THOUGHT LEADERSHIP

# 4 LESSONS FROM M&A WINS AND LOSSES

Typically 70 to 90 percent of acquisitions fail, according to the *Harvard Business Review*. Yet, failure isn't a foregone conclusion. Healthcare systems can beat the odds by learning from past dealmakers and dealbreakers in healthcare and other industries. Consider these four ways to build success.

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> **JONATHAN SAYLORS**
> HURON MANAGING DIRECTOR

## 1. Find a purpose beyond compelling financials.

Think about a framework for the larger picture. To stay committed to integration, you need a compelling value proposition: better care for the patient, preparation for population health, strategic growth or financial fitness, to name a few, said Jonathan Saylors, Huron managing director. But don't make your value propositions solely money-focused, he cautioned. "Reduced spending can be a great benefit, but organizations can usually articulate a higher purpose behind the need to save money. Find that purpose."

J Pegues, Huron managing director, echoed that advice. "There's frequently a failure to think about how both companies drive value and how the new entity will create more value for the customer."

## 2. Hardwire a culture of engagement.

A critical step in making a smart decision about cultural compatibility is commissioning a cultural assessment. "It's the best way to pace and sequence the different pieces of cultural integration over time," noted Clay Linkous, MBA, Studer Group account leader.

That process was used by a not-for-profit health system when it evaluated potential business partners. It identified 20 must-haves ranging from a strong partnership between hospital administrators and physicians to a hard-driving, high-value performance orientation.

To test the fit, the health system drilled down into each of these issues through online leadership surveys at each organization, onsite interviews and focus groups with everyone from board members and key physician leaders to frontline staff and community stakeholders. As a result, a clear choice emerged.

There are also recent examples of cultural conflict sabotaging a deal. A small community hospital put together a strategic affiliation only to have the physicians mutiny at the last minute. The problem? The senior leadership team had neglected to seek physician input early and often. In a system merger where the due diligence process dragged on for a year longer than anticipated, staff morale nosedived. Without a culture of transparency and communication, staff didn't know what postmerger consolidation activities to expect and worried about their jobs. The result was poor performance and high turnover, threatening the goals of the deal.

## 3. Focus on your competitive advantage and the changing environment.

Consider why patients choose you over your competitors. Then create a value curve — a diagram showing where value is created within your organization's products and services — to build on the five or six most important priorities in the purchasing decision. For example, patients are increasingly choosing hospitals based on clinical outcomes or convenience. For health plans, patients want network access. Once you've determined your key competitive advantages, choose the two or three you can afford to invest in and promote them heavily.

As you're assessing your competitive advantages, keep the changing environment in mind. "Being big has always been an advantage, but that could change based on what's happening with the government," Saylors said. "If an organization has new extra assets and payers leave the exchanges, that will increase the debt burden and potentially lead to bond downgrades like what Catholic Health Initiatives experienced."

In addition, some providers won't be allowed to grow too much, as was the case in the recent federal ruling against the proposed Advocate-NorthShore merger, Saylors added. "If they think they are differentiated enough on cost and quality to remain independent and competitive in the Chicago market, Advocate and NorthShore should remain independent."

Pegues noted that it's important to deepen your position rather than compromising it by broadening it. "That involves strengthening fit among all your activities and better communicating your strategy to those who should value it. Also, don't be constrained by what you already have. Ask, What would we do if we were starting anew? What skills or assets can we leverage to capture new value in markets we serve?"

## 4. Learn from other industries.

Step back from jumping into an M&A deal and reflect. Understand market dynamics better by asking, What's happening or not happening here? and What can I do to influence the action? One of the best ways to do that is to look outside your own company or even the healthcare industry, which often lags in innovation.

"The airline industry is a great example of how restructuring turned around individual enterprises in a rapidly transforming industry," said Saylors. Some of the most significant mergers in the airline industry pulled airlines out of bankruptcy and changed industry dynamics, according to *Forbes*. The deals made sense not only because of the bankruptcies but also because aviation is such a capital-intensive business. The mergers helped airlines manage fixed costs by increasing their volume of flights and footprints.

In the healthcare setting, being able to spread your fixed costs across a larger network can help systems drive down cost per unit of care.

Despite the dismal statistics about M&A failure, you can minimize the chances of a failed or incompatible merger by learning from the hurdles and successes of other organizations and industries.

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