AHA Trustee Services

Post-Merger Integration: The Board's Role Begins Before the Ink is Dry

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Mergers and acquisitions (M&A) are occurring throughout health care, with transactions happening among entities of all provider types and sizes. (According to the latest analysis by Kaufman, Hall & Associates, LLC, 49 transactions were announced in the first half of 2015, up from 43 transactions in the first half of 2014.)

A priority objective for hospital partnerships is to build the competencies required to manage population health under new value-oriented care and payment models required by consumers, employers, and government and private payers. Needed competencies and infrastructure include network development, clinical alignment, quality, information technology, and brand recognition.

Integration can take numerous paths, but the realization of the partnership's expected benefits – establishing and strengthening essential competencies – is of paramount importance. The board's role in facilitating/ensuring that the partnership achieves its anticipated benefits is critical. The discussion below identifies some key questions board members should answer individually and collectively to help the organization clarify and achieve the integration's intended goals.

The Board's Role with Strategic Partnerships

Boards, among their varied roles in helping lead an organization, play a critical role in identifying the need for partnership, evaluating and selecting a partner, and ensuring the partnership realizes its strategic objectives. Directors need to be active participants from the earliest discussions about partnerships through to the transaction and transition processes. Their fiduciary duties include the duty of care to exercise an informed business judgment when evaluating partnership proposals, duty of obedience to ensure that partnership proposals will further the organization's mission, and duty of loyalty to avoid conflicts of interest.

Based on the questions they ask, high-performing boards can ensure that the organizations they direct meet partnership goals and objectives, including development and execution of effective integration plans. The ten questions below apply to all types of partnership arrangements.

1. How do we define partnership/integration success?

This is the key question that focuses on what each organization can bring to and accomplish through the partnership. Given that the criteria for successful partnerships exhibit the following characteristics, board members should focus on important questions about how to achieve each (see table on page 4).

Success most often is achieved when there is commitment to "all-in" integration with a higher degree of clarity around management and governance responsibilities, and clear post-close performance expectations, as communicated through a detailed implementation plan. Ideally, the plan is developed and made available early in the transaction process in order to support the board's decision to enter the partnership and so that the integration team can hit the ground running as early as possible.

Early wins are sought and achieved using organizational champions for key initiatives across the different integration work streams. As the integration progresses, the partnering organizations deliver on their commitments of capital and resources to achieve the stated objectives. Organizations with a history of successful partnerships clearly learn along the way and are able to apply what they've learned to achieve higher levels of integration goals with each successive partnership.

Desired Characteristic	Relevant Question(s)
Alignment of common vision and objectives	Have we/how have we defined our vision and objectives? Are these complementary to those of our partner?
Strong leadership (board and management)	What is our assessment of the leadership we and the partner each bring to the arrangement?
Cultural compatibility, constituency support, and implicit trust	What level of cultural compatibility, constituency support, and trust are we and the partner each bringing to the table?
Documented, achievable value proposition and business plan prior to transaction closing	Have we defined the partnership value proposition through a fact-based business plan? How aligned is the plan with each partner's strengths and capabilities?
Ability and willingness to make challenging decisions prior to closing, including defined governance, corporate, and management structures	What is our goal related to new leadership structures following closing? How will decisions be made? What will the structures be, and what role will each partner play in decision-making processes?
Geographic proximity, which enables broader network development for a broader population base	What are our objectives related to network growth? What does each partner bring related to these objectives?
Employer and payer support in the affected region	What support can we expect from employers and payers in the region after closing?

2. How do we assess our organization's readiness for integration and partnership?

Readiness for integration/partnership is a function of factors that include a mutually agreed-upon vision, cultural compatibility, governance effectiveness, clear decision making, integration leadership, accountability, change management, communication, commitment, and structure.

Using a readiness assessment tool (Exhibit 1 on page 5), boards can work with management to assess readiness across many dimensions at multiple points prior to the transaction closing. Each factor has a quantifiable definition against which the organization's performance can be measured and necessary adjustments made.

For example, accountability is defined as having "business case or value proposition development as part of initial planning, combined with clear, measurable performance targets post close." Governance effectiveness is defined as having an understanding of board structure and practices through "documented decision rules and authorities; board composition, roles and responsibilities of legacy organizations; and existence of intentional plans for creating consistent governance for the newly formed entity."

The tool identifies areas of needed focus and attention. Exhibit 1 shows the readiness of one organization along the various integration dimensions. Leadership, change management, and structure are areas where this organization will need to focus during the integration process. Improvement will occur through such activities as naming a dedicated integration leader, implementing change management strategies, and establishing a clearly defined management and reporting structure for the new organization.

3. How do we coordinate the partnering/integration process to ensure a high probability of success?

Hospital management and governance teams often assume that partnerships occur through sequential steps, the first group of steps consisting of transaction activities (e.g., identifying a partner, conducting due diligence, and developing and executing the agreement), followed by the second group of steps consisting of transition activities (e.g., integration planning and execution). When this traditional approach to partnering and integration processes is applied, it may be driven by the current leadership, and may focus primarily on speed and compliance over organizational buy-in. When this occurs, the partnership objectives are less likely to be achieved during the integration stage and thereafter.

In an effective and sustainable integration process, transaction and transition activities are overlapping, rather than sequential. Exhibit 2 on page 5 illustrates the recommended partnership life-cycle, with integration work streams often proceeding simultaneously and involving:

- strategic planning prior to signing of a Letter of Intent.
- transaction development and execution through the Definitive Agreement.
- detailed transition planning and execution, from the Letter of Intent

through complete execution of integration plans.

This integrated approach is vision-driven and sponsored by leadership, but accomplished collaboratively within and across the organizations. It emphasizes buy-in while attending to compliance, grows new leaders, and is sustainable over time, with results that last.

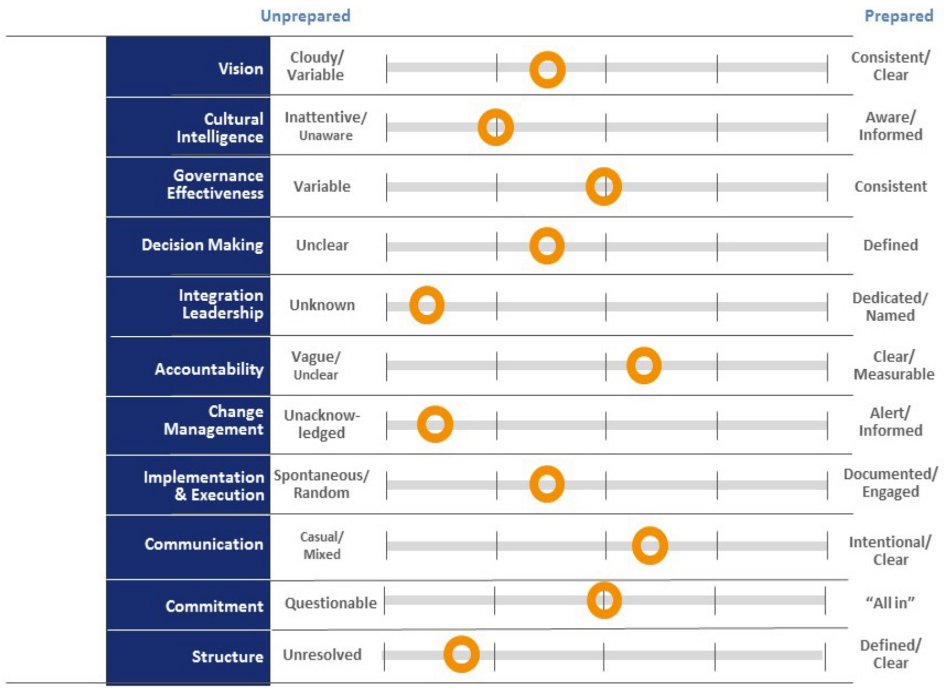
The integration framework, described next, is established before the transaction is complete, with detailed integration planning occurring collaboratively and at the right time with both organizations, as legally permitted.

4. How do we create a functional integration structure and ensure accountability?

Transaction and transition management commonly occur through two independent work streams, often involving two separate teams working simultaneously. However, interaction between teams conducting the work is absolutely critical, and is the key function of a Project Management Office (PMO). The PMO is responsible for coordinated work plan and business plan development, regular progress tracking and reporting, communication planning, and risk and issue management.

Exhibit 3 on page 6 provides an overall integration structure for two partnering organizations. A Joint Steering Committee, comprised of members of each organization's leadership team and board, oversees the work of an Integration Committee. This Committee also has members from both organizations, who typically are the heads of each Functional Integration Team. The Committee oversees the Functional Integration Teams, which are comprised of operating staff (for example, nursing, finance, information technology (IT)). The PMO acts as "air traffic control," providing a dedicated resource to managing the two tracks of the integration process—i.e., Due Diligence Committees, which are responsible for the transaction work stream, and Functional Integration Teams, which are responsible for the transition work stream.

Exhibit 1: Evaluating Partnership Readiness

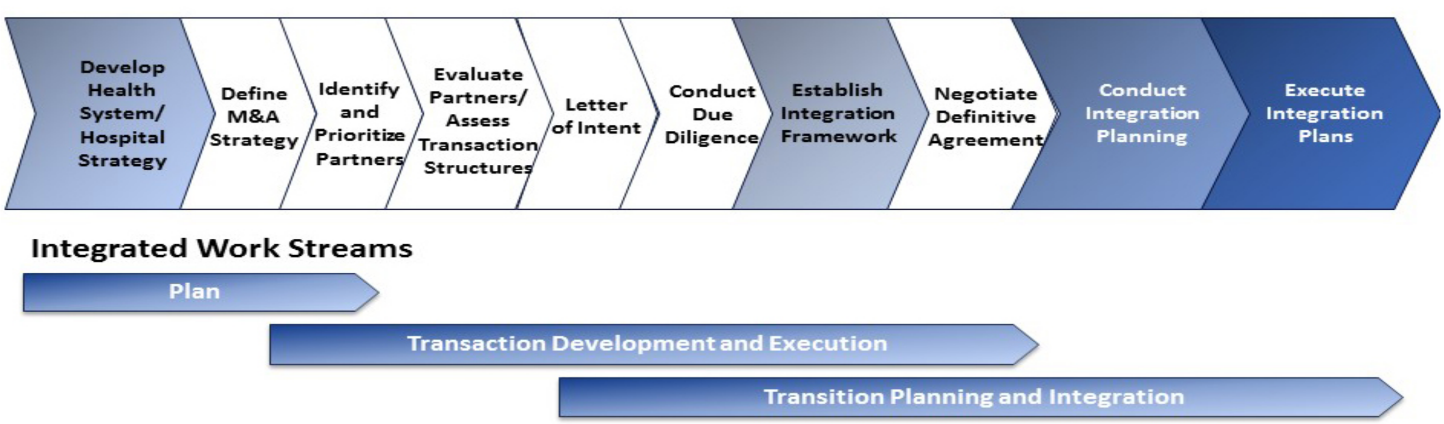


Source: Kaufman, Hall & Associates, LLC

Characteristics of highly effective integration teams and committees include: defined roles/responsibilities; documented accountabilities, goals, and outcomes; designated leaders; clearly defined decision-making processes; involvement of key constituents and stakeholders; uniform support from senior leadership; and dedicated leadership resources.

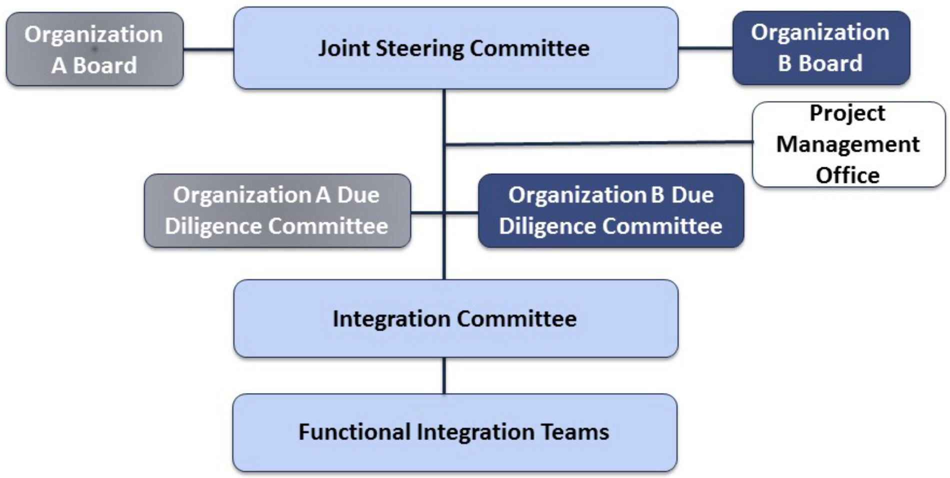
Sub-teams may be needed for specific subject matter expertise and to facilitate change at the operating level. In general, the more people involved in integration teams, the better the integration process. Functional teams must communicate with each other, discussing and solving issues and challenges that span their functions.

Exhibit 2: Integrated Partnership Cycle



Source: Kaufman, Hall & Associates, LLC

Exhibit 3: Sample Integration Structure



Source: Kaufman, Hall & Associates, LLC

5. How do we best communicate the vision and integration progress to key stakeholders inside and outside the organization?

Leadership's development and communication of a clear, consistent, shared vision for the partnership is essential. As soon as the prospective partnership is announced at the Letter of Intent stage, constituents inside and outside the organization will want to know how the arrangement will affect them. Deliberate communication, supported by dedicated professionals, is vital to attainment of transition and integration goals. An overall communication plan that includes constituent-specific components where appropriate should detail the frequency, mode, methods, ownership, and effectiveness metrics related to the communication strategy.

When empowered by clear communication from the management team, board members can keep their "ears to the ground," providing constituents with context, support, and confidence in management's work. The ability to manage expectations both internally and externally is important. This can be aided by using a simple graphic, like Exhibit 4, that identifies integration stages, key milestones toward which teams will be working, and estimated timing.

Clarity is particularly essential around timing and milestones—full realization of integration objectives takes time. Timeframes in Exhibit 4 are indicative of and dependent on the scope and activities involved in the sample integration effort depicted. Organizations cannot over-communicate about the integration.

6. What transition planning considerations do we need to address?

Using the stated integration vision and objectives as a guide, team-based transition planning should occur for each functional area of the organization, including: the medical staff, nursing, human resources, clinical operations, quality, legal and compliance, IT, finance, operations, and communications and marketing (Exhibit 5 on page 7). The PMO ensures the progress of such planning.

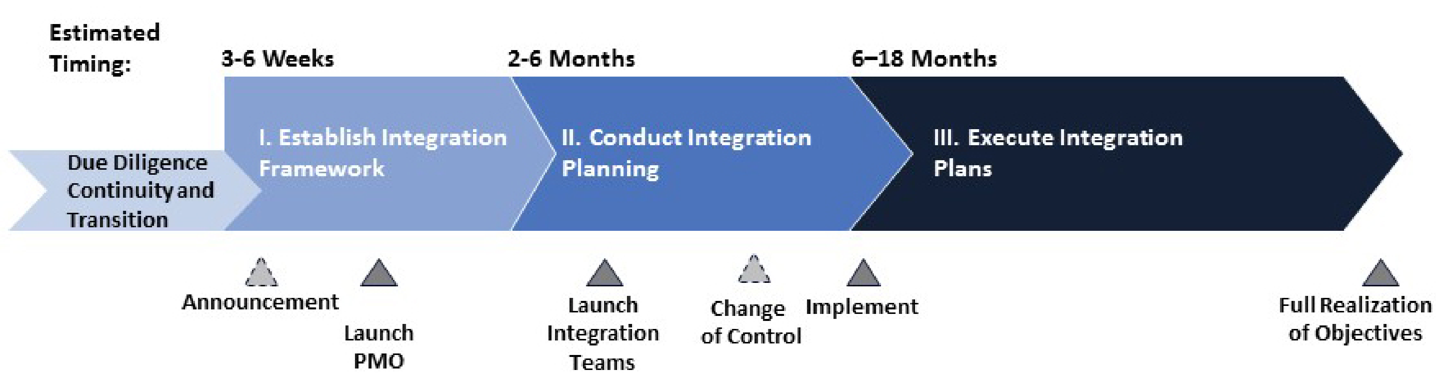
Critical questions need to be answered in each area. For example, the issue of how to handle existing contracts with physicians, vendors, maintenance services, and others is a key operational consideration. Will contracts be signed, eliminated, rolled over, merged, or renegotiated? All contracts need to be identified, tracked, and managed as defined and approved in the integration plan. Additionally, issues of reporting relationships, employee benefits, technology integration, and much more should be considered as part of the team-based transition planning process.

Boards typically ask more questions as the integration plan is executed. Specific directors might have experience and skill sets in areas such as finance, operations, IT, and human resources that could be useful in guiding the integration process. The fine line between oversight and "getting too far into the weeds" is predicated on the relationship the board has with the management team. All parties should be sensitive to this distinction. The PMO can play a key role in keeping board and management informed about progress in planning the functional elements of the integration.

7. How do we address the best interests of our employees?

Managing an organization's human capital can be one of the biggest challenges of an integration effort. Boards should ensure that leadership teams answer

Exhibit 4: Managing Expectations to Reach the Vision



Source: Kaufman, Hall & Associates, LLC

big-picture questions such as: How will employees transition? Will they become employees of the new organization? Will they remain where they are? How might compensation and benefits change?

More detailed questions also require answers. What will happen to employee paychecks? If the transaction is finalized in the middle of a pay period, how will employees be paid? What changes might occur over time? These issues must be addressed by the appropriate Functional Integration Team.

As two organizations come together, matching resources to the demand for them takes time.

Being as transparent as possible by sharing what is known and acknowledging what is unknown at each point can be a good approach. Communication around employee issues should focus on the guiding principles, partnership objectives, and what's good for the community long-term.

8. How do we navigate reshaping management and governance of the integrated organization?

Management and governance structures will vary based on the partnership's contractual arrangements. New strategic partnerships have differing degrees of contractual integration, ranging from loose affiliations to full acquisitions and mergers, which may involve a change of corporate member when both organizations are not-for profit.

The leadership models of many hospitals and health systems are characterized by separate governing and internal management boards for sites, regions, or facilities. Through partnerships and other efforts, hospitals often move away from a hospital- and site-centric model to service- and system-centric models. In an era of population health management (PHM), the desired models are likely to be those that maximize the functioning of the system or organization as a whole.

Executive management and/or board skill sets required to effectively guide the hospital or health system through the partnership integration period and into a PHM-focused delivery system include new elements. Added skill sets are the ability to attract and retain clinician leadership; network development; technology; clinical, business and consumer/patient intelligence; and risk management.

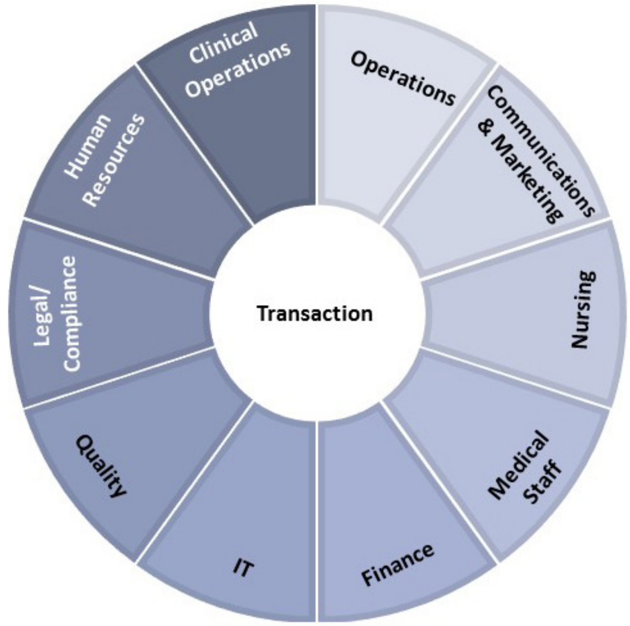
Reshaping leadership/governance teams as needed should focus on what is good for the community. Left unattended, issues of management and governance structure can interfere with maximizing the value of integration. Some leaders will play unique roles during the transition process, such as leading integration teams or committees.

9. How do we measure integration progress and success?

Dashboards generated by the PMO should be used at the executive and board level to provide an at-a-glance look at progress with integration transaction and transition work streams. Stoplight charts for major tasks draw focus to areas that need attention—indicated by items with red circles (Exhibit 6). Boards should expect regular reporting that identifies high-level risks and progress.

Synergy-tracking reports and work plans help leadership teams "inspect

Exhibit 5: Representative Transition Planning Considerations



Source: Kaufman, Hall & Associates, LLC

Exhibit 6: Sample Executive/Board Dashboard

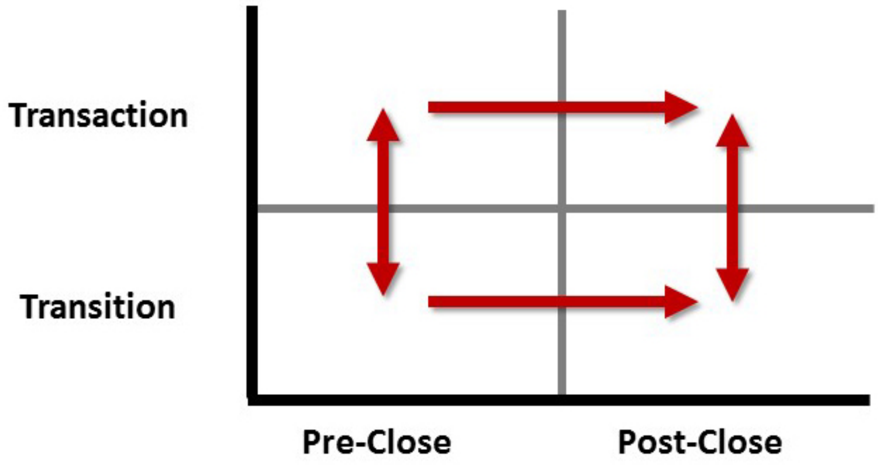
Transaction Work Streams	Target Date	Work Steps: Accountability Assigned	Time Table Established	Timetable Progress	Draft Completed	Final Completed	ABC Accountable Party	XY Accountable Party
Due Diligence								
ABC	Ongoing until Close	✓	✓	○	●	●	Jim	
XY	Ongoing until Close	✓	✓	○	●	●		Bob
Definitive Agreement	10/11/2013	✓	✓	✗	✗	✗	Doug	Tom
Partnership Agreement	10/15/2013	✓	✓	✗	✗		Doug	Tom
CHOW Filing	11/15/2013	✓	✓	✓	○		Doug	Tom
CHOW Close	1/31/2014	✓	✓	✓	○	●	Doug	Tom

Transition Work Streams	Target Date	Leadership Identified	Team Engagement	Issues Identified	Solutions Developed	Plan Documented	Execution of Plan	Day 1
Clinical Operations	Close	✓	✓	✓	○	✗	○	●
Outpatient Surgical Transition	11/15/2013	✓	✓	✓	○	✗	○	●
Medical Admission Transition	1/31/2013	✓	✓	○	●	✗	●	●
Operations	Close	✓	✓	✓	○	✗	○	●
Finance	Close	✓	✓	✓	○	○	○	●
Information Technology	Close	✓	✓	○	✗	✗	●	●
Medical Staff	Close	✓	✓	✓	○	✗	○	●
Human Resources	Close	✓	✓	✓	○	○	○	●
Regulatory	Close	✓	✓	○	○	✗	○	●
Comm., Mktng., & Media	Close	✓	✓	○	○	✗	○	●

Key
✓ Completed and/or on track

Source: Kaufman, Hall & Associates, LLC

Exhibit 7: The Big-Picture Imperative for Transformational Change



Source: Kaufman, Hall & Associates, LLC

for what is expected," step by step. For example, a synergy confirmation report identifies low/medium/high-dollar savings opportunities for supply chain, finance, and administrative costs, and progress toward achieving such savings. The report also identifies the total expected cost to implement reduction strategies and costs incurred to date.

Issue logs identify for boards what management is tracking and resolving. Issues are defined as those things that have happened or are about to happen that will impact the work plan, such as "determine local versus regional management structure."

Risk logs keep boards apprised of significant threats, for example, the inability to operate IT infrastructure on day one of the partnership or a delay in physician credentialing. Integration Team meetings address issues; similarly, meetings of the Joint Steering Committee address risk. Both issues and risk are tracked until resolved, but never removed from the tracking report for management reporting and improvement purposes.

10. How will we achieve transformative change through high-performing partnership integration?

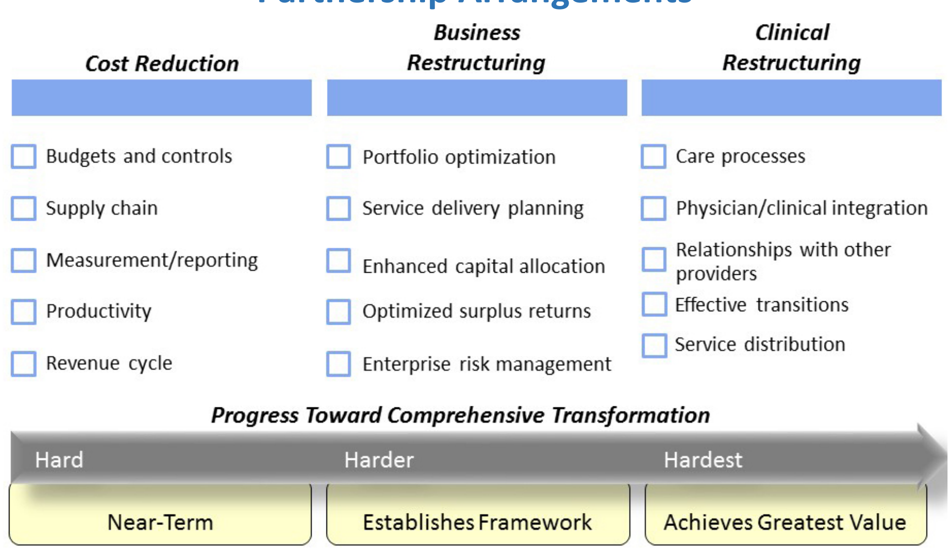
Leading transformational change through new partnership arrangements is not about the transactions or synergies at a point in time; it is about managing change and expectations over time. Organizations don't change; people do—one at a time. Leaders who recognize this build adequate time (i.e., multi-year periods) into the transformation process to accommodate change.

Boards and management teams must keep their eyes on many balls simultaneously. Transaction and transition work streams should be accomplished concurrently both before and after closing (Exhibit 7). A comprehensive effort is challenging, but balancing focus on the big picture and operational details is imperative to achieving transformational change. Focus on one quadrant at a time is not likely to result in identifying and mitigating risks and issues as early as possible or in achieving the integration's expected goals and value.

As organizations enter into partnerships to enhance needed competencies and accelerate their ability to manage the health of populations, their boards and management teams must be clear about what they can accomplish and when. Progress toward comprehensive transformation involves more than near-term cost reduction integration efforts. "Harder" and "hardest" initiatives should be pursued through business restructuring to optimize service delivery planning and a portfolio of service offerings, and clinical restructuring to redesign care processes, integrate physicians, and right-size and right-place services within a delivery network. Exhibit 8, a Framework for Transformative Partnership Arrangements, can guide board/management efforts and frame synergy expectations.

Board members who ask and answer the 10 questions highlighted here are helping to accelerate their organization's progress toward achieving a high-performance partnership integration. Make sure your board is involved before the ink dries.

Exhibit 8: Framework for Transformative Partnership Arrangements



Source: Kaufman, Hall & Associates, LLC