In the Wave of Healthcare Mergers, Don't Forget Your Most Critical Asset – Your People

Presented by INTEGRATED Healthcare Strategies, as authored by
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Merger and Acquisition (M&A) activity in healthcare has reached its highest point since the mid-1990s, according to Irvin Levin Associates. The recent wave of M&A activity does not necessarily indicate that a facility being acquired is having financial difficulty. Many organizations, especially rural hospitals, view a merger, consolidation or affiliation with a larger system as a proactive way to deal with the uncertainty presented by the Affordable Care Act. A consolidation strategy can provide an organization with access to capital, increased market share, operational synergies in areas such as technology or supply chain, and increased physician alignment.

It is disturbing, however, that given the significant increase in transaction activity, nearly two-thirds of all transactions fail to achieve pre-deal expectations. The PricewaterhouseCoopers (PwC) 2011 M&A Integration survey identified seven key reasons for deal failure:

1. Overpaying
2. Culture clashes
3. Lack of due diligence
4. Failure to retain key employees
5. Excessive debt
6. Lack of communication
7. Extended integration

Despite the numerous reasons an organization may contemplate a transaction, all deals have one thing in common – people. The moment that a transaction is announced, hospital employees immediately begin to ask questions:

"How will this affect me?"
"Will this change my benefits?"
"Will I still have a job?"

While this is true in virtually every industry, it is especially critical to have caregivers focused on patients and not the uncertainty that a transaction can bring. Yet, too often, HR plans, programs, and integration strategies are the last item considered. This is unfortunate since, according to the PwC reasons for deal failure, five of the seven directly impact people.

The lack of a thorough HR due diligence can create numerous financial, legal, and operational liabilities. Often organizations have different benefit plan structures in health benefits and retirement programs. Also, different compensation programs including base and differential pay, can make it difficult for employees to move between organizations. Redundant technology platforms such as payroll, time and attendance, and a Human Resource Information System (HRIS) can create financial waste.

When contemplating a transaction, each human resource plan, program or initiative should be closely evaluated for historical and future expense, compliance with regulations (i.e. Employee Retirement Income Security Act and the Department of Labor), and potential barriers to integration. A proactive integration strategy should contemplate what plans will be combined or left alone and what are the operational and financial implications of these decisions. It should also include a communication strategy for employees. Too often, a communication strategy consists of a senior executives saying "Don't worry, nothing will change." There is always change in a merger, but identifying the change and communicating openly with employees will greatly reduce "merger anxiety."

Thorough HR diligence and creating an integration strategy is not a guarantee that the transaction will be a success or that there will not be challenges. It will, however, greatly increase your odds that caregivers will remain focused on what's important – the patient. This will inevitably impact quality and patient satisfaction which is something that we in healthcare are all focused on.

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