

Top advice: How leading health system executives are overcoming post-merger integration challenges



The first quarter of 2024 marked the strongest merger and acquisition (M&A) activity among hospitals and health systems since 2020, and this trend is expected to continue. Consolidations bring a host of challenges, from integrating software and IT infrastructure to HR policies.

To learn more about the most pressing, post-merger integration challenges, as well as best practices for overcoming these challenges, Becker's Healthcare and ECG Management Consultants hosted an advisory call with senior healthcare leaders. This discussion featured Michael Biggs and Mark Johnston, both partners at ECG, along with hospital and health system presidents, COOs, CFOs and other senior executives.

Insights from their conversation are summarized below.

The two key reasons why hospitals and health systems are engaging in M&A activity

Several different dynamics lead to M&A activity. Each has their own unique features that in turn influence how organizations need to adjust or pivot. Generally, M&As can be split into two buckets: strategic opportunities and distressed transactions.

For hospitals experiencing financial distress, many are recognizing that after years of being independent, it's time to find a viable partner. For well-capitalized systems, acquiring a distressed hospital might be an opportunity with a long-term and a short-term effect.

Lisa Montman, executive vice president and CFO of Scottsdale, Ariz.-based HonorHealth, recently oversaw her organization's acquisition of three hospitals in the Phoenix area, which she described as a distressed acquisition. HonorHealth moved very quickly to have the newly acquired hospitals adopt the health system's culture and to standardize operations and best practices.

"You've got to drive the culture first, because the culture is going to drive what impacts the rest of the organizational change," Ms. Montman said.

Strategic opportunities are often driven by long-term vision or ongoing partnerships.

Kira Carter-Robertson, COO at University of Michigan Health - Sparrow in Lansing, Mich., said her health system's board looked ahead and determined that to have the breath, depth, and scale for long term sustainability, a merger was in the system's best interest. "We wanted to be in a position of strength to choose the best partner for us," she said. "It was a matter of who was going to be the right partner for us culturally."

Daniel Ireland, president and COO of Rochester Regional Health, Finger Lakes Rural Hospitals in New York, expressed similar sentiments.

"We were looking ahead, thinking about what our best financial position would be, and we decided to merge, but not just merge with anybody — merge with the right people in our region," Mr. Ireland said.

Similarly, Dominica Tallarico, executive vice president and COO at Minneapolis-based Allina Health, said her organization approached any possible relationship from a position of strength. "Whether it's a partner to optimize revenue cycle or laboratory services or a vertical integration, we're focused on ensuring we continue to thrive well into the future," she said.

Mr. Johnston of ECG reiterated how the firm has seen the highest number of M&As in a long time and explained that as hospitals and health systems have struggled financially over the past few years, their business has seen a divergence in performance.

Some hospitals and health systems — especially smaller health systems or larger health systems that don't have a concentration in a market — have seen their performance decline, while stronger regional systems are seeing their performance accelerate. "It's a tale of haves and have-nots," Mr. Johnston said.

Integration challenges and why they need to be addressed

Hospital and health system leaders on the advisory call acknowledged that simply negotiating a deal and signing an agreement do not make for a successful integration. A successful integration requires understanding and overcoming a host of challenges, including creating alignment around vision, values and culture and establishing clear governance and leadership structures.

Having meaningful conversations with staff and clinicians is equally important. Several advisory call participants emphasized the criticality — and at times, the difficulty — of ensuring physicians are aligned.



“All of this will fail if you don’t have alignment of your clinicians,”

Kiran Avancha, PhD, chief innovation officer at HonorHealth, said

From a financial perspective, Bradley Bond, CFO of Cleveland-based University Hospitals, which has acquired eight hospitals, stressed the importance of understanding the organization’s capital investment and realizing that it may be necessary to close facilities and move programs.

“A lot of our acquisitions were acquiring a distressed hospital, which may have overcapacity — too many beds, too much brick and mortar,” Mr. Bond said. “Most of that is not needed today.”

Last but not least, with digital health becoming a crucial part of hospital operations and growth, pursuing the standardization of IT systems emerges as a key driver for success. Operating as one entity requires using the same IT systems, which includes the EHR, accounting and financial systems, enterprise resource planning and HR systems, and any other related infrastructure.

Not consolidating can lead to a disjointed, siloed organization. “You have to get IT systems aligned, getting everyone on the same system, the same ERP,” Mr. Bond said.

Best practices to overcome integration challenges

The way to address these challenges is to take advantage of lessons learned from previous M&As and to employ best practices. Much like a roadmap, it’s important for health systems to have a specific integration plan.

This plan should be developed before a deal is signed, and it must be explicitly clear and detailed.

“In addition to integration plans, contingency plans that help systems work together to manage the challenges that come with any merger are critical to long-term success,”Douglas Watson, executive vice president and CFO of Allina Health, said.

Much like keeping physicians in mind, organizations can’t lose sight of the patient experience. Questions around a unified approach for patients and how the merger might benefit them are also important.

One key theme that emerged as part of the conversation was focusing on the first 100 days. Too often, integrations can drag on, at times due to lack of adequate due diligence and pre-planning. “Clients

are asking us to help them shorten the integration time frame,” Mr. Biggs of ECG said. “They need the synergies to flow through their P&L quicker.” This can mean focusing on performance at the beginning of an integration, having a sense of urgency and ultimately getting value more quickly, Mr. Biggs added.

Communities need to understand why M&As are happening

Mr. Biggs also commented that there is always an underlying purpose, a community benefit, for why two organizations come together. However, organizations often get mired in the integration details of dealing with governance and IT systems and overlook the critical importance of the community benefit.

One leader on the advisory call mentioned they focused heavily on public forums and engagement opportunities to ensure there was understanding throughout the community about the reasons for the merger.

Trends and economic pressures indicate some hospitals are going to continue to struggle financially, as others are seeking greater size and scale. For those with previous M&A experience, one conclusion is clear: For the transaction to be successful, the post-merger integration has to include alignment across the organization and in a multitude of different departments and areas.

“We are expecting to see a lot more interesting partnership opportunities in the next few years,” Mr. Johnston said.