Healthcare M&A: Key Areas That Reveal Critical Cultural Alignment

By John Bodine and Jess Jones

Healthcare leaders are under immense pressure to improve margins and ensure their organization's financial sustainability. This pressure — along with increased competition, changing consumer preferences and ongoing moves toward value-based care models — is driving merger and acquisition (M&A) activity and shifting how organizations approach transactions.

In Huron's annual survey of healthcare executives, leaders list value-based care and revenue growth as high-impact trends. These dynamics are incentivizing leaders to consider M&A deals that would fast-track growth, scale operations, offset risk and improve financial health.

While leaders may be eager to strike deals based on scalability or a strong financial outlook, overlooking an organization's culture can be costly. Cultural discord, misalignment or a lack of cultural understanding can limit organizations from realizing a deal's intended outcomes, stalling growth and hindering financial performance, and can lead to a variety of unanticipated consequences such as low employee morale, high turnover and patient safety risks.

With many factors influencing culture, assessing cultural alignment even when organizations are similar in nature, such as two regional health systems, can unveil significant differences and incompatibility. The risks significantly rise when healthcare organizations merge with nontraditional players such as payors, tech companies or private equity-backed organizations. Comparing organizational structures, policies and strategies for cultural alignment becomes more difficult — and more important — when the organizations have a considerably different mission, purpose or structure.

To build lasting deals that drive a faster return on investment and avoid wasting time on deals with red flags that indicate a likely poor outcome, leaders must think about culture throughout the entire M&A journey by assessing organizational elements that both shape and support culture.

Assessments should be ongoing as organizations gain deeper access to information and people. For example, the early stages of cultural assessment typically focus on publicly available information and key indicators of cultural performance, such as turnover, patient satisfaction and quality scores. As the deal progresses, more in-depth information can be obtained through interviews, surveys and research to supplement initial findings.

Approaching Culture Throughout the M&A Process

PRE-LETTER OF INTENT → DUE DILIGENCE → INTEGRATION PLANNING → POST-MERGER

Search for publicly available information to get a high-level understanding of the organization's beliefs, structure and talent strategy, as well as performance metrics that often reflect on the organization's culture. A company's website and professional social media platforms are a good place to start.	Look at internal policies, strategies, organizational charts and programs to further assess an organization's culture. Conduct interviews with staff and review employee engagement survey data to gauge cultural authenticity.	Analyze and prioritize cultural gaps and develop an implementation road map to address those gaps. Define key performance indicators (KPIs) and identify tools to track and measure progress along the way.

Evaluating Cultural Alignment Before Integration

In any merger, acquisition or partnership, culture should be one of the first components organizations evaluate when assessing potential value. Doing the legwork upfront can help organizations identify potential cultural gaps sooner so they can be considered and planned for throughout the merger and acquisition process.

To fully grasp company culture, leaders need to look at both the structural and social components of an organization. Evaluating similarities and differences in three core areas — operating model, talent strategy, and beliefs and behaviors — will not only aid organizations in identifying cultural risks and potential strengths but also reveal areas that will need to be addressed to achieve the desired outcomes of a deal.

Operating Model

While not an obvious place to look for cultural alignment, operating models are an essential component to understanding how a healthcare organization uses people, processes and technology to deliver value to its patients, their families and the community.

- **Organizational charts** provide insight into how people are structured, how roles are defined and who has decision-making power. For example, differing titles for similar roles can have a noticeable impact when aligning cultures because expectations and responsibilities can vary based on how the role is classified within an organization's hierarchy.
- **Performance measures** shed light on an organization's expectations and how employees are held accountable for their work.
- **Management processes** indicate how leaders determine priorities, allocate resources, and manage and motivate employees.

Talent Strategy

What programs an organization uses to attract and retain talent says a lot about how an organization values and inspires its people and how it's positioning itself for the future.

- **Recruitment and onboarding strategies** show the level and diversity of talent that an organization is targeting and how it introduces new employees to the organization's culture.
- **Learning and training opportunities** indicate whether an organization prioritizes employee

development and advancement as well as their motivation to stay up to date on the latest skills and technology in a competitive healthcare landscape.

- **Benefits and rewards packages** are key in attracting and retaining talent and can have a substantial impact on morale if there isn't alignment between organizations.
- **Employee turnover/retention metrics** can highlight employee satisfaction and workplace atmosphere but may require additional context to understand the full picture.
- **Company policies** or lack thereof outline how an organization conducts business and the standards to which they hold their employees and business associates.

Beliefs and Behaviors

It's much harder to change beliefs and behaviors than a company policy, so taking the time to identify red flags in this area is worth the effort.

- **Values and vision** can often be found on a company's website and should be one of the first things considered during a cultural assessment. As the deal moves along, discussions with leaders and staff can quickly solidify whether an organization's values and vision are simply words on a wall or ingrained in its culture.
- **Leadership expectations/principles** provide insight into the leadership qualities and styles that exist within an organization.
- **Employee engagement** illustrates how invested employees are in their work and the organization's goals — employee surveys are a great resource and can provide a wealth of information.

There are many indicators that organizations can use to assess cultural alignment. The key is to gather information early and look for nonnegotiables and gaps that need to be addressed. The more organizations can identify and plan for cultural gaps upfront, the more opportunity there is to maximize a deal and focus on activating the goal of the merger or acquisition after the transaction is complete.

Key Takeaways

To increase the likelihood of a successful M&A deal, leaders should:

Think differently.

View culture as a critical component when approaching M&A opportunities.

Plan differently.

Include cultural assessment in every phase of an M&A deal, from pre-merger to post-merger.

Act differently.

Evaluate cultural alignment by assessing both the social and structural components of an organization's culture.

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