The Health Midwest Story: A Lasting Legacy

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Preface

Health Midwest, the health care system that was a key player in the Greater Kansas City market throughout the 1990s, lasted a mere 12 years — from 1991 to 2003. Its origins, however, go back to 1980, when Research Health Services, Health Midwest's predecessor organization, was formed. Sold to HCA in 2003, its impact continues to be felt.

This is the Health Midwest story. It begins in 1977 when the organization's founding CEO, Wynn Presson, came to Kansas City with big ideas about the future of health care in America. It covers the decade-long development of Research Health Services and that organization's eventual merger with Baptist Health System to form Health Midwest in 1991. The 12 hospitals that ultimately comprised Health Midwest were Allen County Hospital, Baptist Medical Center, Independence Regional Health Center, Lafayette Regional Health Center, Lee's Summit Hospital, Medical Center of Independence, Menorah Medical Center, Overland Park Regional Medical Center, Research Belton Hospital, Research Medical Center, Research Psychiatric Center and Trinity Lutheran Hospital. In addition, there were 30 other smaller for-profit and nonprofit entities comprising the Health Midwest Ventures Group and Health Midwest Development Group.

Following the company's rise to prominence, this history documents Health Midwest's contributions to the Kansas City community, its struggles to survive in the ever-changing world of health care, and its decision to sell to HCA in 2003. Finally, this history shows the results of that sale — the largest transfer of non-profit assets to for-profit status in the history of the United States — and how the massive $1.125 billion purchase price brought more than half a billion dollars to the community for the improvement of health care.[1]

When Wynn Presson first conceived of creating an integrated health care system, his dream was to take care of patients from cradle to grave. He wanted to create a system that could walk them through the often confusing, sometimes scary and regrettably painful world of health care, offering a seamless transition between the care they received at the doctor's office, the hospital, the surgicenter, the nursing home or the hospice.

As history shows, the world was not ready for Presson's vision of an integrated system. Government feared that providers would take advantage of this type of system, using it to reap greater profits rather than to offer more comprehensive, higher-quality treatment.

1. The Kansas City Star, July 25, 2006.

So Health Midwest contented itself with becoming the best health care system it could be in the world in which it found itself. Soon, the harsh realities of economics and politics caught up with the system, forcing it to sell.

The two health care foundations that were created as a result of that sale are now distributing millions of dollars to organizations that serve their communities' neediest people. This is a result that Presson and his colleagues never foresaw or intended, but it is an immensely gratifying contribution all the same.

The authors would like to thank the following Health Midwest board members, employees and consultants for agreeing to be interviewed for this history. Their names are followed by their official title and length of tenure with Health Midwest.

Board Members

Malcolm M. Aslin, Treasurer, 8 years
Bernard P. Erdman, Chairman, 9 years
Ronald W. Goldsmith, Secretary, 8 years
Rodney T. Minkin, Director, 4 years
Clarence L. Roeder, Director, 12 years

Health Midwest Employees

Alfred Biggs, M.D., CEO of Health Midwest Comprehensive Care, 5 years
Richard W. Brown, President & CEO, 12 years
Thomas H. Cranshaw, Senior Vice President/Strategic Planning, 12 years
Joseph L. Hiersteiner, Executive Vice President/ General Counsel, 4 years
Thomas J. Langenberg, Executive Vice President & CFO, 12 years
Will E. McCarther, Ph.D., Vice President/Community Affairs, 9 years
E. Wynn Presson, Founding President & CEO, 11 years
James M. Strieby, Executive Vice President & COO, 5 years
Linda D. Ward, Executive Vice President/Corporate Relations, 2 years

Health Midwest Consultants

David L. Atchison, President and CEO of Ponder and Co., 4 years
Larry Bingham, Special Counsel, Seigfreid Bingham Levy Selzer & Gee, 12 years

Thanks also to Steve Roling, president and CEO of the Health Care Foundation of Greater Kansas City, and Brenda Sharpe, president and CEO of the REACH Healthcare Foundation, for agreeing to be interviewed for this history.

Direct quotes taken from interviews of the above individuals are given attribution within the text. Information provided by these interviewees that is not quoted directly is not footnoted.

Other major sources for this history include The Kansas City Star and The Kansas City Business Journal. All information from these publications, including direct quotes, is footnoted.

Molly Shapiro
Trudi Galblum
November 30, 2006

Chapter 1: The Evolution of Health Care

Heyday for Hospitals

The organization known as Health Midwest came into being in March 1991. But the story really begins in 1977, when Wynn Presson came to town. Research Medical Center, one of the two most prominent and successful hospitals in Kansas City, was looking for an associate executive director who could ultimately replace Robert E. Adams, a former military aide to President Harry S. Truman. Adams had led the thriving hospital for almost 30 years and was scheduled to retire from his position as CEO within a year.

Research Medical Center, like the other 30 or so freestanding hospitals throughout the city, enjoyed a 95 percent occupancy rate in the late 1970s. Not only were hospital beds full, but Medicare was reimbursing hospitals for their full costs plus 2 percent. That meant a hospital could make more money by increasing its costs. Additionally, hospitals could rely on essentially full reimbursements from insurance companies, which paid on a fee-for-service charge basis.

Adams took advantage of this concept by pricing the hospital's services aggressively. According to Presson, Adams ruled the hospital "with an iron hand, and had built up quite a treasury."

"He was all powerful," recalled Presson. "The board didn't stand up to him." So when Adams proposed a mammoth expansion of the hospital by building an addition that would add about 300 new beds to the 520 already there, no one questioned the decision.

Change on the Horizon

No one except Wynn Presson. Research Medical Center's way of doing business and the direction it was headed were antithetical to everything Presson stood for. Presson believed that the health care industry was changing and any hospital that pursued business as usual would surely meet its demise.

While most people looked at Research's high occupancy rates as a sign that the boom times would persist, Presson focused on the small, 1 percent to 2 percent decline in patient days and admissions over the course of the past four or five years that was taking place nationwide. In addition, referrals to Research from outside the metro area consisted of only about 15 percent of total admissions over the past 10 years. Presson believed that figure needed to be about 30 percent.[2] As Presson explained it, Research was not attracting enough third-party referrals because it had not developed significant depth in any of its medical services.

"It was a hospital that externally described itself as a tertiary teaching hospital," said Presson. "But all it had was a thin veneer across the top with one or

2. Modern Healthcare, June 1981.

two specialists in cardiology or neurology or some of these other things. There was no way you could look at it as a tertiary center because there wasn't any depth in anything."

The other major development that Presson was following was the emergence of managed care. In California, where many of the changes in health care make their debut, HMOs and managed care were taking hold, and Presson knew that it was only a matter of time before these concepts would be adopted in other parts of the country. So while hospitals had been enjoying a cost-plus method of reimbursement — or payment based on charges — they would soon be forced to abide by utilization standards and reduced payments. Essentially, they would be encouraged to keep people healthy rather than be rewarded for providing the most and costliest services to the sick.

Presson's Solution

Wynn Presson's solution to these impending problems was to create a multihospital system. It was a concept that he explored in graduate school at Washington University in St. Louis, then put into practice when he became CEO of Swedish American Hospital in Rockford, Ill., at age 31. At that time, there were only two real models of multihospital systems, the Fairview System in Minneapolis and the Samaritan Health System in Phoenix, meaning Presson was clearly on the cutting edge.

The idea was to have relationships with hospitals throughout a single area to encourage referrals, so that each hospital could build a depth of practice in a particular specialty, as well as ensure a consistent patient flow. But Presson's real dream was to go beyond a hospital system and create a health care system, which would encompass all types of health-related entities — from wellness centers to mental health facilities to nursing homes — not simply acute care hospitals. This kind of system would be better equipped to take care of a patient's every need because it would provide a seamless network that could guide the patient through each level of care, making sure that the patient's information is passed on to every provider and that no patient falls through the cracks.

According to Tom Cranshaw, senior vice president of strategic planning for both Research Health Services and Health Midwest, Presson's vision can be summed up as follows:

> We need to get out of the sickness business. ... The wave of the future is to have an integrated delivery system so that you'll have the same owner responsible for your wellness, whether it's in primary care or acute care or a nursing home or a home health agency or a hospice or an occupational medicine program or an employee assistance program. We need to have a single integrated delivery system under common ownership so that we'll

> have the right incentive to treat the patient in the least restrictive environment. And then we'll assure continuity of care, whether it's prevention over here or whether it's maternity over here, or whether it's a hospice at the other end of life.

Making His Case

Presson knew his ideas were unconventional and that a relatively conservative community like Kansas City might not be interested in making the drastic changes necessary to pursue them. But during his job interviews with Research's board, he decided to carefully present his vision to a few of its members. "They were just super conservative," remembered Presson. The board members told their candidate: "We don't know what you're talking about. We're happy with this. We're doing great."

"The fascinating thing to me," noted Tom Cranshaw, "Is that Wynn walks into town telling these very successful board members and doctors that while today your beds may be full, tomorrow they won't be." Despite their indifference to Presson's grand ideas, the board agreed that he was the right person for the job. However, as Cranshaw pointed out, Presson's newfangled ideas "ruffled some feathers" among board members.

For his part, Presson had every intention of going forward to implement his dream. During his first year as associate executive director, which began in October 1977 when Adams was still CEO, Presson said he worked "behind the scenes with some of the board members who were more enlightened and would listen a little more." One of the first things he did during that time was form a strategic planning committee with the help of the chairman of the board, John D. Crouch, past managing partner of the Kansas City office of the CPA and consulting firm Touche Ross and Co., now known as Deloitte & Touche, LLP. One of the firm's best strategic planning advisors was retained to conduct a study that would help prove the veracity of Presson's predictions and convince the board that a change in direction was essential. Six months later, the report did in fact prove that hospitals that focused too heavily on inpatient, acute care would be doomed in the rapidly changing health care marketplace.

Changing Direction

Meanwhile, construction of the new facility with all those hundreds of new acute care beds was underway. Presson, along with a growing number of board members, was terrified of what those added beds would ultimately do to the hospital's finances. They knew they had to stop the construction in its tracks. With Adams still CEO, Presson decided he had to halt construction in a way that would allow his "mentor," the architect of the expansion plan, to save face. So he

enlisted the help of Blue Cross of Kansas City, which also had a stake in making sure the new beds never arrived.

In those days, it was common for a big insurer like Blue Cross to challenge a new construction project and the addition of new beds. Blue Cross knew that someone would have to pay for those beds, and the cost would likely be passed on to insurers through higher reimbursements. Furthermore, studies had shown that more beds often led to higher admission rates and higher lengths of stay. "When the beds are there, there's an incentive to fill them," explained Presson.

With Presson's behind the scenes support, Blue Cross threatened to cancel its contract with Research if it did not scale back its plans. Research had already lowered its desired number of new beds from the original 300 to 180, at a cost of $53 million. But Blue Cross insisted that the hospital should only build 23 beds at a cost of $18.45 million, which was the amount approved by the local planning agency.[3] This was unacceptable to Adams, who was determined to push his project though to the end. In fact, he was so certain of his ultimate victory that he signed contracts and began construction before working out a deal with Blue Cross. "We can get by without Blue Cross," said Adams, according to Presson. But Presson and the Research board knew they could not.

Not only did Research need Blue Cross' steady stream of revenue, it also needed its contract to get the bonding companies to approve the hospital's construction project. With signed contracts in place and construction already begun, if those underwriters suddenly decided to abandon their commitment to underwrite Research's expansion, the hospital could face bankruptcy.

With such a threat looming in the very near future, in early 1978 the board decided to allow Presson to serve as the lead negotiator with Blue Cross, in hopes that he could hammer out a compromise where the stubborn, intractable Adams had failed. While Presson was against the overall idea of building a new facility, the process was so far along that he had to work out a deal that included some type of expansion — an expansion big enough so as not to leave Research in a financial hole. With the help of the vice chairman of the board, Bill Clarkson, a high-profile member of the community and CEO of Clarkson Construction, Presson succeeded in reaching an agreement with Blue Cross in April 1978. The agreement would allow Research to build 130 new beds at a cost of $36.6 million.[4] Most importantly, Research avoided potential financial ruin and possible closure.

After that, Adams stepped aside, allowing Presson to take over as CEO as was intended. The board initially gave Adams control over the revised construc-

3. Marc Roberts, Ph.D. and Marilyn Field, Ph.D., "Blue Cross of Kansas City Meets Research Medical Center: A Case Study," Blue Cross and Blue Shield Associations and the President and Fellows of Harvard College, 1980.

4. Ibid.

tion project, but when it became clear that the once powerful leader lacked the ability to oversee the expansion and had no intention of abiding by the new direction of the hospital, he was stripped of his authority and the project was handed over to an architect who sat on the board.

Creating a System

Finally, in 1979 Presson was able to shift his attention away from bricks and mortar and concentrate on the business of creating a multihospital system. Doing so would require a combination of horizontal and vertical integration. Horizontal integration meant the addition of multiple hospitals in multiple communities. Vertical integration meant providing a full continuum of care, from pediatric services to occupational health to mental health to hospice care.

Research Health Services was formed in 1980 as the holding company for the new system, allowing the organization to have both nonprofit and for-profit entities. The Research Development Group was the nonprofit subsidiary and Research Ventures Group was the for-profit subsidiary.

The problem with creating any horizontal integration was that in the late 1970s and early 1980s, no one was interested in joining a multihospital system, since most hospitals were doing quite well for themselves. As Tom Cranshaw put it: "How do you pull off horizontal integration when everybody is fat, dumb and happy?" Furthermore, even struggling hospitals in outlying areas were reluctant to join forces with a big-city hospital for fear of losing their autonomy and admitting failure.

Selling the Concept

Research Health Services set about trying to convince those smaller, community hospitals that it had something beneficial to offer them and their patients. Just as he had done in Rockford, Ill., Presson began a program wherein specialty physicians would travel to smaller communities and hold clinics once a week or twice a month to support the primary care doctors in the community. These physicians would help educate local doctors and build relationships with them so that if patients could not be treated locally and needed hospitalization, the local doctors would refer them to Research Medical Center.

According to Presson, Research hired someone who could relate to community members "to go out and sit down and have coffee with the CEOs of the small hospitals out in the region." This employee told the CEOs: "Our doctors would like to come down and help your doctors to learn," recalled Presson. "They're not down here just to take patients back to Research. We're down here to genuinely help you serve your patients better." While at first the hospitals didn't trust this intruder from the big city, after about six to nine months, he managed to gain credibility.

The Kansas City doctors were also reluctant to participate, not wanting to leave the city and go out into outlying communities. But gradually, beginning with a pulmonary group, and later orthopedic, cardiology and other practices, the program took hold.

Acquiring Facilities

Simultaneously, Research Health Services began making inroads into acquiring hospitals for the system. Times were getting tougher financially, especially in rural and suburban communities, and hospitals were more inclined to seek help in order to stay afloat. The first hospital to be acquired by Research in 1981 was a small combination hospital and nursing home called Gardner Community Medical Center in Gardner, Kan. Because it was a for-profit, it was bought and placed under the Research Ventures Group subsidiary.

In addition, in 1981 Research Management Group began managing various community hospitals and nursing homes, including facilities in Bethany, Mo., Hutchinson, Kan., Hiawatha, Kan., and Camdenton, Mo. These struggling entities would pay an annual fee for management services but retain complete control over the facility. Another option was for Research to lease a hospital, which entailed a more complete takeover of the facility. No money changed hands in these lease agreements, primarily because the small rural hospitals were often owned by the city or county, and any profits earned would be put back into the community hospital or the system as a whole. Any losses would be shouldered by Research. A facility in Iola, Kan., was leased in 1982 and a facility in Lexington, Mo., was leased in 1983.

In an effort to fulfill its vertical integration plans, Research concentrated on adding non-hospital entities to its system, such as a wellness center, nursing homes and an occupational health program. Research also teamed up with other Kansas City hospitals, including Baptist Medical Center, Trinity Lutheran Hospital and Menorah Medical Center, to create new entities such as Kansas City Hospice, Kansas City Clinical Oncology Program and Magnetic Imaging Inc. It even teamed up with for-profit HCA to establish the Research Psychiatric Center right on the Research Medical Center campus.

Strategic Reassessment

It was about 1984 when Research, amidst this wide and varied expansion, decided to do a little soul searching. "Are we acquiring things for the sake of acquiring them, or does this really make sense?" explained Tom Cranshaw. The organization began a strategic reassessment to figure out which pieces should stay and which should go.

During that process, it was decided that managing small rural hospitals wasn't working because the struggling hospitals couldn't really afford the management

fees. "You ended up having diluted management for virtually no return," said Cranshaw. In addition, the nursing homes, the national occupational medicine program, and the Gardner facility were all slated for divestiture.

Another important decision that came out of that process was the notion that Research Health Services needed to act more like a system. As Cranshaw explained it:

> On paper, it seemed like a comprehensive system because we had more and more primary care doctors that we were working with and more and more occupational medicine and more and more this and that. But in fact, it was really just a bunch of silos. It wasn't really behaving like a system. So we ended up saying we're not going to grow for the sake of growth. We're only going to grow within the context of what we can do justice to from a quality point of view and a community point of view.

Research decided that it would no longer market the system to other facilities and would instead let any interested parties come to it. "We're going to be solid citizens doing what needs to be done for the good of health care," said Cranshaw. "And if anybody wants to join us, so be it. If not, that's fine too."

A Dose of Pragmatism

Another decision designed to improve the system's integration was making Dick Brown, then CEO of Research Medical Center, operationally responsible for the entire system — both the Development Group and the Venture Group. "We used to say that Wynn was the idealist and Dick was the pragmatist," said Cranshaw. "If Wynn had a great idea, we would only do it if Dick could conclude that it was operationable."

Wynn Presson was clearly a dreamer. But he more than anyone recognized Dick Brown's talents, knowing it would take a good deal of pragmatism to achieve his own ultimate dream. Presson was always willing to modify his plans for the good of the organization, and one day soon he would have to make the biggest sacrifice of his career to assure the strength and future of his fledgling hospital system.