

# The History of the Allina Health System

## Managerial and Organizational Lineages

David Grazman and Andrew Van de Ven  
Carlson School of Management, University of Minnesota  
Preliminary Draft: August, 1996



*Allina represents the fact that we need to integrate in a way we haven't before. That's what we are trying to do, as opposed to creating a new organization where one component has taken over...We will have failed if any one stakeholder group takes this over.*

Dr. K. James Ehlen  
President, Medica

When HealthSpan and Medica announced their merger in July 1994 that resulted in the creation of Allina, a not-for-profit integrated health care delivery system, its managers were venturing into uncharted territory. The size and scope of the merger they proposed represented a landmark for health care organizations in Minnesota and the nation. Minnesota health care consultant, William Fifer M.D., remarked about the merger,

*This is the first time since Kaiser (Permanente) that the triumvirate of Doctors, Hospitals, and Insurance have been put together in one place--with a capital 'D,' 'H,' and 'I,' because this is a **big** system.*

The significance and scale of the Allina merger was not missed by many health care observers or purchasers, certainly not those in Minnesota. With 900,000 covered lives, 7,000 contracted providers and \$1.8 billion in 1994 revenues, Allina not only represented a monolith in Minnesota's increasingly competitive health care industry,

but was the largest non-profit organization in the state and its second largest employer after Northwest Airlines.

Where other health care providers in the early and mid-1990s had been experimenting with organizational configurations which included provider contracts, strategic networks and the purchase of a limited number of physician practices and clinics, HealthSpan and Medica managers believed that a fully integrated health care organization, achieved only through a total vertical merger, would be their key to future success in the highly competitive Minnesota market. According to Robert Fromberg, a Chicago-based health care writer who has tracked the Allina merger, HealthSpan and Medica managers and organizational leaders believed that *a full* merger at the time was necessary to create:

- *A unified health promotion strategy between the finance and delivery components of the health care system*
- *A large capital pool that can be used to improve the system*
- *The stability necessary for long-term planning and investment in such areas as information technology and preventative care*

In theory, some strongly supported the idea of a unified care system that would offer coordinated care with a single point of accountability. Once implemented, however, some concerns were raised. The Buyers' Health Care Action Group and its director, Steve Wetzell, have informally expressed concern since the merger that a monolithic organization such as Allina may actually dampen competition or decrease the quality of care, although many felt that the Allina merger took place as a result of the BHCAG's request for proposal. Others were less than enthusiastic about the merger. Consumer groups, such as the Citizens' Organized Acting Together (COACT) and other activist organizations have also managed to successfully challenge the legitimacy and economic and social consequences of Allina due to the scale of its operations in the Twin Cities. As of mid-1996, the inevitability of Allina as a major

market player is less a question and critics of the vertically integrated firm seemed to have tempered their rhetoric somewhat.

The managerial and organizational lineages of Allina and its affiliated organizations are especially challenging to track in detail because they represent the interwoven histories of many independent hospitals which, themselves, have merged during a 100-plus year period, each with its own heritage of managers, openings, closings and affiliations. While many of the smallest details of these organizations have been lost to history, current-day Allina's heritage can be traced back as far as 1857 with the founding of the ChristChurch Orphan's Home and Hospital by a group of Episcopal settlers in St. Paul. This facility was a direct ancestor of St. Luke's Hospital (founded in 1874), which was eventually folded into United Hospital in 1983, which was a member of HealthOne, which merged with LifeSpan in 1992 to become HealthSpan which merged with Medica in 1994 to become Allina. Such are the histories of many of the organizations that made up Allina. Thus, here I present a reconstruction of the history of the organizations that eventually folded into Allina, albeit at a coarse-grained level.

With most people avoiding health care from hospitals or clinics during the mid-to late- 1800s, the original ChristChurch Hospital faced significant shortages of resources and patients, as did most organizations of this period due to the Civil War. In 1866, the facility had to be closed until its founders were able to reopen the hospital seven years later. Once the new Church Hospital was opened in 1873, it continued to operate for one additional year before it moved onto 8th Street in St. Paul and changed its name to St. Luke's Hospital.

In 1871, a separate Episcopal group founded the Cottage Hospital of the Brotherhood of Gethesmane in Minneapolis. Though initially founded as an independent clinical treatment facility, this hospital quickly combined its resources and activities with those of the Minnesota Hospital College which had also recently been

founded, to begin not only treating patients, but also training the physicians that would actually serve as members of the medical staff of the 8-bed, 3-story Cottage Hospital facility.

At the end of the 19th century, many formal health care organizations, particularly hospitals, were run either as religious or philanthropic institutions, relying on the generosity of rich patrons or churches for their funding. The remaining institutions were usually public. Two local philanthropists, George Pillsbury and C.M. Loring, opened their Minneapolis Free Dispensary in 1878 to help provide medical services to the poor and indigent of the city. Within the first few months of the facility's operations, it was actively serving some of the basic health care needs of many hundreds of the city's poor and indigent. After establishing its presence as an important provider of health care to the underserved community, the Dispensary quickly merged with the Minnesota College Hospital in 1882. This move ensured a steady flow of staff and other resources.

At about the same time in November, 1892, a group of 43 women, led by Harriet Walker, rented a two-story building in Minneapolis and opened the Northwestern Hospital for Women and Children. Initially, this hospital was staffed solely by women physicians with the intention to serve the needs of other underserved populations. While this fact seems fairly amazing for that time period, there were many more women- and minority- only hospitals in the later part of the 19th century than there are today. Not coincidentally, Dr. Amos Abbott, who would eventually found Abbott Hospital which would later merge with Northwestern Hospital, was one of the earliest male physicians on staff at the Hospital.



*Harriet Walker*

As Minneapolis and St. Paul grew, plans were initiated to build yet another hospital. Assisted by the Deaconess Aid Society which was founded in 1890, a group of women strongly dedicated to fusing the ideals of Methodist principals and health care delivery founded the Asbury Hospital and the Asbury Hospital Training School for Nurses in January 1892 to help serve the poverty-stricken of Minneapolis. The charismatic Sarah Knight, a religious deacon in the Methodist Church, was the founder of both organizations. Her dream was to create and maintain an organization which allowed her and others to put their religious principles into action in service to others. In addition to meeting the growing health care needs for the poor and indigent in the city, the hospital was also opened because many of the city's Methodist citizens resented having to go to the Catholic hospitals (St. Joseph's and St. Mary's) in order to receive treatment. Consistently true to her religious beliefs of helping the less fortunate, Sarah Knight also founded Methodist Deaconess, a free Dispensary, alongside Asbury Hospital eight months after the original hospital had opened. Within the first six weeks, the facility had served 468 patients from off the streets of Minneapolis.

Community support was an important component of running Asbury Hospital. In 1893, the Primary Department of the Hennepin Avenue Sunday School donated \$275 to the Hospital, allowing them to purchase and provide an ambulance to deliver ill patients to the hospital from around the area. Though the ambulance was essentially a horse and buggy, this was one of the earliest ambulance services in the Upper Midwest and brought favorable publicity onto the hospital.

In February, 1895, tragedy struck when Asbury Hospital caught fire one cold winter evening and burned to the ground. However, with the cooperation of the Catholic Church and the staff of nearby St. Barnabas Hospital, all patients were properly cared for during this emergency. Luckily, Sarah Knight had the foresight to have the entire facility insured for fire and was able to rebuild and modernize the

Asbury facility. By 1900, Sarah Knight had again declared that Asbury Hospital, even though it had been rebuilt and modernized after the fire, was "bursting at the seams," and she personally donated a large piece of land in Minneapolis upon which ground was broken for a newer facility to be built.

A number of other hospitals that later became part of LifeSpan, HealthSpan, and ultimately, the Allina Health System, began to form around the turn of the century. In 1897, Dr. Francis Harrington established the children's department of the Minnesota General Hospital. The department, itself, became known as Lymanhurst Hospital, and later, moved and became one of the primary predecessors to the Sister Kenny Institute, a specialized facility founded by Sister Elizabeth Kenny in 1942 which revolutionized the treatment of polio for children during the 1950s. Swedish Hospital was founded by members of the Lutheran Church in 1898, and the Abbott Hospital for Women was founded in 1902. This 15-bed facility was opened by Dr. Amos Abbott with substantial funding provided by William Dunwoody, a local philanthropist.



Dr. Amos Abbott

Charles T. Miller, another wealthy Minneapolitan and local philanthropist, also began discussions about establishing a hospital with the proceeds of his family's estate in 1916, though the facility he envisioned was not actually opened until 1920. Miller insisted that his hospital would be, "where sick or disabled needy persons shall receive free care and attention, to the full numbers of 50, at all times, without distinction to religion, race or color." This mission statement was unique because few hospitals of the time were so open in their willingness to care for such a broad spectrum of society.

Rather, they tended to be institutions whose services were aimed at a specific religious or ethnic community (e.g., the Methodist hospital, the Swedish hospital, the Catholic hospital, etc...). The original medical staff of 11 at Miller Hospital was recruited from among physicians in St. Paul. Once brought together as a single staff, Miller physicians made the decision to maintain a closed facility in which no other medical practitioners were allowed to admit or treat patients in the hospital. Local physicians not on staff at Miller Hospital carried a great deal of resentment towards the closed operation, resulting in Miller's poor relations with other hospitals and providers throughout its history.

Many other changes took place as the number of Minneapolis hospitals continued to grow as the demand for their services grew with it. In 1920, Dr. Robert Allison, of the University of Minnesota Medical School, established an X-ray facility at Asbury Hospital, reported to be only the second X-ray facility in the state. During the same year, the Protestant Church chose to play a much more active role in the management of St. Luke's Hospital. The Janney Children's Pavilion was added onto Abbott Hospital as a new wing late in 1920. Though the link is not necessarily a direct one, historians and archivists have generally identified the addition of the Janney Pavilion to Abbott Hospital as a close predecessor of the Minneapolis Children's Hospital, though some historical ambiguity remains.

Still under the influence and leadership of Sarah Knight, Asbury Hospital's board of governors also took significant actions to improve relations with the physicians on staff in June of 1920. The board granted official organizational status to staff physicians and formally recognized them as a group with whom they needed to cooperate in order to provide quality care to patients. Negotiations had been going on for over a year for formal recognition of the doctors and their collective needs. Once formed, the Asbury Hospital Medical Society was primarily involved in discussing cooperative ventures with outside organizations, providing educational seminars and

improving overall communication across departments in the hospital. Relations in the hospital were much more cordial between administrators and physicians once this change of status at Asbury had taken place.

As 1920 drew to a close, Asbury Hospital realized that its own economic problems were making it close to impossible to keep providing the level of services to which its founder and administrator, Sarah Knight, had been so long committed. An agreement was made with U.S. Public Health Service to turn over the control of the hospital to the Veteran's Administration for five years, at a cost of \$100,000 per year. The hospital was to be used to treat veterans of World War I, and the transfer took place in May 1921. The hospital was renamed Veterans' Hospital No. 68 and was expanded in 1922 in order to serve and house convalescing veterans from the War. After the five year arrangement had expired, Asbury Hospital was able to liquidate all of its debt from the funds received from the government. In 1928, the agreement was not renewed by Asbury Hospital.

On April 4, 1928, after 36 years of service to Asbury Hospital and the Twin Cities' community as a whole, Sarah Knight, the visionary behind the hospital and many other Methodist and other local health care organizations, passed away shortly after falling and breaking her hip. While the staff of the hospital was stricken with grief due to the loss of the woman who had single-handedly built Asbury, they were committed to sustaining Knight's vision in the hospital even after her she was gone. Her family remained involved in managing and leading the hospital for many years.

When St. Luke's Hospital entered into an agreement with the Children's Hospital of St. Paul in 1924 to bring together their nursing, food and business departments, they also began discussions about a St. Luke's - Charles T. Miller Hospital merger. These talks were carried out over a period of almost three years, from 1932 through 1935, but no merger ever took place. However, this experience "planted" the idea of a merger in manager's minds and they played with this idea over



and over again over the coming years. This was one of the earliest mentions of hospitals actually discussing the logistics of a merger, something that was to become very commonplace for the HealthSpan and Allina organizations.

After having suffered great financial difficulties and uncertainties because of the stock market crash and subsequent Depression, some of the St. Paul hospitals joined together with one another and formed the Minnesota Hospital Service Association in 1933. The motivation and reasoning of managers who were behind the formation of the MHSA was that, as a group, they could approach employers to offer affordable health care plans for their employees at a flat fee. In return, they would be guaranteed a more steady source of revenue than they had had over the past ten years when many patients could not afford to pay their hospital bills. The MHSA program has been identified as one of a few precursors to what became known nationally as Blue Cross, and grew rapidly during 1933 and 1934. In 1935, the Hospital Service Association joined with the Minneapolis Hospital Service Association as well, linking hospitals in both of the Twin Cities. While many hospitals were involved in these programs, however, there was only limited reciprocity between them.

Labor problems began to badger the administrators of Asbury and other local hospitals in 1936. Because of high turnover rates and low salaries, nurses and other non-physician staff members began to organize unions throughout the hospital. During the Depression, these employees were often asked to sacrifice for the sake of the hospitals, more so than other employees. In 1942, Asbury Hospital, along with other hospitals like Abbott, Fairview and St. Barnabas, signed labor agreements stipulating that employees would not strike and that, in return, hospitals would not lockout employees. These negotiated agreements diffused a number of potential crises that stood to affect many of the hospitals around the city and the health care that they delivered to the public.

In 1940, Asbury and Hamline University announced a 5-year Bachelor of Science degree program in nursing that would help better train the nursing staff for Asbury Hospital, as well as other community hospitals. This relationship endured for twenty years until 1959 when the Asbury Hospital moved to the suburbs and Hamline decided that it was too costly to operate the program. Many of the other Twin Cities' hospitals had also run their own nursing programs, but had since found that not only were they becoming more expensive and complex to run, but most nursing programs were being folded into universities and colleges.

In 1942, Sister Elizabeth Kenny, a Roman Catholic nun who had traveled extensively around the world in search of innovative disease treatments, began receiving publicity and wide praise for her work with polio-stricken children. Once she decided to settle in Minneapolis, she founded the Sister Kenny Institute as a place where others that believed in these revolutionary treatments could practice. She was a very charismatic leader, not only in the Catholic Church, but in the Twin Cities, and many still have fond memories and anecdotes about this pioneering woman. Once Sister Kenny had announced her intent to establish the Institute, the Minneapolis Board of Public Welfare remodeled the Lymanhurst Health Center to serve as the first treatment site for Sister Kenny's patients.



Sister Elizabeth Kenny

Immediately following the second World War, St. Luke's Hospital suffered serious financial difficulties and was forced to operate at a loss between 1942 and 1947. With careful cost-cutting measures, however, things turned slightly better for

the hospital by the late 1940s and they offered a variety of new products and services to patients. In 1952, they introduced "Progressive Patient Care", a program designed to provide specific non-comprehensive care for patients at reduced costs from full care. The program was a success for St. Luke's, reassuring the hospital's continued survival.

In 1951, Milton Nordstrom, the chairman of Asbury Hospital, began to discuss the possibility of a joint venture with Swedish Hospital in response to the Hamilton Report, a study which had been commissioned by downtown Minneapolis hospitals and advocated for more cooperation between the different institutions. In spite of Nordstrom's personal efforts and the strongly worded recommendations contained in the report, the Swedes had no interest in merging with Asbury. By 1951, Asbury was looking to build additional contacts with other organizations, particularly Methodist Churches, and changed its name to Asbury Methodist Hospital.

With the post-World War era bringing economic prosperity to Minnesota and the nation, the early 1950s saw a wave of remodeling and additions to some of the hospitals that were later to become part of Allina. Asbury Methodist began a \$50,000 remodeling plan on their downtown facility in December, 1951, even though they had already set their sights on building a larger, new facility out in St. Louis Park as part of their response to the suggestions of the Hamilton Report. Also, the Charles T. Miller Hospital added on a seven-story addition to their building in May, 1953.

Miller Hospital administrators also undertook a number of significant managerial actions during 1953 and 1954 which significantly changed the atmosphere in which their physicians worked. In November 1953, management adopted a reorganization plan submitted by consultants at Booz-Allen which called for more staff participation in the decision-making taking place at the hospital. The idea of the reorganization, as recommended by Booz-Allen, was to create more of a partnership between administrators and physicians. With its initial successes, management

expanded the scope of the reorganization during 1954 and instituted team nursing programs in the hospital. With physicians and nurses feeling as if they were contributing more to how things were being done at Miller, morale and productivity significantly increased at the hospital.

Activities continued for all of the hospitals through the middle of the 1950s. In their old facility, Asbury Methodist was overcrowded and increasingly inefficient, so they negotiated a joint venture with St. Barnabas Hospital and purchased a 42-acre plot of land outside of the city limits for \$70,000 with the intent to build on it. In 1955, Asbury Methodist finally announced publicly their plans to build a 6-floor, 276-bed hospital in St. Louis Park, along with a 56-bed maternity ward and a 30-bed psychiatric unit. The hospital was opened, with a great deal of accompanying local publicity, in 1959. This hospital is known today as Methodist Hospital and, having merged with Park Nicollet Medical Center, is an anchor of HealthSystem Minnesota.

Like other hospitals were doing, Miller Hospital affiliated with the St. Paul Public Schools in 1955 to offer training programs for local residents in practical nursing. In 1956, Miller began merger discussions with Children's Hospital of St. Paul. Miller, St. Joseph's, St. Luke's and Riverview Hospitals joined together in 1961 and opened an outpatient clinic in the space next to Miller Hospital as a cooperative venture. The clinic operated for only six years, until 1967, but showed how the hospitals could successfully cooperate to provide quality services.

Other smaller hospitals outside of the Twin Cities' city limits and first-tier suburbs were also developing their own facilities that would later become part of Allina's health system. Mercy Hospital, in north suburban Coon Rapids, was built as a joint venture between Glenwood Hills Hospital and the Anoka Community Hospital Association in 1965. Unity Hospital in Fridley, Minnesota was founded in 1966.

A recurrent problem throughout the history of the Twin Cities' health care industry, nursing shortages in local hospitals were particularly harsh during the mid-

1960s. St. Luke's was forced to close some of their treatment units due to these shortages. Contrary to how other hospitals had shifted their nursing programs towards universities, St. Luke's made an attempt to establish their own nursing program. However, by 1966, the majority of nurses were being trained in university programs and St. Luke's program was shortly terminated.

Historically, many of the hospitals that had been built in Minneapolis were situated along Chicago Avenue as it traveled through downtown Minneapolis towards South Minneapolis. Having worked together on smaller projects over many years, the hospitals began discussions under the leadership of Northwestern Hospital, one of the largest in the area. In 1966, the Minneapolis Medical Center, Inc., (MMCI) was incorporated as a cooperative system composed of the Northwestern Hospital and three smaller health care facilities all located along Chicago Avenue. The hospitals were not merged together, but shared certain facilities, planning and staffing. In 1967, Swedish Hospital and St. Barnabas Hospital, both affiliated with MMCI, decided to jointly build an additional facility to serve their patients.

In 1969, two of the largest urban hospitals in Minneapolis, the Abbott and Northwestern Hospitals, began informal discussions that would ultimately lead to their merger and the emergence of the large hospital holding company that eventually joined with other hospitals to become HealthSpan in 1993. Administrators at both hospitals were interested in the other's abilities, as well as the potential economic advantages that a merger would generate by eliminating departmental redundancies. By 1970, the two boards had approved the merger and papers were filed with the state for approval. The merger was made easier because of the great many connections already in existence between the two hospitals. Almost 60% of the physicians on staff at Abbott and Northwestern Hospitals were already affiliated with both hospitals at the time the merger took place.

The late 1960s and early 1970s saw particular growth in the population outside of the city limits of Minneapolis, though most of the hospital facilities remained within the city. Methodist Hospital administrators, having moved to the suburb of St. Louis Park, were busy during 1969 and 1970 not only operating the hospital, but pondering the rapid rate of increase in health care costs and trying to chart out their future course to adapt the hospital to an increasingly unstable industry. Recognizing that competition was going to become a salient part of the operating environment for hospitals as costs continued to rise and resources tightened, Methodist began a series of utilization reviews in 1970 for all of their service areas to lower their costs as well as improve service to their patients. They also accepted Hill-Burton funds for the first time in their history in order to finance the expansions they believed they needed to accommodate the growing suburban population.

In June 1971, four urban hospitals (Miller, St. Joseph, St. Luke and Riverview) hired a consulting firm, E. D. Rosenfield Associates, to study their situation vis-a-vis the changes that were taking place around them in terms of population shifting and health care delivery. The report they received from the consultants envisioned a campus of cooperating hospitals remaining in the city, but serious problems arose in trying to implement an agreement that would allow the hospitals to all work together. Thus, no 'grand' urban hospital campus came to be.

Determined to find strategic partners despite the failure of the consultant's report to actually bring the four hospitals together, Miller and St. Luke's began formally discussing merger opportunities between June and November of 1971. By the end of the year, the two boards gave their blessings to the merger and a new board was elected for the new organization. Seven members came from the Miller board, and seven from St. Luke's. The merger called for the combining of financial units, medical staff and inventory of the two hospitals, though they themselves would remain relatively independent. A parent company, United Hospitals, Inc., was incorporated

and the two hospitals became the St. Luke and Miller Divisions of United Hospitals. In 1975, United affiliated with Children's Hospital of St. Paul, but did not officially merge.

Though it did not become a part of Allina until the 1994 merger between HealthSpan and Medica, the SHARE Health Plan was initially founded in 1974 as an early managed care-type of organization.. SHARE represented an early effort on the part of Samaritan Hospital to create a viable HMO-type organization to offer along with its inpatient services. Begun especially to serve the medical needs of workers on the Northern Pacific Railroad, SHARE eventually brought together a varied group of providers, including the St. Louis Park Medical Center, Samaritan Hospital, Midway and Children's Hospital in St. Paul, Fairview-Southdale Hospital and Unity Hospital (HealthCentral member). Physicians' Health Plan, which began in 1975 as an independent practitioner association founded by members of the Hennepin County Medical Society, joined with SHARE in 1991 to become Medica, one of Minnesota's largest managed health care organizations. Medica's merger with HealthSpan, a hospital holding company, in 1994 marked the beginning of the vertically integrated Allina Health System.

In 1975, United Hospital established the United Education and Research Institution, which offered 34 educational disciplines and programs to students of medicine and other health care services. At the same time, the Methodist Hospital School Nursing graduated its last class and closed because of the growing trend of training nurses through the university and college system rather than in specific nursing schools.

The pace of cooperation between the hospitals and other health care providers increased considerably during the mid-1970s. The Sister Kenny Institute merged with Abbott Northwestern Hospital in 1975; Riverview Hospital and United entered into management agreements in 1976 and Riverview was purchased by United in 1979;

Abbott Northwestern began to build a single facility in 1976. The old St. Luke's Hospital was demolished in 1977, and Methodist Hospital received an approval from the Metropolitan Health Board to expand their St. Louis Park building. Long Prairie Hospital and Home Hospital joined HealthCentral in 1978, which eventually folded into HealthSpan, and later Allina. Many other smaller transactions and mergers took place as well during this period.

In 1980, Abbott Northwestern finally closed down the original Abbott Hospital site and consolidated all of its activities into a single, more efficient location. United Hospitals began to manage Children's Hospital of St. Paul. Miller Hospital was officially closed.

In 1983, LifeSpan, Inc. was created as the parent company for Abbott Northwestern Hospital with a new mission to develop a comprehensive regional health care system. In October 1983, HealthOne was formed to be the parent company for CenterCare (parent of the Metropolitan Medical Center) and United Hospitals, Inc. This founding marked the first time that a St. Paul-Minneapolis multi-hospital system link had ever formally been put into place.

In 1984, Methodist Hospital joined 1stHealth, a preferred provider organization, along with six other providers to provide comprehensive physician and health coverage to medium and small employers with less than 100 employees. In a relatively short time, between 35% and 45% of Methodist's revenues were attributable to their participation in that PPO. Around that time, Methodist opened a "one day surgery" center for outpatient surgery and its hospice program received state accreditation.

HealthOne released a proposal in April 1984, to develop a biomedical research and development institute as a joint venture between Children's Hospital of St. Paul and HealthOne. The goal of the joint venture was to "develop a comprehensive



biomedical research lab that can be made available to private industry and the public sector."

In 1984, LifeSpan had purchased Eitel Hospital, founded in 1912, from Park Nicollet Medical Center, and the hospital was delicensed in 1985. The hospital was closed, but remodeled and opened later in the year as the Willow Street Treatment Center, an adolescent and child psychiatric unit for Abbott Northwestern Hospital. On September 25, 1986, HealthOne Corporation and HealthCentral signed letters of intent to form a new HealthOne Corporation. The agreement went into effect in March, 1987.

In November 1986, Methodist Hospital announced a large-scale reorganization plan for all of its affiliated units. Methodist Health Care of Minnesota was formed as a parent company of 5 subsidiaries, including Methodist Hospital. The reorganization was carried out to foster more growth in the system and to allow individual units the opportunity to pursue their own particular areas of expertise. As part of the reorganization, Methodist also announced its plans to affiliate with LifeSpan. In June 1987, the details of the affiliation were made official. While LifeSpan did not announce that it would necessarily be involved in the direct management of Methodist Hospital, the two organizations did decide to coordinate their strategic planning activities.

Despite their initial intent that the arrangement be permanent or long-lasting, LifeSpan and Methodist separated ways shortly after the announcement of their strategic partnership. Methodist Hospital announced its formal consolidation with Park Nicollet Medical Center in November 1991, which was designed to include common management for the two organizations, but not a combination of assets. According to media reports and the public statements of managers in the two organizations, the merger was undertaken to provide an organization to facilitate close cooperation in long range planning and capital expenditures. The merger, which was

finalized in 1993, ended the long-standing relationship between LifeSpan and Methodist. Methodist Hospital merged with the Park Nicollet Medical Center, and was reorganized under the name HealthSystem Minnesota.

In 1988, Mt. Sinai Hospital and Metropolitan Medical Center merged to form the Metropolitan-Mt. Sinai Medical Center, managed by HealthOne. The merger agreement called for both hospitals to continue operating without any negative effects on their employees. However, by 1991, that was not going to be the case and many workers were laid off due to reorganizations. Despite the fact that these layoffs took place, HealthOne was applauded publicly in the local media for its efforts to secure other jobs for these workers.

At the beginning of 1992, LifeSpan and HealthOne announce their intentions to merge. Gordon Sprenger, chairman of HealthOne, announced that "no hospitals will be closed, and any reduction of management staff is expected to come through attrition." His plan for the merger called for "individual hospitals that would continue to have autonomy to make decisions needed to fulfill their missions, under strategic policies of the parent consolidated organization." On June 19, 1992, Minnesota Attorney General Humphrey announced that he would go to court to block the merger of the two organizations because he strongly believed that Minnesota's consumers would "lose" if the mega-merger were allowed to take place and competition in the industry significantly decreased. In August 1992, an out-of-court settlement was reached with the Attorney General which put the final decision about the merger into the hands of the Minnesota Health Commissioner. On March 1, 1993 the merger was finally approved and the new HealthSpan Health Systems Corporation was born. Following the merger, HealthOne exited its prior partnership with Fairview Hospitals in Preferred One, yet gave no public reason for the departure.

On December 8, 1993, Medica and HealthSpan announced the merger which created the Allina Health System, one of the largest organizations in the state of

Minnesota. Gordon Sprenger said that he believes that this represents the organization's best chances for surviving health care reform if the two organizations operated under a single umbrella. Combined, the two organization represented over 550,000 enrollees, 5,000 physicians, 17 hospitals and long term facilities and over 45 owned and affiliated medical clinics. Though the merger met resistance from government agencies and some state lawmakers, such as Minnesota Commissioner of Health Mary Jo O'Brien, it was eventually approved by the Attorney General's Office and the U.S. Department of Justice at the end of July 1994.

Allina's initial strategies were to offer new products from a highly integrated, economically efficient organization. Information and performance data were going to be key to lowering costs while continuing to provide high quality care. Of particular concern to merger planners and observers were the challenges of integrating physicians into an organization as employees and merging the very different cultures of HealthSpan, a multi-hospital holding and operating company, and Medica, a health care insurer, together. Almost two years following the merger in 1996, Allina CEO Gordon Sprenger continues to discuss these issues as very important to his organization, and he has continued to express how he and many others at Allina underestimated the challenges associated with these two core merger issues.

Following the merger, Allina did not delay in implementing its new strategies. Towards the end of 1993 and the beginning of 1994, Allina began aggressively purchasing physicians' practices around the area at an unprecedented rate. Other organizations were unprepared to respond to this type of action and were forced to stand by while Allina made this strategic move. One particular transaction which drew a great deal of media attention was the January 1994 acquisition of Comprehensive Medical Care, a 54-physician group practice operating out of five northern suburb offices. Besides giving Allina a presence in the northern suburbs, the acquisition was watched closely because Comprehensive Medical Care had a long history of working

with MedCenters and Group Health (HealthPartners). In February 1994, HealthPartners announced that it had no intentions of terminating the contract, bringing two competitors, Allina and HealthPartners, into a fairly cooperative relationship, something not unusual in the Twin Cities' health care market.

Allina also pursued a set of strategies apart from the purchase of medical practices, though that was certainly central to their first year of operations. Allina purchased a controlling interest in StrategiCare, Inc., a software developer for health care applications, in August 1994. When announcing the purchase, Bill Finney, Allina's Chief Information Officer, described how the purchase of StrategiCare would significantly accelerate Allina's goal of producing and managing timely and accurate computerized clinical and financial data.

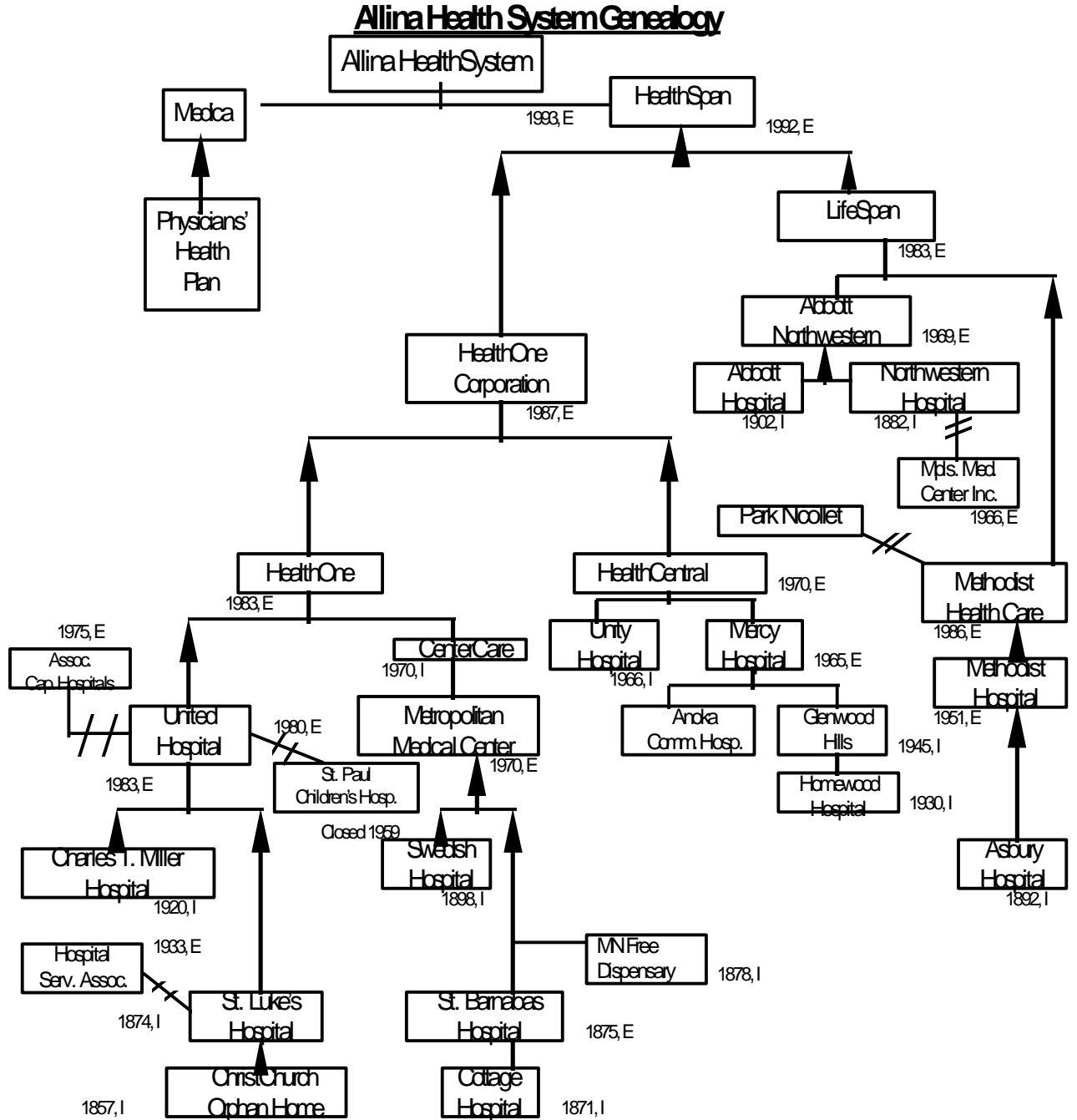
Following the initial wave of expansions and acquisitions which took place at Allina in the year following the announcement of the merger, it had to deal with the realities of a merger of this size. Allina's managers have been actively involved during 1995 with bringing the organization together as a single entity in its operations, procedures and employee mindset. Especially important to the organization has been the formation of the Allina Professional Services Group as it brings formally independent physicians into Allina as salaried employees. The MHSI is closely studying changes taking place as this group establishes its identity within the larger Allina organization.

At the end of 1995, Allina announced an agreement with HealthEast, a strategically important player in the eastern metropolitan area (St. Paul and Ramsey County) that had remained relatively independent of system-building activities taking place in Minneapolis and Hennepin County. This agreement was not a merger per se, but brought the two organizations together to jointly finance and operate a series of clinics designed to serve the population of St. Paul and its surrounding areas. Many felt that this relationship was motivated, in great part, in response to the merger of

HealthPartners with St. Paul-Ramsey Medical Center. Besides cutting into the patient base of the HealthEast hospitals, Allina quite possibly surmised that they could not let HealthPartners enter the east market without a substantial challenge.

Like its competitors in the Twin Cities, Allina is poised to enter a new era where a small number of very large systems dominate the market and where the Buyers' Health Care Action Group is proposing a new voucher-type system that would allow individual employees to choose their own providers rather than a single system. Some local participants believe that Allina's economic and strategic strengths ensure it a leading position no matter how the market changes. Others were much more willing to point out the organizational weaknesses associated with such a large, integrated system.

However Allina fares in the upcoming Minnesota market as various components of MinnesotaCare take effect and the new BHCAG plan is put into place, one thing is certain: local and national industry observers will observe and scrutinize the activities of Allina to learn how this innovative organizational experiment has performed clinically and financially, and to see what its effects are for the Twin Cities' market and other health care markets around the nation.



# Allina's Lineages

