Long-Term Value Creation through Effective Post-Merger Integration

(and how football teams aren't that different from hospitals pursuing successful transaction strategies

White Paper

Coker GROUP
Business Advisors for the Healthcare Industry

Mark Reiboldt, MBA
Senior Vice President

Contact

For further information about Coker Group and how we could be of assistance, call 800-345-5829 x137 or visit www.cokergroup.com.

Table of Contents

Abstract: Mergers and acquisitions (M&A) is not a new concept for hospitals and other healthcare industry organizations, particularly during the era of hospital-physician alignment. Making M&A transactions work, however, is an entirely different exercise and increasingly challenging in today's marketplace.

The foundation of this discussion is to first define what we mean by "makes a transaction work." Here, we are referring to a transaction that results in long-term value creation for all stakeholders, and evidence shows that this is a more challenging achievement when evaluating hospital mergers compared to assessing short-term success. Measuring the true success of a transaction requires a look far beyond the initial perspective of fit and financial returns, focusing instead on whether the affiliation resulted in compelling value realized over an extended period.

So, how can we ensure such strategies are resulting in long-term value for these organizations, as opposed to just short-term tactics implemented on a reactionary basis? This is where effective post-merger integration comes into play. This paper offers vital points that organizations should follow when pursuing long-term value from transactions.

Key Words: Mergers and Acquisitions, Healthcare Transactions, Long-Term Value Creation, Post-Merger Integration, Strategic Vision, Leadership, Organizational Synergy, Integration Management Office (IMO), Governance, Functional Areas, Functional Teams, Functional Leader, Key Progress Indicators (KPIs), Value Metrics, Integration Roadmap, Roadmap

Introduction

Mergers and acquisitions (M&A) is not a new concept for hospitals and other healthcare industry organizations, particularly in the era of hospital-physician alignment. Making M&A transactions work, however, is an entirely different exercise, and is increasingly challenging in today's marketplace. Creating long-term value after merger integration requires careful planning and execution. As we are amidst the best time of the year –football season – I keep dwelling on a concept that has crossed my mind many times, which is how much we can learn about making transactions work by observing winning football teams.

I am an avid football fan – FBS, FCS, NFL – all of it. In working with healthcare organizations on merger strategies and M&A transaction execution, I can see parallels with football teams. In this paper, I want to focus on an issue that is increasingly noticeable with healthcare organizations undergoing various types of transactions, or even considering mergers or other types of affiliations as a strategy in the future. As such, I will take some of the characteristics of a football team and what makes a particular team more competitive, and apply those principles to making transaction strategies work for hospitals, health systems, and any other healthcare services organization. So, in outlining how to make healthcare organizations' transactions work better, I use the football team metaphor for an application. Perhaps the similarities will resonate with football fans.

Let's first address what we mean by "makes a transaction work." A transaction that results in long-term value creation for all stakeholders is one that works, which is a more challenging achievement when evaluating hospital mergers compared to assessing short-term success. Measuring the success of a transaction requires a look far beyond the initial perspective of fit and financial returns, focusing instead on whether the affiliation resulted in compelling value realized over an extended period.

We know mergers and other types of affiliation transactions are not uncommon amongst hospitals, physician-owned entities, and other healthcare services organizations. Indeed, this is one of the most conventional strategies such organizations are pursuing for growing and maintaining competitive advantages within the current healthcare marketplace. But, how can we ensure such plans are resulting in long-term value for these organizations, as opposed to short-term tactics implemented on a reactionary basis?

Critical Points for Long-Term Value

This initiative is where effective post-merger integration comes into play. Following are some key, over-arching points that organizations should address when considering transactions, and in particular, evaluating long-term value potential.

Validated strategic vision of merger/affiliation

Though the requirement for validation may seem obvious, many mergers begin and transpire among healthcare organizations that never entail a legitimate strategic vision that justifies the deal. Many companies in other industries pursue transactions with the objective of increasing value through an impact on share price, consolidating competition, or gaining access to new markets. However, there's more to healthcare deals than valuations and short-term financial returns. Those are indeed important factors, but in the current healthcare landscape, there are a decreasing number of deals driven predominantly by simple valuation arguments or other relatively basic quantitative metrics.

Transactions involving healthcare entities are too complex and have too much systemic impact to ignore a strategic validation supporting such affiliations. Therefore, it is essential for organizations to identify and fully understand what the validation is. In addition to the rather obvious value that comes from defining a strategic vision, it is equally vital that all stakeholders involved in a transaction (buyer and seller alike) can buy into that strategic vision, and articulate the validated strategy to other relevant parties (e.g., patients, community, employees). So there is more than simply a conceptual idea as to why a deal makes sense. There must be a specific, validated strategic vision to show not only why a transaction makes sense today, but also how the strategy will ultimately result in long-term value for stakeholders going forward.

Develop Key Objectives and Targets for Integration

Once the vision and value case for a deal has been established and validated at a strategic level, we must think about integration. Here, the football metaphor begins, in that this is akin to a team defining its key objectives for a particular season. Every team wants to win every game, just like every transaction has high hopes for achieving the best scenarios from a deal strategy. Realistically, teams and organizations must concentrate their effort on the most critical targets, so the best teams will dissect their season, understanding their schedules and which conference games will require the greatest effort. They will make decisions on training and preparation based on their opponents' schemes. They will know what the road to a championship must look like; then, everything subsequent to that will concentrate on that pathway.

In the healthcare setting, the focus on integration should begin long before a transaction transpires. In fact, once stakeholders have validated the deal itself, integration is more critical in terms of long-term value creation than the short-term activities that are typical in the transactions process, such as due diligence, financial negotiations, regulatory procedures, etc. Those specific deal-related action items are important, however, getting the deal done is nothing compared to making it pay off in the long run after the parties have come together as one organization.

Stakeholders must begin early in the course of the deal to establish primary objectives for the integration process that will allow the greatest opportunity for creating long-term value down the road. Setting the objectives gets the stakeholders on the same page as to the key items and helps to ensure that the partnership leaves the gate with the greatest potential for achieving the desired vision.

Identify and Evaluate Synergies and Gaps

Next, the stakeholders must progress into an evaluation phase. Many fans may not be aware that football teams engage in this step. For every hour spent practicing on the field, players and coaches spend more hours in team rooms researching their opponents, their own players, schedules, etc., to discover factors that could impact the team's strategy and ability to win games.

Many people assume transaction due diligence should only consist of verifying their organizations have no major issues that could ultimately threaten the completion of a deal. This action typically includes legal evaluations, regulatory compliance reviews and audits, financial and valuation analyses, operational assessments, personnel reviews, technology infrastructure assessments, etc. Further, such due diligence is often conducted in a one-way format limiting perspective. The buyer will look for potential red flags with the target or seller, and in some cases, the seller may conduct limited reverse due diligence to ensure their assumptions of the buyer are validated.

The evaluation during this phase of integration planning, however, must go far beyond basic deal due diligence. From a comprehensive perspective, we start with identifying factors that will play critical roles in the integration process and work best for both organizations, and identifying gaps that could impede those integration efforts. We look for holes that will need to be filled during integration because although such gaps may not directly hinder the integration process, they often require attention to ensure they are addressed and do not become future impediments. As stated, this is a critical step that should take place well before the parties are ready to close on the transaction.

Establish leadership, structure, team, and governance

Many organizations wait until a deal closed before creating an integration team and launching planning efforts. Months later, they question why integration is moving so slowly with little results to show from the deal everyone was convinced made so much sense previously.

How this relates to football is obvious, at least on the surface. Teams must recruit the best players to remain competitive, though there is much more to that. Team owners (or in college football, a university's administration) must begin by putting the right leadership in place because even the best players will not be able to win games without the optimal leadership driving the program. We need not just a head coach, but the best offensive and defensive coordinators who can execute that team's strategy. We need position coaches that can squeeze every last ounce of talent and hard work from each player throughout a long and exhaustive season. Teams need the best equipment and technology staff, as well, to ensure nothing constrains the successful execution of the team's strategy.

Before organizations can launch an integration effort or dive into the specific planning the integration process will entail, they must establish sufficient leadership, structure, and governance that will guide the integration effort before, during, and after the transaction. Leadership is critical for establishing governance, which will be essential for setting specific targets, decision making, and measuring results. Then the leadership (operating under the established governance protocols) will need a sufficient team, resources, and operating structure that will ultimately serve as the fundamental components of implementing an integration plan.

In working on post-merger integration processes, the first thing to establish is the Integration Management Office (IMO).[1] The IMO is the central resource responsible for coordination and facilitation of the integration process and usually encompasses the outside consulting advisor assisting on the integration program, perhaps with a liaison executive from both of the organizations involved in the transaction itself. The IMO is an essential component of integration to ensure the coverage of all the bases, and nothing slips through the cracks throughout the integration process. The IMO typically

[1] Contact us for more information about Coker's approach to establishing and implementing IMOs, as well as examples of where Coker has advised healthcare services organizations on post-merger integration efforts.

operates in a manner that is outside or adjacent to the actual integration governance and leadership structure.

Next, comes governance, which entails setting the protocols, guidelines, and parameters for integration. Governance leads into structure, which is the mechanism for implementing and managing the integration. At the top of the structure is leadership, which must incorporate executives, board members, and senior staff members from both organizations. The leadership must comprise those individuals who are stakeholders in the deal itself. More importantly, the leadership must represent the individual agendas and objectives of their legacy organizations and must place all of the commitment to the strategic vision that was identified and validated in step one.

Once the leadership is established under the governance parameters, we can move into more granular components of the integration team and structure. We will develop Functional Areas, which represent key elements that will require attention and action throughout the process of integrating two (or perhaps more) organizations into a conjoined effort going forward. These Functional Areas will typically include finance, revenue cycle, physicians (medical staff, employed physician network, etc.), personnel/HR, technology (IT), facilities, mission/vision/values, and marketing. It also includes clinical operations, quality and compliance, coding, credentialing, contracts, legal, and any other key departments or components of the organizations that would require specific attention throughout the course of the integration.

While designating the Functional Areas in the structure, we will also establish Functional Teams, which are the people (typically at least one representative from each stakeholder involved in the transaction) responsible for leading the specific efforts of integration in their respective Functional Area. These teams are as extensive and in-depth as needed, meaning some Functional Areas entail significant demands and thus require larger or perhaps more specialized Functional Teams. For instance, integrating technology in a merger of two health systems involves extensive work, resources, and specialized expertise. This is an example of a Functional Area that requires the involvement of outside firms, whether that includes specific technology vendors, specialized technology experts, or other external parties. These outside parties can function as simply ad hoc contributors that the Functional Teams engage as needed, or it may be necessary to make these parties full members of the team itself.[2] Each Functional Team has a Functional Leader (or leaders, if needed), who are responsible for managing their teams and reporting to the leadership on progress, issues, etc.

Outline metrics, reporting, timeline, process, and milestones

The integration structure also will have reporting protocols, which will function as guidelines for reporting progress and issues to the integration's leadership team, and serve to track key progress

[2] This area is one where the IMO will play a key role, in that the IMO will serve as coordinator of the various parties both within the Functional Teams and those tangentially related to the integration program as a whole.

indicators (KPIs), budget maintenance, resource utilization, and other metrics. At a basic level, these reporting protocols are intended to facilitate efficient communications up and down the integration team and throughout the entire program. However, reporting is also critical in measuring or tracking progress against the stated targets and objectives of integration outlined in the earlier steps.

To have relevant, actionable intelligence to report, there must be something on which the integration team (i.e., leadership on down) to report. While everyone may have the same big-picture vision and general targeted objectives of integration, it is important to develop specific guidelines for the program's timeline, KPIs, value metrics, milestones, and other key elements of the process. This structure will serve as the high-level guide for the integration process, starting with pre-close integration planning and continuing through that point where the leadership can sufficiently report that all key functions of integration are complete.

Roadmap for Integration

Once the high-level guide for the integration process is established, we must drill down to a granular level, which is achieved through the development of the Integration Roadmap. If the previous steps could be considered the general format of a team's approach to offense or defense, and the items in step five would make up the team's playbook, the Roadmap is the actual game plan that outlines step-by-step and play-by-play the execution of the integration program. There will be pre-planned audible formations and other adjustments that can be made if scenarios arise that alter the original game plan.

The Roadmap is a specific, detailed, and tangible product. Just as NFL or NCAA football players will wear arm-bands that have coded translations of the playbook and game plans to reference on the field during the game, the Roadmap will be a series of comprehensive and extensive documents, (i.e., slide decks, Gantt charts, spreadsheets, maps, etc.) to guide the Functional Teams and leadership through every step of the integration process. As changes are inevitable during the progression, just as plans always change during a football game, the Roadmap will evolve as needed. As such, the Roadmap is a living, breathing document, which has the same degree of flexibility that the team members must have in an integration initiative, where changes and alterations in expectations are inevitable.[3]

Implementation

Finally, it is time to begin the implementation process. While I realize it may seem shocking that we have gone through all of the previous steps (which entailed significant amounts of work in their own rights) and are just now closing on a transaction and launching into the integration program proper. The progression to this point comprises significant work, yet we are only now getting to the stage that counts the most.

---

[3] Contact us for samples of Integration Roadmaps and examples of components that typically will be included in these documents.

Rather than viewing the initial work leading up to the actual opening kickoff negatively, I encourage leaders going through merger integration efforts to consider this front-end investment as minor when you consider the impact it likely will have when the game clock is ticking. This planning effort is similar to the spring season practices, training camps, organized team activities, strength and conditioning sessions, and individual/outside practice that teams and players will go through in advance of the opening game of the season. Once the season begins, the degree of challenge does not diminish, but the focus is more on executing a validated and refined planned, as opposed to figuring out the plan before going through your regular season schedule (only to realize your team is not on a path to be a post-season contender).

Conclusion

Making M&A transactions work calls for a seven-point game plan that encompasses validation of a strategic vision, developing objectives and targets, and assessing synergies and gaps. The successful merger must be grounded in healthy leadership, teamwork, and governance. The initiative must rely on accurate metrics and dependable reporting, timeline, processes, and milestones. The pathway to achievement calls for following a set roadmap that leads to implementation. The hard work on the front end is the crucial element for long-term success.