Creating Value and Cultural Alignment in M&A

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The coronavirus pandemic has upended the healthcare industry, and as a result, the industry can expect to see an uptick in mergers and acquisitions (M&A) spurred by the need to improve financial viability and address long-term impacts to care delivery. M&A remains a part of leaders' strategic plans, and the pandemic has accelerated these initiatives.

While the motivation behind this trend is largely financial, healthcare organizations should not ignore the importance of cultural fit when assessing other organizations for their M&A potential. By taking a holistic approach to mergers, acquisitions and consolidations, healthcare organizations can charter a strategic plan that not only increases financial returns but also improves cultural integration and care delivery.

The Consequences of Overlooking Culture

When healthcare leaders look at merger, acquisition and consolidation opportunities, financial gains are a significant factor in decision making. Culture is often overlooked and, in many cases, not evaluated until after the deal is done, if at all.

This can cause cultural discord on both sides of the transaction, which can be detrimental to employee morale and exacerbate burnout. Cultural discord can erode long-term growth, stall innovation and make it difficult to attract and retain top talent. More alarming, cultural discord can pose significant risks to patient safety, decrease consumer satisfaction and lead to substandard health outcomes. To transform care delivery and gain higher returns, healthcare organizations can no longer save culture for last in assessing a strategic transaction.

A Different Approach to M&A Opportunities

By assessing cultural fit before or during the due diligence phase, healthcare organizations can mitigate many of the problems caused by cultural discord before they reach the patient — or the bottom line. Leaders can use these transactions not only as financial vehicles but also as opportunities to improve care delivery by making care and cultural alignment part of their core criteria in assessing and engaging potential opportunities.

Prioritizing care and cultural alignment improves the likelihood of a successful merger, acquisition or partnership and presents a key differentiator for healthcare organizations when bidding against purely financial buyers such as private equity groups.

As leaders craft strategic plans and look for the right opportunities, their efforts should consider the following questions:

What are we looking for in prospective organizations?

Although factors such as an organization's growth, profitability, size, liquidity and valuation play a primary role in making smart business decisions, healthcare leaders can create a more dynamic and, ultimately, more profitable transaction if they consider factors such as shared values and employee engagement and consumer review metrics.

Organizations need to be compatible for the transaction to be successful; the more they differ in their views on leadership, innovation and the future of care, the harder it will be to build a collaborative and productive relationship. Sharing the same values, a vision for the future and a fundamental approach to providing care increases the likelihood of building a strong, collaborative culture, which will serve as the foundation for achieving strategic and financial goals.

Additionally, it matters how an organization treats its people. Leaders diminish the potential benefits of a transaction if they pursue an organization that treats its employees poorly; bad behavior from one organization is unlikely to stop once cultures combine. By looking at the organization's rates for employee engagement and turnover, reviewing job openings and reading reviews from online employer review sites and professionally focused social media platforms such as LinkedIn and Glassdoor, leaders can spot red flags before considering them further.

The same applies when it comes to how the organization treats consumers. If the goal is to transform care, it is unwise to engage an organization with low rates of consumer experience and satisfaction. The problems that led to these substandard ratings will still exist after the transaction and pose a significant risk to patient safety and health outcomes, not to mention reputation and revenue. M&A opportunities should make it easier, not harder, for both organizations to move forward on care transformation goals.

How can we use M&A to drive innovative care delivery?

In addition to the above, organizations focused on providing greater value to consumers are strong targets for potential mergers, acquisitions and partnerships. As nontraditional players encroach further into the healthcare space, a key differentiating factor for healthcare organizations can be how well they adapt to consumer expectations. Research from Huron confirms 27% of consumers want more convenience and personalization in their care interactions, and even though many are happy with their current provider, having greater digital capabilities is enough to make them switch. This means it is all the more important for healthcare organizations to seize chances to innovate care delivery and provide consumer-centric experiences.

Mergers, acquisitions and consolidations can enable healthcare organizations to utilize automation, big data and analytics differently than they ever have before. It gives organizations the space to explore wearable devices, artificial intelligence and digital solutions that better align to consumers' lifestyles and preferences. It can also be the catalyst for transforming the intersection of government, education and payors when it comes to community health. In making their decisions about potential M&A opportunities, leaders should consider an organization's willingness and ability to make bold moves in the name of innovating care delivery.

How can we effectively blend our people, processes and technology to create a new culture?

Introducing new people, processes and technology into an organization is no easy feat. However, there are ways to combine the best of both organizations to create something stronger. Ideally, both organizations bring something unique to the partnership; by adopting each other's best practices, leaders can drive efficiency, create new models of care, nurture talent and find innovative solutions to common problems. By prioritizing cultural integration in the evaluation process or as part of due diligence, leaders can get an early start on developing a collaborative working environment instead of a combative one.

One way to do this is by engaging employees from across both organizations in solving key integration issues. For example, the new organization created out of the transaction may need to develop new standards of behavior and a system for performance management. It may also need to address the new geography of its service areas and decide how best to meet the needs of new consumer demographics. A planning session before a deal finalizes could bring together appropriate leaders, influential stakeholders and employees who demonstrate proficiency in these respective areas to examine a problem and collectively provide a solution. Such planning sessions enable leaders to predict how well employees from both organizations work together and may deliver helpful insights to inform a better integration strategy.

While financial returns are still an essential factor in considering M&A opportunities, healthcare leaders can gain a competitive advantage by broadening the scope of their assessment criteria. A strategic plan that considers both cultural integration and the consumer relationship will best enable healthcare organizations to transform care delivery and improve revenue.

Key Takeaways

Healthcare leaders can reap better rewards from their M&A opportunities if they:

Think differently.

Expand upon the traditional view of M&A to include priorities for innovating care delivery and improving culture.

Plan differently.

Address cultural compatibility and care transformation goals before the due diligence phase to avoid cultural discord and ensure a smoother integration after the deal is done.

Act differently.

Prioritize the culture and collective goals of the merger or acquisition to create a more dynamic and, ultimately, more profitable transaction.

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