

WHEN TWO  
CULTURES MERGE



CREATING A NEW

AND IMPROVED

HEALTHCARE ORGANIZATION

By Maggie Van Dyke

Some partnerships are rocky, some serene. But both can ultimately benefit patients and communities when senior leaders effectively manage pre- and post-merger arrangements.

Jeffrey Grossman, MD, interim CEO of UW Health, Madison, Wis., describes his academic medical center's pre-merger talks with Rockford, Ill.-based SwedishAmerican as remarkably smooth. "I would compare it to the marriage of two mature, clear-eyed adults who know exactly what they want," he says.

In contrast, a joint operating agreement between Denver-based SCL Health and Exempla started out starry-eyed but took a dramatic turn after merger talks began. When SCL Health president and CEO

Michael A. Slubowski, FACHE, joined the organization in 2011, he walked into a heated "he said, she said" situation, with one side accusing the other of a takeover event.

Yet, with wise steering by Slubowski and his team, both sides soon came to a mutual understanding. Just 18 months post-merger, the combined system achieved \$50 million in cost reductions and revenue enhancements. The partnership also resulted in improved patient outcomes such as a 66 percent reduction in urgent care visits and a 73 percent reduction in ED visits for cardiovascular patients.

Most hospital CEOs will likely go through merger or affiliation talks given the desire to serve their communities' healthcare needs and the

revenue pressures their organizations face. Yet, many leaders walk into these situations unprepared. "Being a CEO or other senior leader requires a very discrete skill set, but there is typically little overlap with transaction management," says Alan M. Zuckerman, FACHE, director and chair, Veralon, Philadelphia, a healthcare consulting firm. "You conduct deals in these jobs, but they are typically very focused, such as a joint venture. What we're talking about is a once-in-a-lifetime kind of deal. Your hospital or health system could have been going along for 50 or 100 years on a certain path and, all of a sudden, you are in a negotiation to merge or be acquired—and everything changes."

How can CEOs prepare? Besides putting together a good team to handle



the transaction, CEOs should keep an eye on the big picture while remaining flexible and ensuring critical details are covered.

## Key Factors for Success

Most merger discussions already devote a great deal of time to three critical issues that help ensure a successful relationship, says Zuckerman: appointing the combined governing body, diving into financial issues and determining who will lead the combined organization.

However, when handled correctly, three often-overlooked success factors can prevent the partnership from derailing.

**Communicating a compelling vision.** “Why do two organizations join forces? They believe that they can accomplish something together that they can’t accomplish independently,” Zuckerman says.

The UW Health-SwedishAmerican merger was finalized this past January. The vision is to combine the best of academic and community healthcare to improve care at the local level. The two organizations, which are about 70 miles apart, had tested the vision during a clinical affiliation, which included creating a successful cancer center at SwedishAmerican and fostering UW Health’s research and teaching mission. The formal merger is encouraging further clinical collaboration and subspecialty referrals while providing SwedishAmerican with capital for IT and infrastructure needs.

“This was about solidifying a beneficial affiliation that might have come into jeopardy amidst all the consolidation occurring around us,” Grossman says. “We wanted to seal our relationship with the SwedishAmerican system so it would not seek to create a relationship with another health system.”

One important thing the two partners did early on—before signing a letter of intent—was to develop

guiding principles for integration. “People can be skeptical of the value of a merger,” Grossman says, “so you have to be sure why you are doing it, and those reasons have to make sense to a variety of constituents, including physicians and the board.”

Besides serving as a communication tool, the principles helped the merger and subsequent integration stay on track, Grossman says. “If you don’t have a vision and principles to guide you, you are more likely to be seduced by the desire just to get the deal done. We’ve seen that happen in failed negotiations. The deal should be viewed as a way to fulfill to the vision, versus as an end in itself.”

## Pursuing tangible benefits.

Looking back on SCL Health’s M&A experiences, Slubowski advises: “Don’t be theoretical about the value proposition.”

To deflect heated emotions during the engagement of SCL Health and Exempla, Slubowski met with various stakeholders and articulated the tangible benefits that Exempla would gain from the merger, one of which was SCL’s creditworthiness in obtaining capital to rebuild its aging hospitals. “The ultimate goal was to create a stable environment for the hospitals and the medical staffs in the Exempla market,” Slubowski says. “Then, of course, you have to do what you promise. So after the merger, we immediately capitalized the redevelopment of our St. Joseph Hospital and supported major

“People can be skeptical of the value of a merger, so you have to be sure why you are doing it, and those reasons have to make sense to a variety of constituents, including physicians and the board.”

Jeffrey Grossman, MD  
UW Health

# WHEN TWO CULTURES MERGE



capital projects for Lutheran and Good Samaritan Hospitals.”

In Northeastern Massachusetts, another growing health system—Lahey Health—ran into skepticism from the medical staff at Beverly Hospital during merger talks.

Because it has an employed medical staff, most of Lahey’s employed primary care physicians referred

patients to Lahey-employed specialists, says Howard R. Grant, MD, JD, president and CEO. However, this has changed since Lahey, which is anchored by its mission-critical academic medical center, began expanding into local communities. “We are working hard to bolster community-based care and honor a pluralistic approach to physician participation in the system,” Grant says.

Today, employed physicians refer patients to private practice surgeons and specialists when the quality is

excellent and doing so would be more convenient for the patient. Referrals from Lahey-employed physicians to private practitioners affiliated with Lahey’s community hospitals have increased significantly from 700 to 1,000 per month.

At the same time, Lahey is honoring another tangible merger goal—to deliver care in the most appropriate setting—through the reverse transfer of patients from its academic medical center to its community hospitals, assuming patients prefer to be at the local, lower-cost location. As a result, Lahey’s community hospitals have gotten busier at a time when many

## Determining the Cultural Compatibilities for Partnership



The adjective pairs below describe opposite extremes of organizational culture. First, please indicate the type of culture you feel exists within the organization in which you currently operate on a day-to-day basis. Then, separately, indicate *the type of culture you believe exists inside the other organization, even if your opinion may be based on little direct experience.*

|                        | Extremely             | Somewhat              | Equal                 | Somewhat              | Extremely             |                     |
|------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|---------------------|
| Bureaucratic           | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Entrepreneurial     |
| Decisive               | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Indecisive          |
| Risk avoiding          | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Risk taking         |
| People-oriented        | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Task-oriented       |
| Directive              | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Participative       |
| Reactive               | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Proactive           |
| Analytical             | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Intuitive           |
| Cohesive               | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Divisive            |
| Inclusive              | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Exclusive           |
| Confronting problems   | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Avoiding problems   |
| Team-focused           | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Lack of cooperation |
| Respectful             | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Arrogant            |
| Persuasive             | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Intimidating        |
| Formal                 | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Informal            |
| Strategically oriented | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Short-term oriented |
| Stable                 | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Unstable            |
| Consistent             | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Inconsistent        |
| Focused                | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | Scattered           |

Source: Towers Watson, *How Cultural Diagnostics Contribute to an Effective M&A Integration*, 2014.

# WHEN TWO CULTURES MERGE



Massachusetts community hospitals are losing inpatient volumes.

“During a merger, leaders need to identify two or three issues that are critical to each institution and then make sure those critical issues are respected and addressed, versus becoming distracted by a host of other, less critical management issues,” Grant says.

### Testing out cultural capability.

“Cultural compatibility is fuzzy and hard to quantify,” Zuckerman says, “but if two parties can’t work together effectively, mergers tend to fall apart. For example, if one organization is very hierarchical and all decisions are made at the top, and the other organization operates in a very decentralized manner, there likely will be problems.”

Two partners don’t have to be the same, but they should have complementary values and behaviors. “It’s not much different than marriage,” Zuckerman says. “One person may be adventurous, the other risk adverse. The question is: Can the adventurous person learn to value and benefit from a little more planning, and can the risk-adverse person be a little more spontaneous?”

In some cases, joining two complementary cultures is just what the

doctor ordered. For instance, SCL Health recently entered a joint operating agreement with National Jewish Health, Denver, which has a more entrepreneurial culture than SCL. “That’s an attribute that SCL needs to strengthen,” Slubowski says.

Ideally, two organizations understand each other’s cultures before finalizing a merger. But measuring and defining culture can be difficult. Sometimes what is promoted as an organization’s values is not reflected in the behaviors of leaders and staff. “Those are what you call aspirational values,” Zuckerman

says. “Someday the organization might be like that, but today it operates differently.”

Organizational development tools are available that can provide some insight into cultural compatibility. Slubowski has used such tools in the past but, for the joint operating agreement with a previous organization, he and his team used a less formal approach that involved interviewing key leaders at each organization as well as stakeholders in the community (e.g., payers and referring providers). Then, team members compiled a summary of their perceptions and the opportunities to be realized by merging the two cultures.

## Acquired Employees’ Perceptions of Both Companies’ Cultures



Source: Towers Watson, *How Cultural Diagnostics Contribute to an Effective M&A Integration*, 2014.



UW Health's Grossman believes in less formal gauges of culture. "The instinctive and subjective impressions you get sitting down with people are very critical," he says. "This can't be done effectively through an interviewing process, because when people are interviewed, they try to say what they think others want them to say. The best insights about an organization's culture are gained in less formal, even social interactions without a formal list of questions."

## Flexibility in the Face of Challenges

"Your management team needs great discipline and simultaneously great flexibility," says Grant on what's required during a merger and acquisition. Discipline is a must to ensure adherence to timelines and expenses, and

flexibility is needed in light of the many unexpected issues that are likely to arise. "The adage 'You've done one, you've only done one' holds true," he says.

While it's impossible to predict all the challenges that arise during an M&A, the following are among the most common and difficult.

**Keeping quality of care front and center.** The how-tos of quality and performance improvement are often a secondary consideration during merger talks compared with more immediate issues such as board seats, capital expenditures and determining who will be in charge, Zuckerman says. "It's not unusual that the first substantive mention of quality is in the last five minutes of an hour-long conversation," he says, pointing out that cost reduction tends to garner more substantial attention.

During its M&A negotiations, SCL Health created a balanced

scorecard to keep its performance improvement a top priority. After SCL Health and Exempla merged, the leaders of the combined organization immediately worked toward performance targets. For instance, to improve efficiencies and reduce costs, SCL Health centralized the supply chain and insurance functions and merged IT systems. Now, the health system is rolling out a stewardship initiative aimed at improving efficiencies by \$400 million in the next three to five years while simultaneously improving quality, safety and the care experience. As an example, one team is working on improving observation care and another is focused on creating a more patient-centered, primary care experience.

Although a top-level balanced scorecard may be helpful at the executive level during a merger, physicians and other clinicians in the local community need to work out the more detailed metrics and plans for improving patient care and safety, Grossman believes. "We don't have a set of combined metrics right now. We have a particular set of quality issues at UW Health in Madison, and SwedishAmerican has its particular issues in Rockford," he says, explaining that the patient demographics are very different in the two communities. "This is really a matter of serving the local community. When you talk about improving quality without a detailed consideration of the various populations you serve, the rhetoric can be empty."

So how can executives convince clinicians that quality will be

"You need to negotiate really hard, but fairly. You might agree in principle during the pre-merger phase about the vision and benefits, but when you get to the definitive agreement, your team might get stuck on details that are really not important. At this point, everyone is tired, and it can bring out the worst in everyone."

Alan M. Zuckerman, FACHE  
Verilon

addressed in a meaningful manner post-merger? “I’m fond of the saying, ‘Organizational values are expressed through budgets,’” Grossman says. “Weaving quality into your organization requires infrastructure—largely in the way of people—and budgets that support that.”

**Giving physicians a meaningful role.** To better engage community physicians in merger discussions—and in clinical matters post-merger—

Lahey created physician leadership councils at each community hospital with which it merged. Each council includes an equal number of community physicians and Lahey-employed physicians. These councils serve in an advisory capacity to the 15-member Lahey parent board, which includes eight members from the affiliated community hospitals in addition to four board members from Lahey and three independent community trustees.

“Any clinical decisions relative to adding or changing clinical services or practices in the community are reviewed by these physician leadership councils,” Grant says. “As a result, there has never been a contentious issue brought to the Lahey board by physicians because we gave them a tool for resolving any concerns.”

**Negotiating hard but fair.** Absent potentially disabling inquiries from

## Qualities That CEOs Need to Lead a Merger



What leadership qualities and competencies do CEOs need to guide a hospital or health system through a merger and subsequent integration? First, CEOs should realize they suddenly have two full-time jobs: managing the merger transaction and running their organization.

For both, “You have to know enough to be dangerous,” says Michael A. Slubowski, FACHE, president and CEO, SCL Health. It’s also critical to appoint or recruit the right team members to handle the specifics. “You need to clearly identify resources that will be focused on getting the deal done and separate that from people who are minding the store,” he says. “For instance, we recruited a strong COO who is spending the bulk of his time minding operations so that I can focus on these new relationships and opportunities.”

The particular qualities and skills CEOs need to oversee a merger deal are not necessarily ones leaders learn in MBA school or through work experience, says Alan M. Zuckerman, FACHE, director and chair, Veralon. He provides the following list:

- > Patience
- > Persistence
- > Vision

- > The ability to manage chaos or the ups and downs of the deal
- > The ability to set personal ego aside

Slubowski agrees with this list and adds two more attributes: focus, or keeping an eye on the end game, and good listening skills. “In a merger, you always have to look for the win-win, which requires putting yourself in the shoes of the other party,” he says.

UW Health’s Jeffrey Grossman, MD, interim CEO, says authenticity also is critical to building trust. “I think my reputation is built not so much on being the sharpest tool in the shed but on being an honest broker. It’s important to put all the cards on the table in terms of what your goals and intentions are and what the deal breakers are.”

Additionally, effective communication is vital, says Howard R. Grant, MD, JD, president and CEO, Lahey Health. “It takes a focused effort to understand the lens through which your audience sees and hears what you are communicating,” Grant says. “Most messages need to be communicated in a variety of fashions to a variety of audiences.”



regulators or the attorney general, the most challenging part of an M&A is often the definitive agreement, says Zuckerman. “You need to negotiate really hard, but fairly. You might agree in principle during the pre-merger phase about the vision and benefits, but when you get to the definitive agreement, your team might get stuck on details that are really not important. At this point, everyone is tired, and it can bring out the worst in everyone.”

This is when the CEO needs to step in, he says. “Sometimes, you have to bring your people out of the trenches and realign them, reminding them about what you are all trying to accomplish and why.”

UW Health and SwedishAmerican worked out most of the merger details in a very detailed letter of intent, which helped them avoid a troublesome definitive agreement period. “In other proposed mergers, the practice might get to the letter of intent and celebrate. But then they have to get

down to the very difficult detailed work,” Grossman says. “We got a lot of that out of the way with rigorous and highly planned meetings that ended in a detailed letter of intent.”

A great deal of trust existed between the organizations due to their long-running clinical affiliation. Even so, leaders for UW Health and SwedishAmerican practiced a concept known as “donating trust.” “The idea of building trust over time can be dangerous in a merger because merger negotiations don’t necessarily build trust,” Grossman says. “So, instead of building trust during negotiations, we agreed to donate trust to our future partners. Until proven otherwise, we viewed our partner with trust. How we acted during negotiations helped affirm that donated trust.”

**Setting the right pace for integration.** After the merger is finalized, it can be difficult to know how fast to move forward with centralizing services, unifying IT systems and launching clinical transformation plans. “If implementation is too slow, you can falter,” Zuckerman says. “But if it is too fast, you can lose people and maybe even the organization.”

SCL Health learned the hard way that sometimes, “You have to go slow to go fast,” says Slubowski. “When we did the Exempla integration, we jumped forward quickly on integrating our human resources processes. To some extent, we didn’t do enough study of the nuances involved, plus our two organizations were not yet on a common IT platform. So we ended up having to do some rework.

“But we learned from that mistake,” Slubowski says. “Later, when we decided to bring together our enterprise resource systems [which included payroll and benefits], we paused and took time to understand everything about special pay and overtime arrangements and to standardize our processes and policies.”

## 4 Change Agents

Many leaders have mantras they rely on to guide themselves and their teams during challenging times. Throughout SCL Health’s merger and integration with Exempla, Slubowski has repeatedly returned to the four pillars of organizational change: people, process, technology and culture. “If you don’t devote equal energy to all four of these, you are going to have rework,” he says.

He also keeps his eye on the end-game: a best-in-class integrated health system. “If the value proposition is there and the desire is there, you will get to the finish line despite the obstacles,” he says.

*Maggie Van Dyke is a freelance writer and editor based in Brookfield, Ill.*

## “Don’t be theoretical about the value proposition.”

Michael A. Slubowski, FACHE  
SCL Health





**VERALON**<sup>™</sup>

HEALTHCARE MANAGEMENT ADVISORS

- ▶ Strategy and Planning
- ▶ Mergers and Transactions
- ▶ Valuation and Physician Compensation
- ▶ Clinical Transformation and Value-Based Payment

---

PHILADELPHIA

CHICAGO

NEW YORK

WASHINGTON DC

[www.veralon.com](http://www.veralon.com) | 877.676.3600