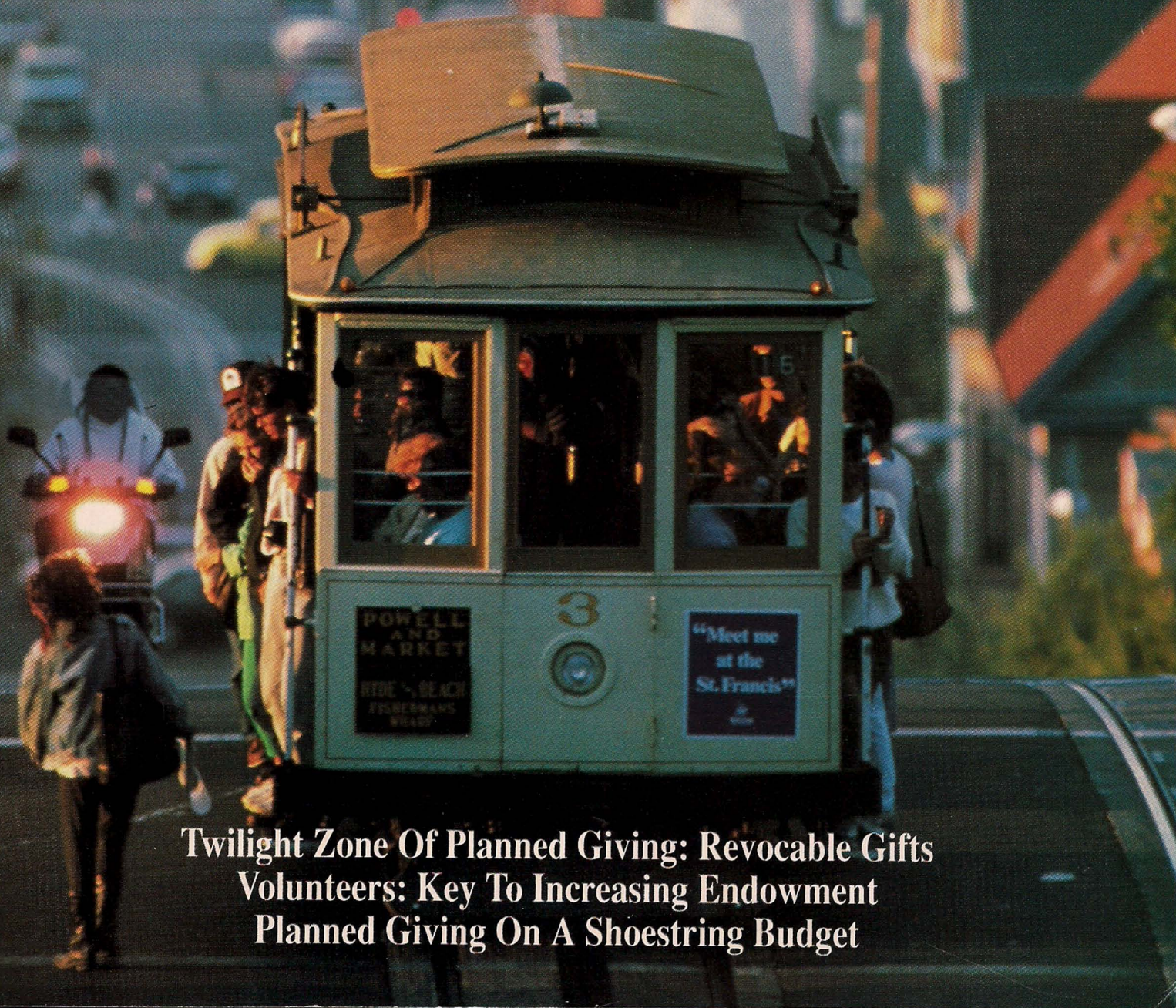


February 1992 • \$5.00

Fund Raising MANAGEMENT

Hospitals Unite:

**Climbing The
Merger Heights
In San Francisco**



**Twilight Zone Of Planned Giving: Revocable Gifts
Volunteers: Key To Increasing Endowment
Planned Giving On A Shoestring Budget**

Cover Story



The three-mile long Waterfront Promenade is an ideal spot for jogging, biking, sunning, picnicking, fishing...or just admiring the view. (San Francisco Visitors Bureau photo by James Martin).

Anatomy Of A Merger

The process of merging two hospitals into one entity can be painful, but when it works as planned, it takes some of the sting away.

By Gail Terry Grimes

This is the case of the vanishing hospitals. On Friday night there were two. By Monday morning both were gone, and something entirely new had materialized in their place: the largest private medical center north of Los Angeles.

Pretty neat trick, especially with half the nation watching! The disappearance of Pacific Presbyterian Medical Center and Children's Hospital of San Francisco, and the sudden emergence of California Pacific Medical Center in their place, may represent the most closely examined hospital merger in modern times—not the familiar devouring of a small fry by a big fish, but the total fusion of two equally strong, equally respected institutions, each with a history that stretches back almost to the Gold Rush Days. Everyone was watching, and still is.

The case holds particular interest for fund raisers, who seem to have a knack for sensing danger. Success or failure in philanthropy can often hinge on the presence or absence of a common cause, a united leadership and a reputation for stability. Thus, mergers are always dicey for fund raising, and a merger of this size and scope could easily hinder development efforts for years to come.

But so far—and the deed was only done in June 1991—the merger that created California Pacific, while perhaps not the *perfect* caper, certainly has the markings of a good, clean job. The masterminds appear satisfied. And, the newly merged California Pacific Medical Center Foundation is already gearing up for its

first major campaign. Not exactly an open-and-shut case, but close enough. Here's what the evidence reveals:

For more than 100 years the two hospitals had faced off across the high bluff on San Francisco's north side. With their main campuses just 10 city blocks apart, they shared a cordial competition for the same patients and donors. Then the health care crisis of the 1970s and '80s spawned serious talks about a merger. Over the course of 15 years, four serious attempts at negotiation came to naught.

Then in the mid-1980s both hospitals started plans for a *major* cancer center. Rumors of two eight-figure price tags began drifting through the city's famous

"Models where the medical staff has remained independent have been slow, arduous and unsuccessful in achieving their purpose," says Richard J. Cohen, M.D., chief of staff at the California Campus.

"You can't be having turf wars between two medical staffs," says his counterpart at the Pacific Campus, Neal S. Birnbaum, M.D. "I think the merger of the medical staff is going to be our greatest accomplishment, and will guarantee the success of the institution."

A Regional System

And so, in July 1990, an official merger document was signed, creating a health care behemoth with combined assets of \$426 million, 1,067 licensed hospital beds and some 250,000 patients a year.

Press releases went out announcing a new organizational structure, along with the names of five chief executive officers and the chairmen of five volunteer boards.

The new California Pacific Medical Center would join the Bay Area's regional network of non-profit medical centers known as the California Healthcare System (CHS), to which Pacific Presbyterian already belonged. A new parent company, California Pacific

Health, would begin to provide overall strategic planning for the new medical center, its newly merged foundation and the Bridgeway Plan for Health, which is the city's second largest HMO. Bridgeway was relatively untouched by the merger, since Pacific Presbyterian had no HMO. From the outside, the structure looks complicated, but it has its own internal logic.



Over one weekend the two merged hospitals had put up their new name and logo based on a new vision for the future.

fog. A merger seemed more desirable than ever, but hopes were still dim.

Then a miracle happened. Key players from both hospital boards, both teams of senior managers and the two medical staffs all made it known at the same time that they were willing to make a fresh start. Keen interest from the physicians drew particular attention.

Smooth Sailing For Foundation

In any merger, some parts of the whole have an easier time than others. In the union of Children's Hospital and Pacific Presbyterian Medical Center, possibly the easiest transition occurred between the two foundations.

"It was easier for us because my role was clarified back when the merger document was signed," recalls Jerry W. Mapp, president and CEO of the new foundation.

Between 1983 and 1990 Mapp had helped boost Pacific Presbyterian Medical Foundation's assets from \$2 million to \$23 million, total annual giving from \$1.7 million to \$8.3 million, irrevocable planned gifts from zero to \$5 million and the donor base from 2,000 to 15,000. When plans for the merger first went public he was an early choice for the new foundation's top post. Thus, throughout the long FTC delay, fund-raising personnel on both sides knew who their new boss would be.

With plenty of time to plan, the new foundation board (15 from each campus) was ready to meet just three days after the merger.

The premier meeting took place on neutral turf: the elegant Bank of California headquarters, in the very room where "Dr. Strangelove" and the James Bond thriller "Dr. No" had been filmed. The evening's host and hostess were Bank chairman Sam Yamada and Mrs. Yamada, who serves on the new foundation board.

"There was a little mood of observation, of looking at one another across the table," says Mapp. "But it was all very high, very positive." At the end of the meeting, board vice chairman Stephanie MacColl tossed a coin to decide which campus would play host to the next quarterly meeting. Then a party ensued, and the crowd cheered as MacColl toasted the future with George F. "Fritz" Jewett Jr., former chairman of Pacific Presbyterian Medical Foundation and now chairman of the new board of trustees.

"I know of no serious glitches," says Jewett. "By the board's second meeting in September, every committee and subcommittee had met at least once, and we were on a roll."

Just three months into the merger, the trustees had voted to adopt a new policy for donor recognition and to trim the number of special events per year from a combined total of 28 to no more than four. Henceforth, the trustees agreed, any event must have the potential to raise at least \$100,000.

Jewett, Mapp and their colleagues might have faced their biggest challenge in merging the two foundation "cultures."

"We discussed our two different approaches in great

detail," says Jewett. "Then we agreed to concentrate primarily on personal solicitation for major gifts, with a lot of board involvement." Toward that end, the Foundation held a board training retreat in October.

And how do the donors feel?

"Most are delighted," says Mapp. "Especially those who were giving to both hospitals (estimated overlap: 5 percent). The corporate and foundation worlds in particular are breathing a huge sigh of relief, because now they won't be funding duplications."

"The most wonderful thing," he says, "is that the leaders of both the new medical center and the parent company are willing to help raise money. They don't see fund raising as just the Foundation's business—it's everybody's business."

Aubrey Serfling, president and CEO of California Pacific Medical Center, bears this out: "When I first came here in 1974," he says, "I didn't see the value of philanthropy. But two things convinced me: declining income and seeing what the Foundation could accomplish."

"I've learned a lot from Jerry and others at the Foundation. We aren't really any different from a university, where student tuition only pays part of the cost. We can't depend entirely on patient fees. In the future, no great medical center will be able to maintain its standing without philanthropy."

According to Mapp, this strong administrative support will serve the Foundation well when the campaign begins for the \$40 million cancer center. The medical center has earmarked \$17.5 million for the project, including \$12.5 million put aside in an escrow account by the California Campus and, from the Pacific Campus, \$3 million in cancer research funds and \$2 million of the \$5 million raised in early gifts. The new Foundation will go after

another \$12 million to \$15 million.

"We'll also seek government money and national foundation support, which we weren't large enough to do separately," Mapp says. In the past decade, combined gifts to the two foundations amounted to \$45 million, including more than \$10 million in combined cash gifts in the year prior to the merger.

"We're still waiting to understand better what the new operating boards want to do, but we believe that the cancer center is still the number one priority," says Jewett, adding that, in addition to the cancer center the Foundation will almost certainly also be asked to spearhead a "multitiered" campaign for maternal and child health, surgical suites and endowed chairs.

Meanwhile, the endless details of the merger continue to work themselves out. Vice presidents in all quarters say the number of meetings in a given week has doubled. Harry Joel, vice president for human resources, is busy building a "collaborative approach" to labor union issues. Pam Berven, vice president for marketing services, is busy renegotiating some 200 contracts with insurers. Nurses are busy making labor relations history as they decide how to restructure.

"The biggest challenge of all," says Berven, "has been the sheer amount of work—the stamina it takes to pull it all off."

In the end, the cost savings alone will almost certainly make the whole process worthwhile. In just the first year, California Pacific expects to save close to \$9 million—about \$500,000 on insurance and more than \$8 million in work force reductions. According to management estimates, in 20 years the annualized savings could reach \$20 million.

"We won't be able to roll back prices," says Berven, "but over the long haul, people can expect smaller increases than otherwise."

Of course the merger itself is costing its own pretty penny, and a lot of tough decisions remain on the table.

"The challenges of the merger itself are past," says Kathleen Cardinal, chairman of the medical center's new board of directors. "Now we start to look at issues that face all hospitals everywhere."

"It will be two to five years before this feels like one medical center," says Serfling. "But we're ready to walk out onto the national stage. I'm certain of that."

"That goes for fund raising as well," adds Mapp. "Now that we're merged, we're in a position to present our case nationally, and we intend to do so in a major way." ♦



George F. Jewett Jr. (left) toasting Charles Noble (right) as Jerry W. Mapp looks on. Jewett, former chairman of Pacific Presbyterian Medical Foundation, is the current chairman of California Pacific Medical Center Foundation. Noble, who served on the Foundation Board at Children's Hospital of San Francisco, is currently treasurer of the new Foundation Board and chairman of the finance committee. Mapp is president and CEO of the new foundation.

"This merger is just one of the pieces coming together to make a regional health delivery system," says James Heimarck, former president of Children's and now president and CEO of the new parent company.

"Together, we'll all be better positioned to maintain our individual strength," adds Bruce E. Spivey, M.D., former president of Pacific Presbyterian and head of the CHS system, which is the parent over California Pacific and two other hospitals in the Bay Area (Mills-Peninsula and Marin General).

"We intend to meet the whole range of human needs, and we would have done that anyway, but not as well as we can working together," says Kathleen H. Cardinal, chairman of the medical center's new board of directors.

Time To Prepare

Logical or not, this was a crazy time for a merger. The nation's economy was slumping and the Persian Gulf War was heating up. Still, everyone assumed that by January 1991 the deal would be final.

But the Federal Trade Commission had different ideas. For nine long months, Washington watchdogs deliberated over whether the merger would restrain free trade. Legal and consulting fees ran into the millions. Officials flew back and forth from coast to coast. Meetings followed meetings. Fax machines and phone lines hummed.

"The only positive aspect of the FTC delay was that it gave us so much time to prepare," says G. Aubrey Serfling, former executive vice president of Pacific Presbyterian and now president and CEO of California Pacific Medical Center. "It would be hard to convince *any* organization that the best course of action would be to plan but not to implement anything for 11 months. People would say that's unacceptable but, in fact, because we had so much time, we were prepared for a very rapid rollout."

A rapid rollout indeed.

By the time the FTC's unanimous approval came in May, managers and supervisors had already gone through formal training in "change management," the two foundations' staffs had met twice in planning retreats and a 10-member merger task force had been huddling for more than a year. This panel of board members and senior executives from both sides had made some key decisions, including the choice of a name for the new medical center and the number of seats on the various boards. The process turned out to be a great tool for what some Californians call "bonding."

"It gave us a head start at working together under pressure," says Barry L. Williams, co-chairman of the merger task force, who had led the Pacific Presbyterian board of trustees and is now chairman of the parent company board. "Also, we learned that we *liked* working together."

Molly Hauser rotated chairmanship of



Charlotte Blake Brown, M.D.



Elias S. Cooper, M.D.

What a caper! Dr. Elias Samuel Cooper and Dr. Charlotte Blake Brown were among the most colorful characters of 19th century San Francisco. Fed up with the quackery of Gold Rush medicine, Dr. Cooper started the West's first medical college as the forerunner of Pacific Presbyterian Medical Center. Equally fed up with the male-dominated medicine of the 1870s, Dr. Brown founded Children's Hospital as a dispensary for women and children. The two probably never met, but their professional descendants have just concluded a merger that unites them forever.

the task force with Williams. A longtime Children's board member and now vice chairman of the parent board, Hauser says: "We started out not knowing one another well and ended up having great mutual respect and trust."

Thus, by June the task force had made its recommendations and the rapid rollout was ready to begin.

"Tremendous Excitement"

On Friday night, June 14, most of the 5,400 employees, 1,500 physicians and 1,400 volunteers from both hospitals went

home for the weekend as usual. On Saturday morning a small band of change artists slipped back in carrying new signs with a spiffy new logo. (Advance scouts had already visited all 65 buildings city-wide.) Another team pasted stickers over the old names on countless brochures. People tossed thousands of sheets of stationery into recycling bins. They painted the new logo on shuttle buses. They left no clues behind.

"There was tremendous excitement," recalls vice president for facilities Oren Reinbolt. "After almost a year of waiting



Merger Task Force co-chairs Barry Williams and Molly Hauser sign the official merger document.

Grimes

and anticipating, suddenly it all felt real to see the new logo suddenly spring up everywhere."

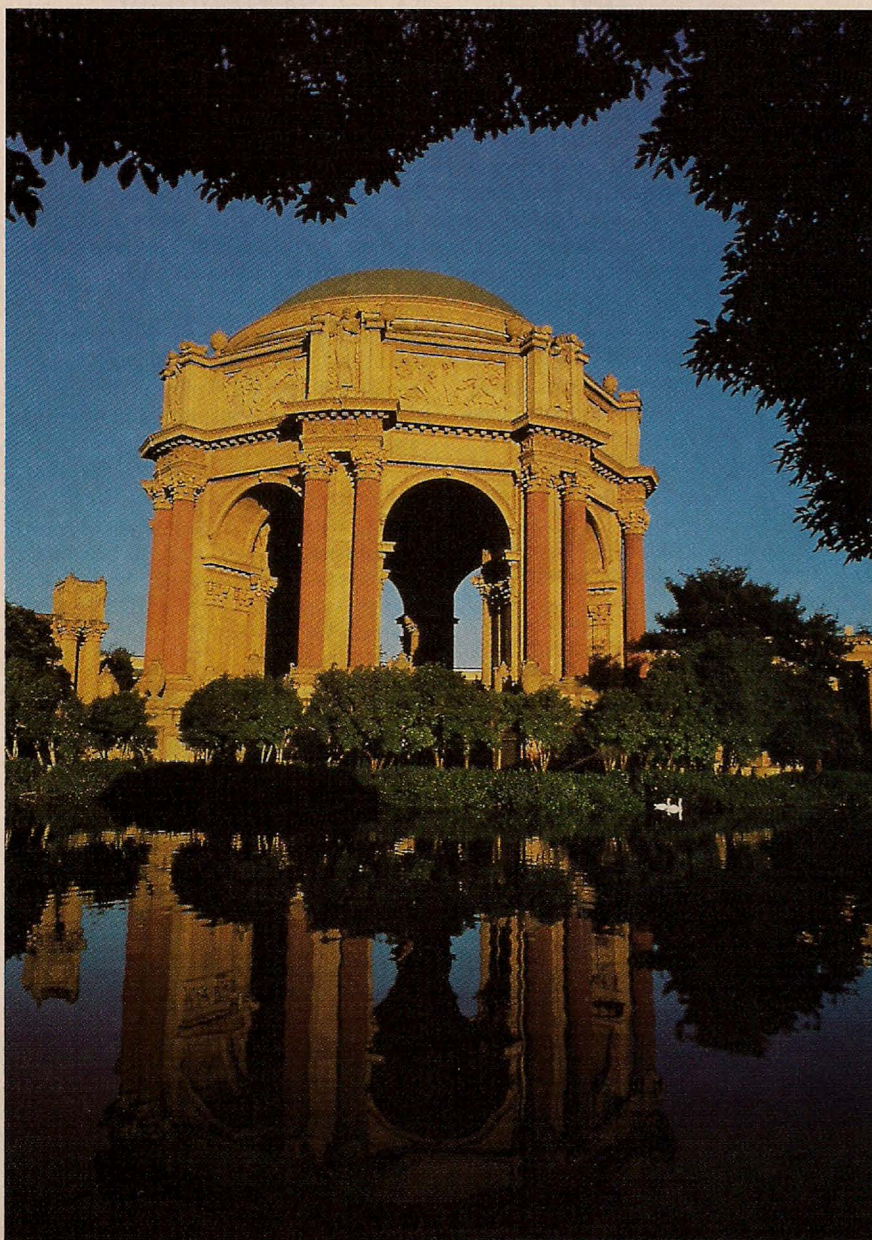
The *San Francisco Chronicle* sent a verbal bouquet via its editorial page. A public relations blitz went out over the airways and in the local press. Ads directed at the business community stressed cost-containment; those for the public focused on the breadth of services. A 60-second radio spot featured newlyweds facing the old "You say po-tay-to, I say po-tah-to" dilemma:

"He comes from a Children's Hospital household, and I grew up with Pacific Presbyterian...It was tough to agree on a hospital for our family...Anyway, we're

pleased to report that's all changed. Pacific Presbyterian and Children's have merged...two great traditions, one great team."

Henceforth, Children's Hospital would be known as the California Campus, Pacific Presbyterian would become the Pacific Campus, and anyone caught using the old names would get a gentle reprimand. On Monday morning, employees couldn't even make it through the cafeteria line without their new California Pacific I.D. badges.

"We wanted to create name recognition as quickly as possible," says vice president for marketing services Pam Berven. "The public attention focused on the merger gave us a great opportunity to get free publicity for our new name."



The Palace of Fine Arts, home of the Exploratorium, rises out of a natural lagoon in the Marina District. The Palace was the centerpiece of the 1915 exposition to celebrate the opening of the Panama Canal. (*San Francisco Visitors Bureau photo by Kerrick James*).

Of course, no merger is truly open and shut. The long delay had built up tension among people who were fearful for their jobs. In the months that followed some tough decisions came down.

Like an Earthquake

Because the majority of registered nurses were nonunion, the new medical center withdrew recognition of the California Nurses Association, which had represented nurses on the California Campus for 50 years. Today the nurses continue to work without labor representation.

All summer a medical staff task force agonized over questions of structure that had implications for physicians and employees alike: "Do we make hand surgery a department or a division of the Department of Orthopedic Surgery?"

In July, a third of the executive management team got their notices. At the same time, the number of available seats on all the volunteer boards dropped from 149 to 102. In September, 36 middle managers had to be let go when new department directors took over. By December, another 80 to 100 people were gone.

"A lot of these people worked very hard to make the merger happen," says Serfling. "So it was especially hard to see them go. But this is what mergers are about, that's all."

Even for those who remain, the shake-up has proved unsettling. Serfling likens the experience to a San Francisco earthquake: "After it's over, you say, 'Well, I'm still standing and nothing's broken, but I'm not sure I still feel the same about life.' When you start moving things around as big as this, at a deep psychological level it can be extraordinarily disturbing."

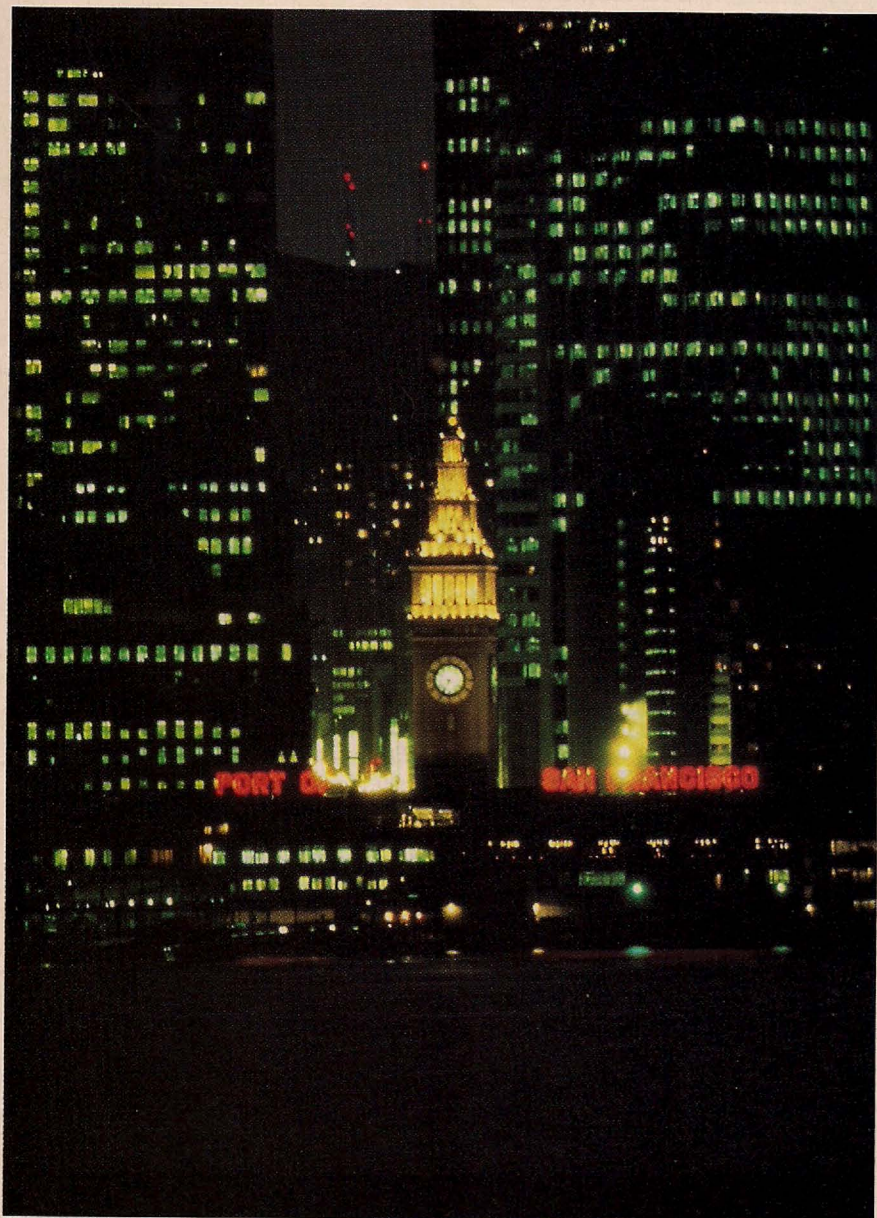
For all-around emotional seismic safety, Serfling chairs a bimonthly employee forum. A weekly newsletter covers the small issues. And, vice president for human resources, Harry Joel, has been providing the managers with outplacement support, severance packages and the latest word on hospital job vacancies around the Bay Area.

Joel says: "People's biggest concern is knowing what's going on. Overall, yes, the tenor is anxiety, but basically people are saying that a very difficult task has been handled as appropriately and humanely as possible."

The Physicians' Turn

Today only one part of the formal portrait remains unfinished. The two medical staffs have until December '92 to finalize their own merger, and both staff chiefs hope to beat the deadline by six months. The physician task force is busy constructing new bylaws, establishing a new credentialing process and, perhaps toughest of all, identifying new department chairmen.

"There's tremendous pressure for us to



San Francisco's landmark Ferry Building is dwarfed by its financial district neighbors. Modeled after the Giralda Tower in Seville and completed in 1903, it was the terminal for the largest ferry fleet in the world for over three decades. Today it houses San Francisco's Port Authority. (San Francisco Visitors Bureau photo by Chris Gilbert).

get this over with," says Dr. Birnbaum. "But we have to balance that urgency with a process that's fair."

"After all, we were competitors," says Dr. Cohen, "but it has to be a gradual evolution."

"Some people will lose titles or stature or influence," says Dr. Birnbaum. "But everything we've done is in the open, with full discussion. Even if someone loses, we want them to say the process itself was fair." ♦

Gail Terry Grimes is a San Francisco-based writer and audiovisual producer whose work has helped fund raisers around the country to raise hundreds of millions of dollars.



A Dozen Tips For A Successful Merger

Planning a merger of your own? Take this advice from the people who made it happen at California Pacific:

1. *Merge everything.* For the smoothest transition, unite all personnel, boards, payrolls, assets and so on. "You can't get married and still live at your old house while your spouse lives in hers."—Richard Cohen, M.D., chief of staff at the California Campus.

2. *Focus on your values.* "A not-for-profit merger is more than a business deal. No matter how large you get, remember that your purpose is to support the dignity of human life."—Kathleen Cardinal, chairman of the medical center's new board of directors.

3. *Plan carefully.* "Take full advantage of whatever lag time the approval process gives you. As soon as you make the decision to merge, assume the best and start planning together."—Fritz Jewett, chairman of the new board of trustees.

4. *Establish a fair process.* "Create a clear, well-defined merger process that everyone can stand behind, and stick to it."—Neal S. Birnbaum, M.D., chief of staff at the Pacific Campus.

5. *Don't try to solve every issue up front.* "Focus first on creating a new team for decision making. Once that team has worked together to build a common mission statement and a balanced governing structure then, as issues arise, the authority to deal with them will already be in place."—Jim Heimareck, president and CEO of the new parent company.

6. *Share information openly.* "Obviously you can't talk about pricing [before you merge], but you have to be up-front about as much as you can. That's the only way you can tell what makes sense."—Barry Williams, co-chairman of the merger task force.

7. *Don't revisit your decisions.* "Make them and then build on them. Trust your choices."—Aubrey Serfling, president and CEO of California Pacific Medical Center.

8. *Take a new name.* "If you just stick your old names together, people won't give them up. Make a clean break, and select your new name based on your new vision."—Jerry W. Mapp, president and CEO of the California Pacific Medical Center Foundation.

9. *Show respect for history.* "The worst thing you can do is discount past loyalties and contributions on either side."—Richard Cohen, M.D.

10. *Find a symbolic, unifying project.* "We want to create the most comprehensive cancer center in Northern California. It was a project both sides path."—Molly Hauser, co-chairman of the merger task force.

11. *Communicate.* "The biggest concern, especially for employees, is knowing what's going on."—Harry Joel, vice president for human resources.

12. *Have patience.* "The passage of time has a soothing effect. Recognize that the process is gradual. And keep your sense of humor."—Richard Cohen, M.D. ♦