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Against All Odds: The Successful Hospital Merger that Formed Children's Healthcare of Atlanta

"What do we all have in common?"

Introduction

James Tally, the then newly appointed CEO of Children's Healthcare of Atlanta, had 26 years of experience in healthcare administration in both academic medicine and private practice. Tally was known for his transparent leadership, strategic planning and passionate drive to create relationships within the organization. His appointment as CEO brought unease as concerns arose regarding the nature of the merger and whether it would be one of equals. He found himself overwhelmed with the task of integrating Scottish Rite Children's Medical Center and Egleston Children's Health Care System, two pediatric hospitals with a long tradition of competition. Tally questioned his ability to complete his inaugural merger while accomplishing both financial synergies and creating a unified culture.

Tally held countless meetings with the stakeholders in an attempt to gain support for the new organization and justify the abundance of changes brought upon on the employees, patients and community. Shortly after the merger was announced publicly, Tally sat down with the new Children's Healthcare of Atlanta board. The new board comprised of members from both hospitals in hopes of gaining their mutual support. While many board members had a supportive view of the merger, Tally faced opposition as to how to structure this new entity and merge two groups that experienced a discontinuity of opinions. Discussions broke out on how to create a cohesive culture and create efficiencies to make a better organization, but this only exacerbated the problem as more opinions were shared and no course of action could be decided upon. It became very clear that the two hospitals had fundamentally different philosophies and histories ingrained in the respective organizations that would be difficult to merge. Tally began to question if the two hospitals would ever overcome their differences for the common good.

Tally sat at the board table patiently listening to the discussions and feedback, trying to unify these leaders. As time progressed, Tally noticed that progress and decisions regarding how to move forward with the merger were not being made as the two sides were not ready to compromise. He stood up, and in a caring tone voiced to the board, **"We are here for the kids."** This phrase resonated so well with those involved in the merger that it became a sort of battle cry for Tally whenever conflict arose. The board was there for the betterment of the children, but this fact required reiteration from time to time as a reminder that the details were insignificant with respect to the bigger picture. Tally felt at ease that there was hope that those involved in the merger could see his vision. Feeling that there was sense of support, he began to focus on the changes in the organization that would have to occur for the merger to be deemed a success.

The Environment

From 1994 to 1997, the number of not-for-profit hospital mergers and acquisitions in the United States increased fivefold.[1] Hospital consolidation during this period was driven by the assumptions that:

1. Hospitals needed to join integrated healthcare systems or risk losing patients to larger providers.
2. Hospitals could achieve major economies of scale by rationalizing capacity and consolidating functions such as information technology and purchasing.
3. Hospitals would be better able to negotiate with other players in the vertical chain, such as payers and physicians, if they could create scale based structural advantages.[2]

McKinsey & Company conducted a study from 1984 to 1998 analyzing 300 hospital mergers and discovered that, "the economic advantages local hospital networks were expected to derive from consolidation have largely eluded them."[3] Of the chief executives involved in these mergers, 75% indicated that the results of the merger failed to live up to expectations.

History of Hospitals

Scottish Rite

Scottish Rite opened in 1915 about six miles east of Atlanta in the Oakhurst area of Decatur. The hospital was unlike any other hospital in the Southeast at the time. It was a place where children could recover after surgery regardless of their family's financial standing. For this reason, funding was a constant focus of the hospital in order to ensure sustainability. The hospital grew to 165 beds and more than 2,000 employees in 1997 and was now a comprehensive pediatric care center. Thousands of volunteers supported Scottish Rite and developed an allegiance to the hospital.

Scottish Rite had a private practice orientation and was affiliated with private physicians. From this standpoint, the hospital operated as an effective business with an economic and financial mindset. Physicians were highly involved in management and governance.

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[1] Joanne M. Todd, "The Trouble with Mergers: Why are so many nonprofit hospital partnerships crumbling?" Healthcare Business, Sept./Oct. 1999.
[2] Grace Colón, Ajay Gupta, and Paul Mango, "M&A Malpractice," The McKinsey Quarterly, 1999, Number 1.
[3] *Ibid.*

Egleston

Thomas Robert Egleston, a colonel in the Confederate Army, had lost four of his five children to childhood diseases. His only surviving son left a provision in his will to create a children's hospital providing $100,000 for its construction and $12,500 each year in support. This was the largest single gift given to a nonsectarian charity in Atlanta at that time. In 1928 Egleston opened with a total of 52 beds and eight private rooms. Strong relationships with the Atlanta community and foundations allowed Egleston to grow quickly and gain market share.

Egleston aligned itself with Emory University and was staffed primarily with Emory physicians. The hospitals physicians were generally focused on patient care, research and teaching. Egleston believed that management and the board should be left to run the hospital while the physicians exercised their medical knowledge.

Leading Up to the Merger

Financial Position Weakening

Healthcare economics in the 1990s posed a threat to the financial viability of charity hospitals. Egleston and Scottish Rite developed a dependency on revenue generating patients to balance their obligation to serve all patients irrespective of their financial position. Technological advancements and more sophisticated service offerings were changing the dynamics of the hospitals. From 1990 to 2000, the average length of stay by patients under the age of 18 had shortened by 10%.[4] From 1987 to 1997 the percentage of fee-for-service patients dropped to 15% from over 60%. The shift towards a greater number of Medicaid and managed care patients meant that the hospitals saw a decline in the percentage of billed charges being collected (Exhibit 1). While these trends were beneficial for patients, they disrupted the business models of Scottish Rite and Egleston. The declining bottom lines of these respective hospitals brought into question the viability of their operations moving forward. In response to managed care organizations taking a larger share of the payment mix, both Egleston and Scottish Rite began to negotiate for exclusive insurance contracts. The companies identified the struggle for the hospitals to maintain profitability and took this situation as an opportunity to negotiate payment terms that were in the best interest of their company. These forces left both hospitals concerned with their ability to operate over the long term.

Competition among Hospitals

As the two hospitals aimed to increase their market share and presence in the Atlanta area, competition between Egleston and Scottish Rite developed. The dynamics of the healthcare industry were drastically changing. Although both hospitals sought to provide sound medical care to children in the Atlanta community, downward pressure on margins in conjunction with reliance on philanthropic capital led to intense competition. A combination of expensive marketing campaigns and unnecessary satellite networks took a toll on the limited financial capacity of each hospital. The battle for patients had the potential to be detrimental for either or both of the hospitals in the long term.

[4] "Remembering the Bullpups!," The Atlanta Journal Constitution, Nov. 19, 2006.

Trustees of the Egleston and Scottish Rite grew uneasy with the pressing situation as many board meetings revolved around competition for patient loyalty and marketing tactics. This took the hospitals away from their goal of improving the lives of sick and injured children. Joe Rogers served as an Egleston board member and chief executive officer of Waffle House during this period. In an interview, Rogers remarked that, "I was friendlier with my competitors in the food service business than the leaders of these two charitable children's hospitals were with one another." It became clear that this competition was hindering the hospitals from achieving their goal of aiding sick children.

Philanthropic Community Pushback

The combination of changing healthcare economics and unhealthy competition between Scottish Rite and Egleston caused donors, physicians and parents to grow frustrated with the system. The community had a significant investment in these two hospitals and believed their competitive actions were detrimental to the community. Parents showed a clear preference for pediatric hospitals over general hospitals. This is highlighted by the fact that 45 out of every 100 children in metro Atlanta were taken to one of the two organizations. The competition between the two hospitals posed a threat to both Scottish Rite and Egleston if they betrayed the confidence that parents had entrusted in them.

Physicians grew increasingly frustrated with the current system and began to question whether they were providing the best possible care for their patients. Egleston and Scottish Rite developed Physician Hospital Organizations and pressured pediatricians to pick sides. The concern was that by belonging to one, a pediatrician had to refer patients to specialists within that system. Pediatricians on the other hand, were far less concerned with allegiance to an organization, and wished instead to focus their efforts on the best interests of their patients. This dilemma created frustration between hospital management and physicians. Donations from the community and foundations were instrumental in allowing these hospitals to thrive and grow over the years. Both hospitals received significant funding from the Robert W. Woodruff Foundation, Joseph B. Whitehead Foundation, and the Lettie Pate Evans Foundation. The foundations began to step in and indicate that enough was enough, pushing for the intense competition to cease. Duplicative marketing and other expenditures were not in the best interest of the Atlanta community. Scottish Rite and Egleston were at risk of damaging their relationships with the foundations that they relied upon for funding.

Merger

Strategic Options

Pressure from the community and financial uncertainty left both Scottish Rite and Egleston with a limited number of strategic options: continue with current operations, collaborate with an adult hospital, develop alliances with other hospitals or merge with another children's hospital. Both hospitals looked into these options in an attempt to identify the best opportunity from a business perspective that would also benefit the community at large. In evaluating prospective mergers, three factors must be considered regarding the degree of organizational resistance: relationships between physicians and hospitals; the assets, governance, and leadership of the hospitals; and the drivers of performance.[2]

Egleston and Scottish Rite had clinics at a number of community hospitals and quickly saw that a merger with one of these organizations was not in their best interest. They found a lack of commitment to pediatrics in these clinics as this service line consisted of roughly 10% of the community hospital.

Tally and CFO Donna Hyland visited the leadership teams on behalf of Scottish Rite to discuss joining a large hospital alliance; however it became clear that an alliance would not add the most value. Fundamentally, adult hospitals and pediatrics have two differing roles and their viewpoints do not inherently converge.

Leadership from Scottish Rite was not convinced that an alliance would create the necessary efficiencies, as many hospitals had failed to do. The number of hospital mergers and alliances in the US, in response to the expansion of managed care systems, has hindered hospital prices and utilization rate. Multihospital systems may not outperform independent hospitals, however, due to their limited ability to capture economies of scale, falling demand and excess capacity, and high relative fixed-cost structures.[5]

Merger talks began in 1996 as Egleston and Scottish Rite realized that the current financial situation was not sustainable and the other options were not appealing or in the best interest of the community.

Guiding Principles

Trustees took note of the financial positions of the hospitals as well as the philanthropic pushback and began to look for common ground for further merger discussions. Members of Scottish Rite and Egleston boards met to speak about the possibility of a merger between the two pediatric hospitals. Each hospital was concerned with the perceptions and tactics of the other. The merger was built upon three fundamental principles:

1. Sick and injured children are better off in a pediatric hospital than on a pediatric floor of an adult hospital.
2. Egleston and Scottish Rite belong to the community, not the board of trustees.
3. Specialized pediatric care in a children's hospital is a precious community asset that must be preserved.

The development of these principles provided a justification for the merger and allowed people to align their ideals and move away from the rivalry. It allowed for the creation of a common ground for merger discussions moving forward. Throughout the integration of the hospitals, these principles were used to make decisions and push the hospitals in the right direction.

Intent and Efficiency Study

On August 8, 1997, Inman Allen and Richard Hiller, respective chairs of the two hospitals, signed a memorandum of intent (MOI) for the hospitals to merge. It began by identifying the common mission of the organization as serving "the pediatric healthcare needs of the Atlanta metropolitan area and surrounding region."

[5] Milt Gillespie and Aileen Lee, "Building hospital market power through horizontal integration – is it working?," The McKinsey Quarterly, 1996.

Both sides saw the benefit the combination would have on the community through:

"Assuring the availability of high quality clinical services and facilities with a sound fiscal foundation; stabilizing or lowering the cost of care by avoiding duplicate investment in expensive technology and facilities, reducing the cost of capital, better deploying excess capacity and other measures; providing healthcare in a cost effective manner under a variety of managed care arrangements; and integrating research, training, information technology and academic medicine to realize the full value of affiliation with an academic institution."

The MOI had an expiration date of less than 90 days after signing due to concerns that opposition to the merger might cause significant interference.

A consultant was hired to identify possible cost savings and synergies of merging Scottish Rite and Egleston. The consultant worked with management as data was collected, reviewed and analyzed. Total annual operating expense savings were estimated to be between $26.1 and 30.6 million in five years. Cost savings were identified from the consolidation of administrative, marketing, physician, and education services; unification of financial functions, consolidation of support services, coordination of hospital based patient care services; reconfiguration of ambulatory delivery (Exhibit 2). These synergies, if achieved would help the merged hospital to mitigate the effects of declining margins and ultimately provide a higher level of care for children.

Structural Changes in Team and Board

The chairmen of Egleston and Scottish Rite prepared a slate of trustees for the new board. A provision in the MOI indicated that the board would consist of ten trustees from each hospital, three external members, a chair approved by both boards, the medical directors from Scottish Rite and Egleston as well as the CEO (Exhibit 3). Those trustees who were truly committed and dedicated to the hospitals were those that stayed on the new board, which led to a board that was ambitious and heavily involved in the integration of the hospitals into one new entity.

After its creation, the board was tasked with choosing a CEO. An international executive search and leadership consulting firm was hired to help identify a CEO. Both Tally and Alan Gayer, respective chief executive officers of their hospitals, were encouraged to apply. Gayer served 17 years at a top management consulting firm and was CEO of Egleston for eight years. He was known for his focus on strategy and strong analytical decision making skills. The new CEO would have significant recourse on the result of the merger as Tally and Gayer had different goals and leadership styles. External candidates were considered, however the committee identified Tally as the best candidate for CEO. This choice was met with apprehension and concern by Egleston on whether Tally would promote the unification as a merger of equals or show preference toward the Scottish Rite tendencies.

Tally's selection had to be approved by the board before it would go into effect. Larry Gellerstedt III, chair of the new board, recalled after the merger, "We saw Jim Tally as especially strong on the administrative side with communicating with the board and the physicians groups. We knew that success or failure would be determined in the first five years, and would depend on blending cultures, blending medical staffs and physicians, and doing it all in a way that the volunteers and the community felt was

right. Everything was complicated, and we believed Tally would be good at playing a statesman-like role."

Upon appointment of CEO, Tally spent ten weeks building a leadership team and attempting to create unity and understanding between Egleston and Scottish Rite (Exhibit 4). Tally wanted to speak to the employees at Egleston and used forums as a way for the other side to get to know him. He was overcome with anxiety and nerves as he was asking the opposition to accept him as their new leader. This would be Tally's first merger and his aptitude of such matters had yet to be tested. He took these meetings as an opportunity to listen and try to understand the needs of the employees. Gayer, made an effort to endorse Tally throughout these meetings, however there was still a great deal of skepticism and uncertainty at this time.

At this point, uncertainty was building and people began to question their place in the hospital. Tally wanted to eliminate as much of this ambiguity as early as possible. He had thought about defining senior positions prior to his selection, so he quickly brought on a recruiting firm to develop descriptions for the positions. The executive committee approved Tally's organizational chart, and he quickly began interviewing both internal and external candidates. Two key positions were appointed early on in the process. Donna Hyland was selected as the chief financial officer and Susan Sciullo from Egleston as the chief integration officer, a new position devoted solely to merger issues.

Due to the talent within both organizations, the new leadership team was split evenly between Scottish Rite and Egleston employees. The only external member of the team came with the addition of a senior vice president of medical affairs. Not everyone was satisfied with the selection process and some attempted to sway Tally's choices in one way or another. Tally stressed the importance of flexibility and leadership's ability to take the position that would benefit the organization as a whole. Candidates called board members in attempts to get ahead of the competition. Those who did not receive a position were aided to find positions within the health system or elsewhere. Tally cared about the employees, but also reminded them that the choices were all made with the well-being of the children in mind.

The new leadership team members then went to their respective teams to communicate the structure and their support for the unified organization. This was the first step in helping to alleviate the uncertainty and tension within the hospitals.

Transitioning to a Unified Organization

Employee Satisfaction and Morale

While confusion surrounding organizational identity mounted, anxiety was also building due to uncertainty and resistance to change. As a result, employee satisfaction was less than desirable. Two months after the merger, employees were dissatisfied because they felt they were competing with multiple priorities in conjunction with bureaucratic decision-making. Frustration continued to mount as issues with people practices began to escalate. Pay, performance evaluation, career paths, work life balance and development opportunities were concerns of employees that they felt were not being addressed. Tally and his leadership team had to find a way to address these issues quickly; otherwise employee morale would continue to diminish. Emory's academic orientation and Scottish Rite's private practice orientation

created a difficult situation. Physicians were for the most part not employed by the hospital directly, meaning that the hospital had no control over them.

Tally believed that building relationships across the two hospitals would allow his team to address employee satisfaction and morale. His executive team held focus groups, individual discussions, and team meetings all with the hopes of addressing the issues and building relationships with employees.

While the communication efforts appeased some, many still felt a sense of unease and dissatisfaction with the changes being made. As the hospital continued to evolve, people questioned if the changes were for the better. Tally remarked that a degree of employee satisfaction relied on employees seeing the result of these changes over time.

Mission, Values and Vision

A year after the merger, the strategic planning committee pushed for the development of a mission, vision and values. Along the way, Tally and others within the leadership team stressed that the two hospitals could have a larger impact together than could be accomplished separately. Key stakeholders including trustees, corporate leaders, physicians, employees and volunteers were approached regarding their feedback and opinion on the goals of the organization. The focus remained on the big picture and aspirations. In November 1998, the strategic planning committee presented their ideas after speaking with various stakeholders and opened the floor for discussion at the board retreat. After this discussion, Tally was not satisfied that all of the trustees had the opportunity to express themselves. In December and January, Tally sat down with each board member to get their input. The development of the mission, vision and values was a defining moment in allowing the hospital to outline who they were and who they wanted to become. These conversations helped to identify future goals and direction for the hospital to begin strategic planning.

Tally strived to gather more than just board and leadership input, but also stressed the importance of employees having a say as they create one organization. It served as an opportunity for employees to create the values that would govern their organization. Additionally this brought to light that although there were differences between Egleston and Scottish Rite, fundamentally everyone had a passion for providing excellent pediatric care. As people started to accept this principle, more synergies and a better workplace began to develop. In February 1999, the board approved the mission, vision and values (Exhibit 5).

Corporate Identity

The extensive histories of Scottish Rite and Egleston created high brand awareness within the community and loyalty to their respective hospitals. The logos and mascots of the hospitals had sentimental value to patients, volunteers and employees. After the merger, employees and volunteers were not ready to let go of their brand and continued to wear clothes that identified with their hospital.

Following the merger the new entity was called Egleston Scottish Rite (ESR) for 18 months, but it became clear to the management team that this name was not a long term solution. The new ESR brand did not resonate with the community and did not unify the organization. In order to create a new corporate identity moving forward, both the hospital names had to change entirely. The temporary ESR branding

allowed for the leadership team to focus on the integration of the hospitals, and put the emotional issue of a unified brand aside. As time progressed, it became clear that the ESR branding would be detrimental to the organization over the long term. Tally and his team operated under the presumption that this was a merger of equals and Egleston and Scottish Rite would have to relinquish their old identities.

The team went in search of sponsors, one major influential donor from each hospital who could provide support and aid in the unification of the hospitals. Though sponsors that were chosen took a big risk in supporting the unification of the hospitals, they ultimately believed that their actions should reflect what is best for the children. Sponsors developed relationships with both hospitals and pushed for volunteers and donors to support the merger. These key players were assembled and tasked with developing the new identity for the hospital. They worked to engage and involve others in the merger as the branding of the hospital progressed. This process began with apprehension, but the two sides began to recognize that they were not that different from one another.

In September 1999 the newly named, Children's Healthcare of Atlanta, presented its logo to employees and guests at the Atlanta Civic Center (Exhibit 6). Hope and Will were chosen as the names of the children in the logo as per the suggestions of employees. Donna Hyland said, "It was a key moment getting the same logo on our badges and t-shirts. If you asked a nurse two years after the merger where she worked, she'd say 'I work at Children's at the Egleston campus.' Previously she would have said 'I'm a nurse at Egleston."

Donors and Volunteers

Responses to the merger from donors and volunteers varied greatly. Many saw the bigger picture and believed that a unified children's hospital was in the best interest for the community. This sentiment was far from universal though. The rich histories of Scottish Rite and Egleston led to deep alliances for a single hospital. The thought of merging with another hospital that was previously a competitor did not sit well. Some donors and volunteers had been long time supporters who grew up in this competitive atmosphere and were reluctant to support the merger. Kenneth Phelps, the first chair of the merged foundation board said, "Egleston had their volunteer groups and Scottish Rite had theirs, and they wanted to keep doing what they'd been doing so reverently."

The reliance on volunteers and donors was fundamentally key to the success of a non-profit organization. Without the support of these two constituents, Tally would struggle to make this merger a success. The Children's Healthcare of Atlanta Foundation, under the leadership of Gene Hayes, made an effort to understand the concerns of these people. Hayes and Tally often traveled to the houses of key donors to explain the vision of the unified organization and try to gain their support. This was often met with resistance resulting in frustrations for many in the process. Support from these individuals, was not easy to establish. Time was required for people to come to terms with the merger. Management and the foundation would recruit volunteers and donors to visit the other hospital. Their hope was that those involved would realize that the other side was not all that different from them because at the end of the day everyone was there to help the kids. Over time, most people began to accept the merger.

Developing a Better Relationship with Emory

Egleston served as a teaching hospital for Emory University since 1959, and despite being staffed by Emory employees, Egleston was independent from the University. In the 1990s tension arose between Emory and Egleston as the changing financial world of healthcare affected both organizations. Egleston increased the hostility by offering higher compensation packages to physicians that worked directly for them. Many programs funded by the philanthropic community relied on the relationship between the two organizations. The philanthropic community was concerned that if the relationship continued to deteriorate, the future of the programs would be jeopardized.

Emory preferred to be in a position of control, and the merger left Emory in a state of ambiguity regarding their relationship with the hospital moving forward. Tally met with leaders at Emory to discuss the future relationship and how to optimize their effectiveness with a shared goal (Exhibit 7).

After many discussions, the two organizations were able to develop the following shared objectives:

1. Develop research and programs that would push medical boundaries and have direct patient application.
2. Increase outside funding for research.
3. Attract top talent including post-doctoral fellows, successful researchers, graduate students and technical staff.
4. Target the Hematology/Oncology, Cardiac and Transplant programs for national preeminence.

While these objectives would efficiently allow for the unification of efforts, the organizations would have to develop ways to convey this to the community and delineate responsibilities between Emory and Children's Healthcare of Atlanta.

Operating as One

Integration Team

A board transition committee was developed to ensure that Children's Healthcare of Atlanta achieved the synergies identified in the efficiency study. Joe Rogers chaired the committee and worked with staff teams to identify plans for expense reductions. Susan Sciullo chief integration officer and her team established a matrix of priorities, time schedules, and savings and revenue enhancements. Her team met weekly to assess the current financial situation and did not waste time to cut costs. Five staff teams were created to develop integration plans: administration, network, finance and information systems, care support and clinical support.

Many of the synergies that were realized came from leadership consolidation and staff reductions. The decisions on reductions were made quickly to decrease the uncertainty of employees and to cut costs quickly. Decisions were made with the objective of being thoughtful but moving quickly. Efficiencies from care support and clinical services were identified, however these areas were not the core focus of cutting costs as the goal was to not hinder the quality of patient care. Despite this, the integration team cut over $8 million dollars in inefficiencies between the two departments.

Satellite locations and marketing expenses also proved to be a significant source of cost savings for the merged entity. Both hospitals had significant expenditures in satellites and marketing campaigns that were a result of competition with one another. Six of the original 28 satellite locations were closed in order to eliminate redundancies while still reaching customer segments. Since Children's Healthcare of Atlanta was able to cut extra marketing expenses from duplicative marketing campaigns, it allowed them to spend money on new campaigns for the branding of the new entity.

The core technological systems of Scottish Rite and Egleston were out of date and not cohesive. There was two of everything: data networks, financial and billing systems, telephone systems and data repositories. The information systems and technology team worked as much as possible to integrate the systems immediately, and also developed longer-term information systems and technology plan. Significant investment into technology and infrastructure made business process improvements possible. Over a ten year time span, the company invested over $122 million in capital expenditures. The standardization of technology allowed for the creation of increased efficiencies.

Financial efficiencies were one of the metrics the philanthropic community was counting on with the merger. Looking forward to the future, Children's Healthcare of Atlanta would have to establish that they could blend the institutions successfully, create economies of scale, and attract the top medical talent. Accomplishing these goals was essential in the effort to gain funding from the philanthropic community.

The integration team identified $38 million in synergies in 18 months, primarily coming from reductions in administration and network cost savings (Exhibit 8).

TUMS: Medical Staff

After the merger, the unification of the respective medical staffs was not immediate. It was clear that an adjustment period was needed for the physicians before they could operate as one. In the same manner as the board structure and the leadership team, Children's Healthcare of Atlanta needed one staff and one standard of care.

In January of 1999, the Task Force to Unify the Medical Staff (TUMS) was created and consisted of medical personnel from both campuses. The integration was a daunting task as the two medical staffs were structured very differently. Egleston was set up with six departments while Scottish Rite operated under two. After much debate, the leadership team decided on four departments: Medicine, Operative Services, Emergency/Urgent Care and Hospital Based. Physicians were not ready to give up their positions for fear that their voice would no longer be heard.

A national healthcare-focused law firm was brought in to assist with the integration of governance. The levels of integration that were developed required slow changes to the system over time (Exhibit 9). Management believed that the medical staff integration should belong to the physicians rather than leadership dictating time lines and tasks for their unification.

The TUMS group focused their efforts on developing a common set of bylaws and credentialing process as one of the first steps in the integration of medical staff governance. As the task force began to address the peer review system, many issues were encountered. Due to the nature of peer review, physicians could not agree on a committee. Even with standard peer review processes in place, physicians still believed that reviews by their rivals at the other campus could be detrimental. Even as the physicians developed

relationships with one another, many found it difficult to put their distrust for one another behind them. Privilege requirements and a common leadership team were the final parts of integration to occur. This was the result of physician reluctance to operate under medical governance system.

Physicians were not without their hesitation and resistance toward unification. Many saw their process and way of doing tasks as superior. No one was ready to completely change the processes that they had been accustomed to for years. Several physicians at Scottish Rite didn't want a relationship with Emory and saw it as a source of inefficiency. While some areas were open to integration and flexibility, many did not want to work at the other hospital.

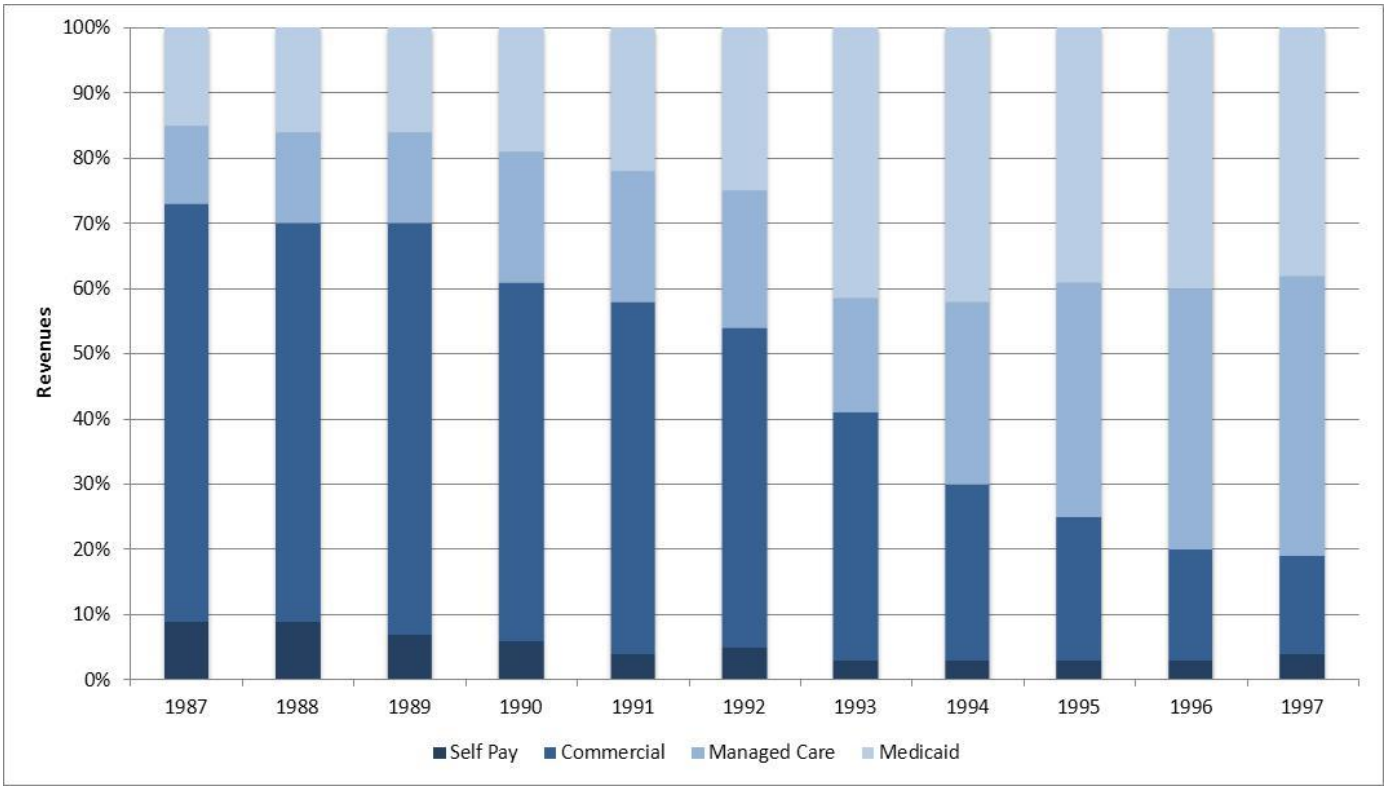
Moving Forward

Three years after the merger, Tally sat at his desk reminiscing on how far Children's Healthcare of Atlanta had come. He looked at baseball caps from Egleston and Scottish Rite that employees had worn and then glanced at the cap for Children's Healthcare of Atlanta. Tally was proud at what they had accomplished from financial synergies and a new culture, to a better relationship with the community.

While some functions within the culture integrated well, others were not up to the expectations his team was hoping for. Tally identified five aspects of the business, known as the Children's Star that moving forward the organization would have to focus on: people, quality, service, growth and financial success. The merger had been successful, but he wondered how they could develop a national presence. Children's Healthcare of Atlanta identified that it wanted to focus on centers of excellence in: hematology/oncology, cardiac and transplant.

The board evaluated the strengths, weaknesses and opportunities for Children's Healthcare of Atlanta. They believed that the hospital had made significant strides, but knew that a capital campaign was necessary to demonstrate how the hospital would invest its money. The hospital had reached a point where strategic planning was instrumental in obtaining national preeminence. The board looked for a plan that would build upon the foundation of community support and people. What can Tally do to leverage the strengths of the combined hospital to be the best Children's hospital in the country?

Exhibit 1 Financial Positioning: Reimbursement Challenges



Source: Children's Healthcare of Atlanta

Exhibit 2 Efficiency Study

Efficiency Study, 1997

Category	Description	Range of Annual Savings (in millions)
1	Consolidation of administrative, marketing, physician and education services	$12.5 - $14.2
2	Unification of financial functions	$2.8 - $3.3
3	Consolidation of support services	$3.3 - $4.2
4	Coordination of hospital based patient care services	$2.6 - $3.2
5	Reconfiguration of ambulatory care delivery	$4.9 - $5.6
Total Annual Operating Expense Savings		$26.1 - $30.6

Note: Totals vary slightly due to rounding.

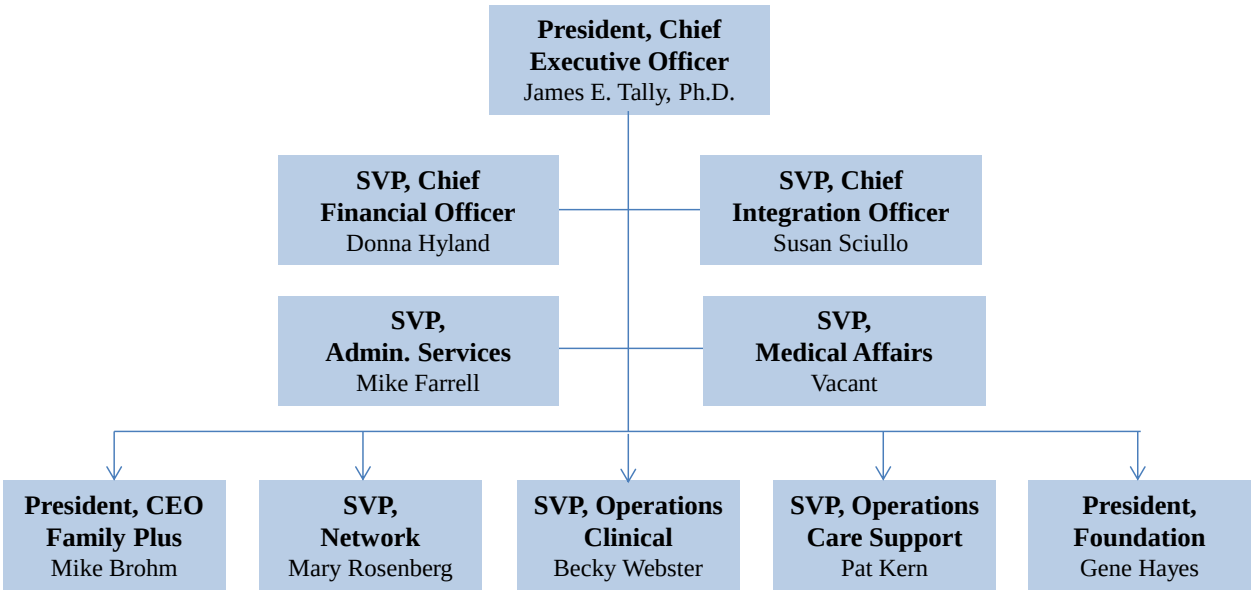
Source: Children's Healthcare of Atlanta

Exhibit 3 Egleston Scottish Rite Board of Trustees, Feb. 1, 1998

L.L. Gellerstedt III (chair), American Business Products
H. Richard Hiller (vice chair), Coca-Cola Enterprises
John G. Alston, JGA Corporation
Daniel P. Amos, Aflac
William R. Boydston, M.D.
James M. Caswell, PC Associates
Winifred Storey Davis, Community Volunteer
Paul J. DeNicola, Southern Company Services
Rene M Diaz, Diaz Foods
Sylvia L. Dick, Community Volunteer
Kenneth J. Dooley, M.D.
Thomas K Glenn, Hilda and Wilbur Glenn Family Foundation
Douglas J. Hertz, United Distributors Inc.
Ingrid Saunders- Jones, The Coca-Cola Company
Paul E. Manners, Paul Manners & Associates
Earle Mauldin, BellSouth Enterprises
Jackie E. Montag, A Montag & Associates
Jean A Mori, Mori Luggage & Gifts
Raymond T. Morrissy, M.D.
Egbert L. J. Perry, The Integral Group
Kenneth J. Phelps, Reliance Trust Company
Grace Geer Phillips, Community Volunteer
G. Joseph Prendergast, Wachovia Corp.
Joe Rogers Jr., Waffle House Inc.
Charles M. Shaffer Jr., King & Spalding
John W. Spiegel, SunTrust Banks
James E. Tally, Ph.D.

Source: Children's Healthcare of Atlanta

Exhibit 4 Executive Organizational Structure



Source: Children's Healthcare of Atlanta

Exhibit 5 Mission, Vision and Values

Mission

To enhance the lives of children through excellence in patient care, research and education.

Vision

To be the model for addressing children's health needs by defining, then providing or advocating for:

1. Accessible, innovative and excellent patient care
2. Integrated teaching and research
3. Partnerships in wellness and prevention programs

Values

Integrity
Respect
Nurturing
Excellence
Teamwork

Source: Children's Healthcare of Atlanta

Exhibit 6 Hospital Logos

Scottish Rite

Source: Children's Healthcare of Atlanta

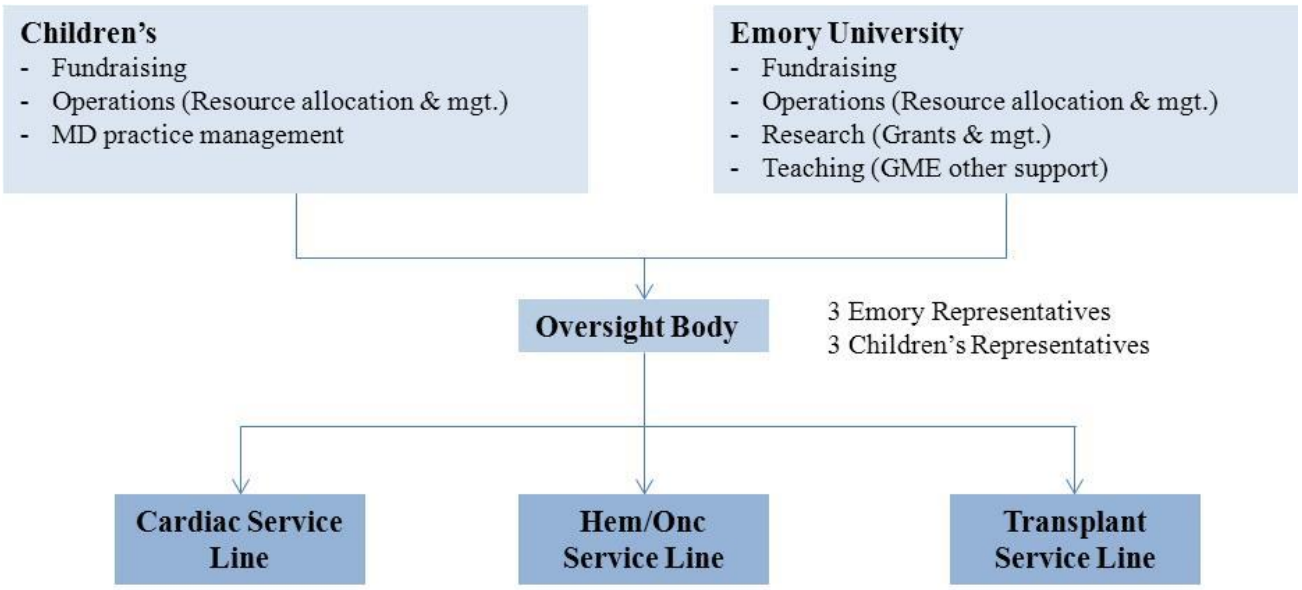
Egleston

Source: Children's Healthcare of Atlanta

Children's Healthcare of Atlanta

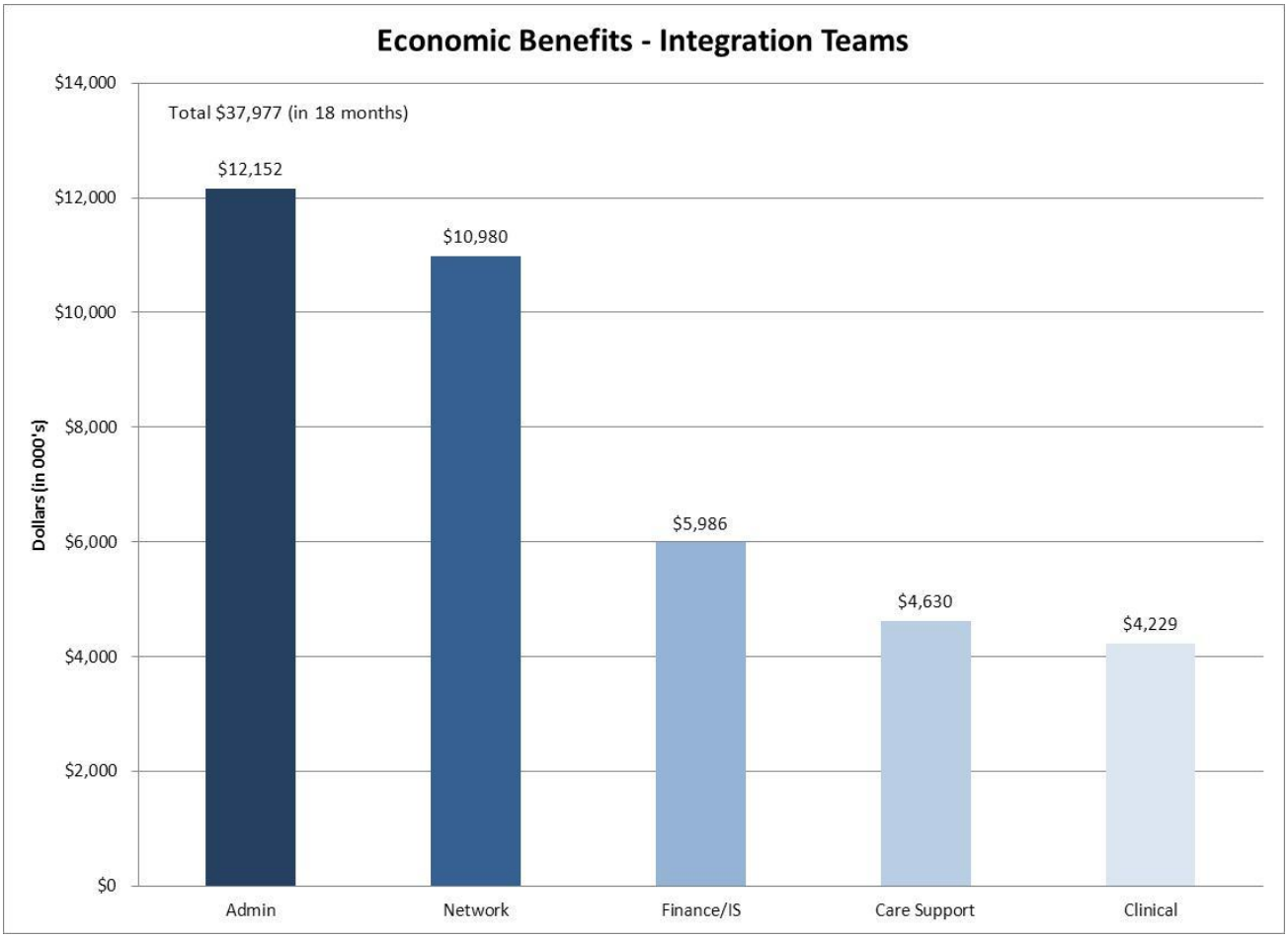
Source: Children's Healthcare of Atlanta

Exhibit 7 Relationship between Children's and Emory University



Source: Children's Healthcare of Atlanta

Exhibit 8 Economic Benefits and Cost Savings



Source: Children's Healthcare of Atlanta

Exhibit 9 Medical Staff Integration

Levels of Integration

1998	2000	2006
Status Quo:	*Integration in Process:*	*Full Integration:*
2 Med. Exec. Com.	2 Med. Exec. Com.	1 Med. Exec. Com.
2 Different Bylaws	1 Set Bylaws	1 Set Bylaws
2 Separate Credentialing Processes	1 Credentialing Process	1 Credentialing Process
2 Peer Review Com.	2 Peer Review Com.	1 Peer Review
2 Sets Officers/ Leaders	2 Sets Officers/ Leaders	1 Set Officers/ Leaders

Source: Children's Healthcare of Atlanta