Leadership During M&A

Mergers and acquisitions are complex and daunting to accomplish, full of intricate legal and financial questions, business-benefit projections and formulas for extracting efficiencies of scale. All that due diligence generally is done by the time the organizations start to interact. And then trouble erupts.

"The finance people have done their homework. They know how to make all the widgets fit together, they know what services they can combine — rarely does that undo a deal," says Bob Clarke, CEO of Furst Group, a health care executive search and consulting firm. "But what's not been done is really a general understanding about how the organizations come together culturally, and that's where things tend to fall apart. People don't get along, they don't trust one another, they don't share information."

To avoid those pitfalls, HonorHealth CEO Tom Sadvary and his team paid extra attention to the so-called soft skills. In fact, Sadvary himself led the integration team that dealt with culture as Scottsdale Healthcare and John C. Lincoln Health Network recently merged into HonorHealth in the Phoenix market.

"I can tell you," Sadvary says of the experience, "that the old adage of 'culture trumps strategy' is not overstated."

Detecting friction points and assuaging concerns should be just as essential as purely business-minded plans for leaders who want to synthesize a new and powerful difference-maker out of two or more merging organizations. Lawyers and accountants know their stuff, but are not necessarily equipped to assess whether the human components will fit, says Joe Mazzenga, Furst Group vice president.

What's needed is "a far higher level of analytical rigor on issues like culture and organizational health that clearly have the opportunity to spoil and tank the best-laid plans," Maz-

IMAGE FROM FOTOLIA

"THE CHANGE AGENTS: LEADING DURING AN ERA OF TRANSFORMATION" IS A THREE-PART SERIES SPONSORED BY FURST GROUP THAT EXAMINES THE MOST CRITICAL COMPETENCIES FOR HEALTH CARE LEADERS DURING AN ERA OF REFORM AND SIGNIFICANT CHANGE.

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zenga says. Executive teams may sense that threat, but "they have a tendency to go back to their fastball, to go back to what they're comfortable doing."

Clear Intent

The time to visualize how people work in concert is at the very beginning. Leaders involved in the merger of Trinity Health and Catholic Health East — religious sponsors, each corporate board and executive suite — immersed themselves early on to develop a vision for the new entity, says Sister Catherine DeClercq, executive vice president for sponsorship and governance for Trinity Health, the combined system, after being formed in May 2013. Those precepts constituted "a core document, still a very significant document because we're trying to live … our vision for coming together," she says.

Culturally, CHE had a more distributed decision process, while Trinity was more centralized, though it had begun structuring itself more regionally with core groups of facilities in

SSM-Dean Health System: Integrating Fiercely Independent Physicians

When St. Louis-based SSM Health Care acquired Dean Health System, a multispecialty clinic and a health plan, in September 2013, the fortunate part was that Dean Clinic physicians were familiar partners — for decades they had practiced at and referred patients to SSM hospitals in the same service area of southern Wisconsin. The challenging part was that Dean had been a fiercely independent, physician-run organization for 90 years, "and now there is corporate ownership that is remote from them," says Gaurov Dayal, M.D., president of health care delivery, finance and integration with SSM.

But that remote organization has become more like Dean since the merger, putting doctors on the corporate board for the first time and appointing physicians to head two of its three divisions, including Dayal. The moves recognized the critical role of physician voices in both organizations as well as provided Dean with a level of comfort that "we're not going to change their world overnight, and that there will be a lot of continuity," Dayal says.

SSM also paid "an excessive amount of attention" to culture, to the extent of hiring a consultant to apply an "organizational health index," a set of several hundred parameters to determine the nature of the two cultures and identify where they overlap and don't, he adds. There's always a give and take between two combining entities, and "having very up-front clarity on what you're going to do is the best thing — a policy of 'no surprises,'" Dayal notes. "If you have a level of trust and comfort, and give the other party the benefit of the doubt, a lot of things are going to work out. But if you start a relationship that is not based on trust and common values, you can put anything you want on paper and it's not going to work."

Trinity-Health: Creating a Consolidation Leadership Team

The Trinity-CHE approach to merging took to great lengths the dual objectives of getting equal input from both sides into the integration quest, and then rising above old boundaries to a new plane of operation.

An executive team of five from each organization created a consolidation leadership team to discern how to deploy the aims of a shared vision throughout the workforce. Trinity Health had done things a certain way, CHE a certain way, and it was not about determining which way to adopt, but rather to "look out into the future, see where health care is going, and define something new," says Catherine DeClercq, executive vice president for sponsorship and governance for the combined system.

Two separate teams were formed around basic functions — finance, human resources, legal, supply chain and so on — the first to get the health care businesses through the consolidation, and the second to determine how to go about these functions a whole new way, says Clayton Fitzhugh, Trinity's executive vice president of human resources and integration management.

Meanwhile, a steering committee representing each system engaged outside consultants to help determine the competencies needed for the new board to pursue the stated vision during a time of industry transformation, DeClercq says. Trustees from both sides were given the opportunity to be considered for the new board. The consultants interviewed candidates to weigh their talents against the previously discerned requirements, and decided on six members from each prior board. Missing some competencies, the board selection process also recruited three external members.

"I think our processes have worked well," says DeClercq. "The board has coalesced; it's one board, it's not 'we' and 'they.' They're not referring to their prior lives."

HonorHealth: A Deliberate Approach

The leaders of Scottsdale Healthcare and the John C. Lincoln Health Network in Phoenix knew that their organizations had a lot in common. They were both locally governed, nonprofit and committed to a community mission. They operated in adjoining territories.

Nonetheless, Scottsdale CEO Tom Sadvary and Lincoln CEO Rhonda Forsyth proceeded with caution as their organizations merged into HonorHealth. "If you're going to start a new brand and a new brand promise, you have to be able to execute on that," says Sadvary, now HonorHealth CEO. "There's nothing worse than failure to launch."

The time from the affiliation agreement to the announcement of the new name and brand was 18 months. As a placeholder, the new organization was initially called Scottsdale Lincoln Health Network. Although the affiliation was announced in October 2013, Sadvary says the company held off on a full-asset merger until December 2014, when the bond market was more conducive.

On the cultural side, the health system interviewed 1,000 people — staff, patients and community members — to get a baseline understanding of what was important to them in choosing health care providers. The research led to the new name of HonorHealth and the brand mantra of "making healthy personal" on March 30.

Sadvary says he and Forsyth (now HonorHealth president) and their boards worked well together from the beginning as they combined forces. They learned from peers who had experience leading mergers and cautioned them about pitfalls that could derail the integration.

"We caught ourselves a couple times saying, 'We never did it this way at Scottsdale,' or 'We never did it this way at Lincoln.' You have to keep an open mind if you're going to get the benefits of a merged organization," says Sadvary, who noted that each of the legacy organizations had strengths worth emulating.

Lincoln had a very successful primary care model with employed physicians; Scottsdale's Virginia G. Piper Cancer Center includes clinical prowess as well as a research institute. Sadvary likes the complementary math engendered by the merger. "It sounds like a cliché, but 1 plus 1 equals 3, not 2."

Michigan and Iowa. That restructuring "was not completed, which was good, because it allowed us to step back and rethink," DeClercq says. Leaders of both prior organizations committed to "create something that was going to be for the mission going forward," says Clayton Fitzhugh, Trinity's executive vice president in charge of human resources and integration management. "It wasn't about who was going to end up on top."

Such a transparent partnership is important, Clarke says, because the absence of a clear, articulated vision can create anxiety about people's futures. "Just presume that 'no information' is always seen as a negative; people always fill in the gap with information that's probably worse than it is." Lack of dialogue on culture has the effect of burying cultural land mines instead of exposing them.

Rather than expressing discontent or reporting the discontent of others, an executive anxious about where he or she will land keeps quiet to avoid being cast as a malcontent, says Mazzenga. Candor is suppressed among the very people who could smooth over the cultural bumps.

Truly Listening

Listening and sharing expectations with the combined complement of people are the conduits for bringing cultural issues to light. At one current client organization, says Clarke, within the first 90 days of having merged, the CEO held at least 25 sessions with all staff, including both employed and independent physicians. He gave people a chance to challenge him. "You have to be a pretty brave soul to do that, because you also have to be able to recognize that you may have to walk back something you've said or put forward," Clarke says.

At IU Health, an Indiana health system that has grown rapidly to 18 hospitals, discussions with physician leaders of a new hospital, built in conjunction with a multispecialty clinic, led to granting them a degree of decision-making latitude that was different from that of any other system facility, says Dennis Murphy, executive vice president and system chief operating officer.

In fact, he sees the shared-decision model of IU Health Arnett Hospital in Lafayette as an alternative to the hierarchical structure now prevalent throughout IU Health. "We're now bringing that back to our main academic hospitals, looking at that structure in smaller community hospitals. It created for us a tangible example of how you can do that really well, so we're trying to replicate that."

The biggest mistake of the acquiring health system in a merger is presuming its culture is the one to keep, says Clarke. "Instead of planning 'how to get everybody into our culture,' this should be an opportunity to ask what people like and don't like about it, and build toward a new ideal."

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