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Cultural Integration & Communications: Making Mergers & Acquisitions Work

At a time of unprecedented consolidation in the healthcare industry, one of the most critical factors for success isn't on the term sheet but the extent to which employees and other internal stakeholders support the strategy.

A wave of mergers and acquisitions swept across the hospital industry in 2010; 77 major deals were announced in the United States, the most since 2001. According to *Healthcare Finance News*, those 77 deals were valued at $12.6 billion, an 86 percent increase from the $1.8 billion in 2009.

Through the second quarter of 2011, the quantity and dollar value of healthcare mergers and acquisitions (M&A) is on pace to exceed 2010. Several factors – financial, technological, regulatory, legislative and strategic – will continue to make consolidation a viable and in some cases necessary trend in the healthcare industry.

While large-scale mergers and acquisitions are relatively new for hospitals and health systems, consolidation has been common for more than three decades in airlines, automobiles, financial services, electronics and other industries. Regardless of the business sector, most M&A experts agree on three things:

- Most transactions fail. More than half of all deals – some studies say as high as 80 percent – don't produce the value their creators intended.
- Most organizations focus primarily on the legal and financial due diligence of the deal, paying little or no attention to cultural issues.
- Cultural factors are a major reason why transactions fail. A *Wall Street Journal* study cited cultural incompatibility as the leading cause of M&A failures.

Cultural Integration

To increase the chances for success, healthcare leaders involved in M&A transactions – buyers as well as sellers – must conduct "cultural due diligence" that is as rigorous and systematic as that done for the financial, legal and operational parts of the transaction.

In every merger or acquisition, one culture and management style ultimately will prevail; acknowledging this reality is an important first step to bringing the two cultures together. Ultimately, the business culture will determine the new organization's performance. No matter how strategic the plan is on paper, joining two businesses won't work without solid employee buy-in and strong, well-planned communication. By first identifying the key elements of each organization's culture and then deciding what to keep, change or eliminate, leaders can create a new culture that ensures the success of the transaction.

Culture is comprised of the unconscious, unspoken and strongly held assumptions and beliefs that guide people's behavior. The components of a culture may not be obvious or easy to measure. An organization's culture is so ingrained that typically it is taken for granted – until employees at both companies discover they're going to have to adopt a new "how we do things around here."

Here's an example: Both the acquiring and acquired hospitals recognize the need to reduce post-discharge patient bed turnaround time in order to improve efficiency and boost patient/family satisfaction. At the acquiring hospital, the typical process is to appoint a multidisciplinary committee to develop and implement a new process. At the acquired hospital, on the other hand, the culture is to discuss the issue at a senior leadership meeting, assign resolution responsibility to an executive, and set a target date and cost-reduction goal. Which method would work best for the new organization?

Reducing Resistance to Change

There are well-defined steps organizations can take to keep from becoming one of the 50+ percent of failed mergers and acquisitions:

- **Case for Change** – Create a strong, compelling case for change and a shared sense of urgency by carefully presenting the reasons for the transaction. In many respects, employees are a tougher "sell" than boards of directors or shareholders. Recognize that some people respond best to facts, others to emotions, and still others to a combination of both; relying on the best methods, depending on audience needs, is critical. Importantly, focus on the "what this will mean to me" aspect whenever possible.
- **Vision** – Shape a picture of what the organization will look like after the change. Describe the vision in a way that addresses fears and inspires confidence in what could be. Most of the workforce, management and non-management alike, feels invested in the status quo. It's essential to move that investment from today to tomorrow.
- **Engage** – Involve key stakeholders in critical aspects of the change. When describing the non-negotiables, ensure there are plenty of decisions in which employees can offer input and feel a sense of ownership. The more employees own it, the more they will support it.
- **Align** – Ensure that all revamped workflow and supporting processes and practices are adjusted to support the vision of the future. Analyze each for possible unintended consequences that could result from misaligned systems. The bed turnaround example cited earlier is one of hundreds of change management opportunities in which cultural issues are critical.
- **Sell** – Communicate relentlessly. Use consistent messaging with multiple media and methods to ensure the right information gets to employees in ways that make sense to them. Measure the impact of the communications and make adjustments as needed to keep the pressure on positive change. You can't over-inform in times of M&A.
- **Persist** – Keep the energy up. Create and implement early warning mechanisms that let you know if progress is being made or if dangers have just gone underground. Don't let the organization become distracted by the next new thing or by "fire fighting" to the detriment of the new entity's success. Things often look like they are settling down long before they really are.

Communicating about Mergers & Acquisitions

Making the cultural, financial and operational elements of a merger or acquisition work starts with effectively communicating about it from the day it is announced, before the rumor mill and the uninformed can spin it out of control. The first message employees hear generally is the one that will most influence their perspective.

A key goal is to overcome the negative image that the terms "merger" and "acquisition" conjure for many people – visions of facility closings, staff reductions, spending cutbacks and other potentially destructive changes. The goal of an M&A communication strategy is to provide clear, simple, and credible answers to the three most important questions that the acquiring and acquired workforces will have:

- WHY is this happening?
- WHAT will happen to me?
- HOW will it work?

Initially, you may be unable to answer some important questions, but you need to help employees understand the process and let them know that you will answer their questions and concerns throughout it. The prudent strategy is to:

- ADDRESS what hasn't been decided
- ACKNOWLEDGE its importance to employees
- PROMISE to provide the answer as soon as it's available

When considering a merger or acquisition, there are several actions you can take to position your organization for success:

- *Communications Audits*
- *Organizational Communications Training*
- *Cascade Communications*
- *Community Relations*

Communications Audits

Most organizations don't regularly analyze and assess the strengths of their communications. What works during routine business can be inadequate for handling the communications challenges of a merger or acquisition.

In addition to auditing their own communications infrastructure, both the buyer and seller should gauge the impact of combining two communications infrastructures and identify the most effective communication channels for different employee groups. Communications systems that allow employees to ask questions and quickly receive answers are optimal.

Organizational Communications Training

Research has long shown that employees prefer to get important information in face-to-face discussions with their immediate supervisor/manager. The problem is that many line managers don't:

- Have the skills to communicate effectively
- Feel comfortable answering difficult questions from their staff
- Fully understand or support what they're being asked to say
- Have the tools they need to engage their employees and create buy-in and a sense of ownership

Effective interpersonal and small-group communication is a teachable skill. Once managers learn it and become comfortable doing it, they can address the fears and concerns of employees.

Cascade Communications

A Cascade Communications process helps strengthen the relationship between managers and staff through a stream of information that flows down through the organization and back up again. M&A communications should begin with senior leadership conveying the big picture and addressing employee concerns in group discussions or forums. After leaders create the vision and overall goals, supervisors can add to the communications flow by explaining the nuts and bolts of the transition, especially the critical "here's what this will mean to us."

There also should be a multi-level feedback loop built into the cascade process. If a supervisor encounters a question they can't answer, they need to be able to get an answer quickly. Just as important, leadership needs to know about employee questions in order to spot patterns of concern and quickly address them.

Community Relations

Cultural integration during a merger or acquisition isn't just an internal issue. Even in large cities, elected officials, community leaders and their constituencies may feel very proprietary about "their" hospital or hospital system. Frequently, when an out-of-town organization announces plans to buy a local hospital, the deal can become embroiled in controversy and legal, legislative and regulatory wrangling. This is especially true when a for-profit entity is buying a community or non-profit organization.

The same communications tools and initiatives used to address internal opposition should be used with the media, community leaders, civic groups and other external audiences. As with employees, external stakeholders benefit from understanding the *why, what* and *how* of the deal. The cascade process works as well externally as it does internally; your leaders are out in front telling the story to elected officials and physicians, nurse executives and other clinical leaders are reaching out to healthcare officials and organizations, other managers are in touch with their important contacts and so forth.

The feedback loop between internal and external stakeholders is strong. The more negativity employees hear and read from community leaders and elected officials, the more negativity they'll have. When external stakeholders receive phone calls or letters from frightened or angry employees, they often are inspired to champion the issue.

Speed and accuracy are critical in these communications. Just as the grapevine and rumor mill will go into overdrive within the hospital, so too will the external social and traditional media quickly spin the news of the proposed transaction – often with messaging that's far off the mark.

An effective integration relies on a strategic plan that ensures you control the message and engage stakeholders in the success of the plan. And strong communications are key to that success.

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