Time When Stevens Hospital and Swedish/Edmonds Signs were on the Hospital Roof at the Same Time

of healing – and not a band aid fix, more like a bypass. The 217-licensed bed facility in Edmonds, Washington was experiencing annual financial losses in the millions with net assets of just $17 million remaining on the books. Even worse, the hospital's brand image was damaged. The community had a poor perception of the quality of health care provided by the hospital. No one wanted to admit they went to Stevens for care and, in turn, self-esteem among hospital employees suffered.

"We really didn't deserve the reputation," says Mike Carter, former Stevens president and chief executive officer. "We had everything you need for quality health care, yet we started to believe and accept the poor reputation. As a result, most people within our own hospital service area were opting to go elsewhere for their medical care. A lot of people who should have been getting care at Stevens weren't and we knew changes were needed."

Carter, who was hired as Stevens CEO in 2006 and had held other top executive positions elsewhere within the health-care industry, had gained a bit of reputation as a "Mr. Fixit." When he arrived at Stevens he began what he calls a four-year marathon to turn things around. It started with being straight with hospital employees, gaining their respect and delivering a tough message. Without change, the hospital wouldn't survive.

"During that time, the organization was on life support," says Carter. "And it was in part because we didn't really know much about ourselves. If we were ahead or behind budget or how patient satisfaction was doing. We didn't have a process in place to measure where we needed improvement and where we were succeeding."

According to Carter, there were open discussions of being out of business or bankrupt by 2014. With the support of the medical staff, hospital employees and their union, he began the turnaround. First, by going back to basics and measuring how the hospital was actually doing.

"Our managers needed information to help them manage," Carter says. "We gave them the tools and asked them to 'get on the bus' – that was our theme back then – and they did it. Using a proven, evidence-based approach, we started measuring any number of key indicators and tracking and trending where we needed improvement. We also emphasized personal accountability for delivering planned results."

It worked. Improvements started coming immediately – first in employee satisfaction and specifically trust in senior leadership. In 2009, the hospital posted its best financial year ever with an operating income of $11 million and $50 million of net assets on the balance sheet – all done without hospital layoffs or cuts to services.

Greater Seattle's largest nonprofit health-care provider – Swedish – took notice.

"We raised Stevens' performance metrics to a level that gained us considerable attention from local and regional hospital systems," says Carter. "But we knew that long-term our success was not sustainable. We still needed a health-care partner."

A Natural Fit

While Stevens was doing better, Carter knew health-care reform was on the horizon and with it the need for hospitals to operate more efficiently, while providing new technology and more access to health services patients want.

In early 2009, Stevens began seriously seeking out a partnership with another health system. The goal – form an affiliation, not a takeover or a merger – but an affiliation that would allow Stevens to keep processes and people in place that were already succeeding, plus provide the financial support the community hospital needed to thrive.

Swedish quickly became the front runner and favorite for the affiliation. Stevens and Swedish already had a history of working together. Since 1991, the two organizations had partnered in the areas of cardiology and oncology services. Swedish heart and cancer doctors were practicing on the Stevens campus.

"Our history with Swedish was important, but in so many other ways – from their commitment to compassionate care to recruiting high-quality physicians – they were a natural fit for us," says Carter.

Swedish also recognized that as a result of Stevens process improvements and emphasis on accountability, the hospital's brand image was showing solid improvement. Combined with the recent financial success, Stevens became a prized asset and Swedish was ready to affiliate.

Winning Over a Board, Employees, Physicians, Community & the State

But before an affiliation could take place, several key stakeholders needed to give the nod. The first of which was the Board of Commissioners for Stevens.

The Edmonds hospital is part of Public Hospital District No. 2 in Washington state. Hospital districts are supported by taxpayers and in the case of Stevens, governed by a board of five, publicly-elected district commissioners. Any changes regarding the future and mission of the hospital required the approval of the commissioners.

Carter, who'd gone through a similar affiliation at another health system, learned from that experience. There were clear do's and don'ts. First and foremost – keep the hospital board informed and have a solid strategic plan supporting the goal of an affiliation.

"You have to build a strategic plan that calls out an affiliation as a key strategy in your strategic plan. Get your order right," says Carter. "Next, educate your board thoroughly about the differences between a merger, a management agreement, a joint venture and an operating lease – and then think about what your process is – a formal Request for Proposal (RFP) process or a more informal process. For us, a smaller, more focused process for creating an affiliation worked fine. We did not need a formal RFP process."

Carter also allowed the board to take its time – to do what it needed to do to feel confident about an affiliation. That included getting an opinion from an independent consultant. The other negotiation principle Carter insisted on – getting everything in writing.

"Do your due diligence," says Carter. "Start by believing in a potential affiliate partner. Trust their CEO, believe in their mission, vision and values. Look for synergies with doctors and employees. But then do not rely on just a handshake. All key points need to be in writing no matter how minor or trivial they might appear," he says. "These affiliations last a long time. You won't think of everything. Recognize that future generations of leadership have to rely on the affiliation document to interpret the deal. Put it in writing because that will transcend people."

Carter won over the board as well as the other key stakeholders – hospital employees, physicians and members of local city councils. He did it with the support of the Swedish executive team and through a series of transparent, public meetings explaining the affiliation and how it would ultimately benefit the health and well-being of the community.

About a year after the search for an affiliation partner began, the last stakeholder – the Washington State Department of Health – approved a certificate of need for the first public/private health-care partnership of its kind in the state.

On September 1, Swedish and Stevens Hospital entered into a 30-year lease agreement whereby Swedish pays $600,000 a month to lease and manage the hospital. The Board of Commissioners for Public Hospital District No. 2 is no longer responsible for overseeing the hospital's day-to-day operations, but with the Swedish lease payments, the board continues as the owner of the hospital and can use the lease payments to support improving the health and wellness of the community.

Swedish is also committed to capital improvements leading to service expansions for the hospital, including the implementation of Epic – computer software for a secure electronic health records system. The Epic system allows vital information to be conveyed quickly and accurately for a patient's authorized caregivers and provides a common platform for clinicians to share medical documentation, test results, prescriptions – and information can be sent to any Epic facility where a patient is treated.

With the addition of Stevens, Swedish is now comprised of four hospital campuses, three freestanding ER and ambulatory care facilities and a network of more than 40 primary-care and specialty clinics. Opportunities for more growth are on the horizon and Swedish is well-positioned to become a national leader in health care.

"We are excited about this partnership," says Rod Hochman, MD, Swedish CEO. "Through the affiliation, we will be better positioned to achieve our shared goals of increasing access to health care in the local community, enhancing the quality of care and reducing costs, all of which are critical in an era of health-care reform."

The Stevens name has changed to Swedish/Edmonds and within the first month of the affiliation, the hospital was 10 percent busier. Carter admits the boost in business may have happened without the affiliation, but he credits the name change as evidence that the hospital's branding strategy is working.

"I can tell you that of the people I've asked, at least one out of two would not have come to Stevens Hospital, but they will come to Swedish/Edmonds. And I don't have to provide any evidence that anything has changed, other than the name of the hospital," Carter says.

He adds it could take years to really measure the success of the Swedish partnership.

But from the beginning Carter was certain of one thing – the affiliation was the right move.

"It was clear to me from day one that Stevens had great bones," he says. "And I was very, very sure that I knew where we needed to go to bring out the best in our organization. I believed in our future and it wasn't long before the rest of the organization did too."

Months later, Carter who's now the senior vice president and chief administrative officer for Swedish/Edmonds is still a believer, so much so that Mr. Fixit no longer yearns for a new hospital to heal.

"I'm staying because there is more work to be done and because Swedish's vision for the future is to become a nationally renowned, prominent health-care system. That's exciting and I want to be a part of that," Carter says. "But I'm also staying because I decided I liked it here. I decided that I liked the employees. I decided I liked the doctors. I like the community. I kinda got attached to the place."

Carter says the hospital's healing isn't done yet, but the Swedish affiliation has provided a strong probability of a complete recovery. In 2011, Swedish/Edmonds was one of only three hospitals in Washington state to receive the Distinguished Hospitals for Clinical Excellence™ Award from HealthGrades®, an independent health-care ratings company. The hospital was named among the top five percent of hospitals in the nation for clinical excellence according to HealthGrades.

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