Healthcare

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Mergers and Acquisitions: Enhancing Clinical Integration, Reducing Risk

In recent years, merger and acquisition (M&A) activity has intensified in the healthcare industry, as organizations seek to integrate care across the continuum, increase patient/resident access to providers, form stronger partnerships among practices and facilities, and enhance market share through consolidation. In addition, healthcare – which represents approximately 20 percent of the U.S. economy – has become a major area of investment for private equity firms, accelerating the rate of consolidation. (See "Size and Scope of Private Equity Healthcare Activity," page 2, and "M&A Market Trends and Factors," page 2.)

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Although healthcare integration creates larger and more financially liquid organizations, these transactions do not necessarily translate into better patient/resident care. (See "Post-merger Quality Issues to Consider," on page 4.) Following a merger, organizations must balance the new efficiencies and economies of scale with quality and safety considerations. Failure to do so may lead to a wide range of clinical, operational and liability problems, including, but not limited to, the following:

- **Low staff morale and high turnover,** due to divergent cultures and post-merger disorientation.
- **Inconsistent policies and procedures** relating to clinical care, operational processes, and employee health and safety.
- **Increased risk of patient/resident harm,** as staff issues potentially affect quality of care.
- **Quality of care issues,** resulting in patient/resident complaints and potential litigation.
- **Ineffective risk management** and quality improvement programs.
- **Noncompliance** with state and federal laws and regulatory requirements.
- **Inadequate or improper documentation,** as well as lapses in communication.

This edition of *Vantage Point®* presents a variety of strategies intended to help healthcare settings of every type improve clinical integration following consolidation. It focuses on the cultural, managerial and technical issues that, if not addressed promptly and effectively during and after the merger, may have a significant negative effect upon quality of care, patient/resident satisfaction and staff morale.

M&A Market Trends and Factors

The life science and pharmaceutical sectors are experiencing the most M&A activity, followed by physician practices. However, nearly all healthcare business segments are undergoing some degree of consolidation, including medical device suppliers, home care, aging services, behavioral health, ambulatory surgery, and laboratory and diagnostics. According to consulting group Kaufman Hall, pandemic-related reasons slowed the pace of M&A transactions in the first quarter of 2022, with only 12 deals recorded and no "mega" acquisitions of organizations with more than $1 billion in revenue. However, experts expect the number of acquisitions to rise over the course of the year as the pandemic gradually eases. (For a comprehensive listing of transactions by area, see "Healthcare Deals Keep Hot Pace as Economy Pushes Past Pandemic." *Bloomberg Law*, May 28, 2021. See also Plescia, M. "Healthcare M&A Transactions Hit Record Low in Q1, Kaufman Hall Says." *Becker's Hospital Review*, April 7, 2022.)

The following table takes a closer look at some of the factors driving M&A activity among aging services providers, allied healthcare settings and physician practices:

Aging Services	Allied Healthcare/Biotech	Physician Practices
A 22 percent increase between 2020 and 2021 in per-bed fees at skilled care facilities is increasing profitability in this sector.	**The pandemic-related need for behavioral health services** is leading to mergers among settings specializing in substance abuse treatment.	**Hospitals are acquiring physician practices** to better coordinate patient care and transition to a value-based system of care, which calls for enhanced integration and continuity of care.
Family-owned facilities are merging with larger, more stable organizations in the post-pandemic market.	**Home and hospice care are considered growth markets,** as the population ages and demand for these services increases.	**Health systems are seeking stronger referral networks** and new patients for ancillary services.
Private equity investment firms are providing capital to rescue and strengthen "distressed" facilities.	**Consolidation of imaging centers and radiology practices is driven by the desire for greater market share,** as well as access to new service lines.	**Medical practices are experiencing financial difficulties** due to decreasing patient volume and higher post-pandemic supply costs, leading them to merge with larger medical groups.
Facilities are being acquired by real estate investment trusts (REITs) – i.e., publicly traded companies that invest in income-producing real estate – because of their strong returns.	**Pharmaceutical companies are expanding their distribution networks** and investing in infrastructure and technology to keep pace with demand in a rapidly aging population.	**Practices are merging with larger health systems,** in order to gain stronger brand recognition and access to proprietary technology platforms.

Size and Scope of Private Equity Healthcare Activity

Private equity (PE) firms – companies that raise money from investors to purchase and manage business assets, with the intent of realizing a profit when they sell – have become major players in the healthcare economy. In 2021, PE transactions in healthcare exceeded 500, more than double the number in 2011, and the disclosed value of these deals rose from $30 billion to $151 billion during this timeframe. PE firms now own hospitals, nursing home chains and allied healthcare settings, as well as a growing number of physician practices. In fact, PE-owned enterprises now provide physician staffing for more than one-third of U.S. emergency departments. (See Private Equity in HealthCare, statement of Howell, S. T. before the U.S. House of Representatives Ways and Means Oversight Subcommittee, March 25, 2021, and Global Healthcare Private Equity and M&A Report 2022: How Winning Investors Navigate a Time of Discontinuity and Promote Innovation, issued by Bain and Company, 2022.)

Establish a Two-way Dialogue

Before drafting a formal integration plan, leaders of the merging facilities or practices should initiate a dialogue with providers, staff, patients/residents and their families, if applicable to the setting, regarding their views on the merger/acquisition. Such discussions should highlight potentially inconsistent values, leadership styles, missions and goals, as well as processes, systems and protocols. The following techniques are designed to help identify clinical and operational disparities and begin the process of integration:

- **Schedule merger-related communication forums,** both virtual and in-person, to share important dates, describe upcoming actions and answer questions. (For a sample timeline of integration-related communications, see Engert, O. *et al.* "Communications in Mergers: The Glue That Holds Everything Together." Posted by McKinsey & Company, January 30, 2019.)
- **Survey employees** on their views and concerns regarding the merger.
- **Interview patients/residents and families,** if applicable to the setting, in order to identify attitudes, opinions and expectations at both settings.
- **Conduct clinical rounds,** if applicable to the setting, where leadership can interact with staff and providers of the merging organizations, in order to note similarities and differences.
- **Maximize feedback** by utilizing a variety of communication methods with different audiences, including print, face-to-face and video presentations, as well as chat room discussions and other online tools.

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Address Cultural Differences

The purpose of stakeholder discussions is to identify culture gaps, and the goal of the integration plan is to help bridge them. The plan should focus on the following core elements of clinical integration, among others:

Flexible, committed leadership. The due diligence team should evaluate administrators of acquired organizations to determine their level of flexibility and openness to change and growth, both before and during the merger/acquisition. In addition, owners, board members and community representatives should be asked for their input concerning integration-related objectives and leadership qualities needed to sustain and strengthen the new organization.

Clear vision and mission. The clinical integration plan should articulate a vision for how care will be delivered, ensuring that patients/residents remain at the center of the combined organization's mission. Before crafting a mission statement, solicit input from major stakeholders – including patients/residents, staff, business partners and the greater community – regarding the effect of planned changes on key concerns, such as access to care, continuity of service offerings, patient/resident safety, quality of care, staff morale, partnerships and community impact.

Realistic planning. Combining two or more organizations typically involves some degree of departmental restructuring and reallocation of human and physical resources, which may lead to disruption and uncertainty. The following suggestions can help ensure that integration-related planning is realistic and compatible with actual practice at the merging facilities:

- **Seek input from frontline providers** when establishing strategic goals and monitoring progress toward attainment.
- **Create process-flow maps** to illustrate core differences between the merging organizations.
- **Prepare accountability maps** to illustrate organization-wide reporting relationships and decision-making processes.
- **Utilize dashboards or "heat maps"** to measure progress in addressing discrepancies in such high risk areas as medication administration and reporting of laboratory and diagnostic findings.

Commitment to diversity, equity and inclusion (DEI) goals. The integration plan must articulate how the newly formed entity will address DEI considerations, including language differences, varying levels of health literacy, cultural and racial variations among staff and within the patient/resident population, and the special needs of disabled and/or vulnerable populations, among others.

Achieve Operational Continuity

Operational continuity depends upon the ability of post-merger management to combine sometimes widely disparate systems and processes into one functional and efficient operation, and to resolve any conflicts that may arise over decision-making authority. Ideally, the new management group consists of leaders from all involved organizations or practices, so that the merger feels like a melding of similar entities, rather than a conquest of one by the other. However, when large conglomerates acquire smaller facilities, centralized management is often imposed from above.

On the one hand, centralized operations offer efficiencies and economies of scale. On the other hand, providers and staff at smaller acquired facilities may report to decision-makers who are based in a distant location and have little knowledge of the actual patient/resident population. A hybrid structure comprised of both centralized and decentralized elements permits corporate buyers to standardize some key functions – such as patient/resident care, supply chain management and staffing – while leaving other areas – such as vendor contracting and equipment management – to local managers who are conversant with the territory.

In some mergers, as when a distressed facility is acquired for a quick turnaround, managerial functions – such as staffing, accounting, billing and corporate compliance – may be outsourced. In those cases, the lines of authority between the acquired facility's staff members, the management company and corporate leadership should be expressly memorialized in writing and delineated in the organizational chart, especially with respect to the management company's role in clinical oversight. To enhance communication, consider designating a liaison to address any questions or disputes that may arise between the acquired setting and post-merger management.

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Post-merger Quality Issues to Consider

Merger and acquisition (M&A) activity is primarily generated by financial motivations, such as the desire to expand markets and create potentially profitable economies of scale. Unfortunately, economic motivation may supersede safety considerations following the merger. To prevent any decline in quality of care, the following risk-related challenges should be acknowledged and addressed during the transition:

- **Changes in service lines and patient/resident populations.** Failure to invest in new or expanded departments, and to recruit additional staff, if necessary, may lead to errors and also jeopardize continuity of care.
- **Infrastructure incompatibility.** Merging entities have their own technology platforms, policies and protocols. To avoid discrepancies that can lead to data loss or disclosure, provider miscommunication or documentation problems, IT systems and applications must be integrated during the transition period.
- **New staff.** Medical providers and clinical staff are often assigned to new sites following a merger. An inadequate onboarding and orientation process for transferred or new staff may result in conflict, confusion and compromised patient/resident safety.
- **Cultural conflicts**. Failure to integrate different working cultures is a common problem. Therefore, organizational leadership should consistently communicate the importance of fostering a unified culture of safety and a shared value system throughout the merged enterprise.

To learn more about the potential impact of M&As on patient/resident safety, see Gupta, A. *et al.* "Does Private Equity Investment in Healthcare Benefit Patients? Evidence from Nursing Homes," published by the NYU Stern School of Business, November 12, 2020; "Corporate Churning Associated With Lower Nursing Home Quality," issued by the University of Michigan, May 2, 2016; and Hass, S. *et al.* "The Risks to Patient Safety From Health System Expansions." *Journal of the American Medical Association*, May 1, 2018, volume 319:17, pages 1765-66.

Prioritize Staffing Issues

Patient/resident satisfaction and positive clinical outcomes will represent the true measures of a successful healthcare integration. Both measures are highly sensitive to staffing levels, requiring the implementation of measures to reduce turnover and retain top talent by helping employees anticipate change, prepare for the influx of staff from different settings and coalesce into a unified care team. The staffing plan should encompass the following specific actions, among others:

Onboard transferred staff. Unlike traditional employee orientation, the "onboarding" process should be interactive, going beyond a lecture-style review of organizational facts and protocols. Such an approach often works well in the post-merger transitional period, accomplishing the following integration goals:

- **Encouraging discussion with transferred staff,** when possible, about their clinical strengths and limitations, as well as opinions and thoughts on the integration planning process.
- **Matching transferred staff to appropriate mentors,** who can both coach and supervise them.
- **Affording additional time for all employees to acclimate** to the post-merger environment.
- **Helping employees understand transition goals,** as well as the new organization's structure and mission.

Communicate changes in policy and procedure. During the transitional period, organizations should identify processes and systems that require change, selecting the best practices from each organization to create a uniform operational framework. Staff in-service training should promptly address substantive changes in clinical policies and protocols, in order to avoid conflict, confusion and errors, as well as the appearance of and potential for conflicting standards of care. To ensure that procedural changes are being established and implemented throughout the consolidated enterprise, evaluate staff compliance using the established quality improvement process.

Staff in-service training should promptly **address** substantive **changes in clinical policies and protocols**, in order to **avoid conflict, confusion and errors**, as well as the appearance of and potential for conflicting standards of care.

Invest in team-building. However well anticipated, the merging of providers and staffs may result in the displacement of certain duties, including disruption of routines and expectations. The following techniques are intended to help strengthen post-merger staff cohesion:

- **Organize a team-building event,** in which both transferred and existing staff learn about new patient/resident populations and/or expanded service lines.
- **Pair new employees with veteran staff members** for purposes of mentoring and cross-training.
- **Engage in one-on-one discussions with employees** to ease anxieties associated with organizational change and a perceived loss of rank or privilege within the post-merger workplace.

Assign "conflict coaches." Newly merged settings can generate friction, jeopardizing patient/resident safety by diverting staff energy and attention away from clinical tasks, as well as increasing absenteeism and turnover. In most cases, conflict emanates from lack of communication, as well as the perception of favoritism, excessive or unequal work demands, and unfair rules. Where resources permit, consider appointing specially trained "conflict coaches" to help defuse tensions, promote acceptance of change and reinforce staff focus on safety. During the transition, inform employees about the existence of the conflict coach program and provide a roster of names and contact information for enrollment in these programs. (For a list of other conflict management strategies, see Weitzman, E. "Managing Conflict in Organizational Mergers." *The Mediation Group*, posted May 24, 2016.)

Conduct staff reductions in a humane manner. Before initiating layoffs, administrators should determine post-merger human resource needs, and ensure that all shifts can be adequately staffed and equipped. The following tips can help facilitate the offboarding experience for terminated employees:

- **Clearly convey the rationale for reductions,** emphasizing that the staff reductions do not represent a punishment or a judgment on the affected employees' work history or worth.
- **Conduct formal layoff meetings with affected employees and HR professionals** to ensure the offboarding process is handled with compassion, empathy and dignity.
- **Develop a standard notification packet,** including a formal layoff notice letter, description of severance arrangements, steps for receipt of final paycheck, and information about unemployment insurance and other support services, if applicable.
- **Consult legal counsel and union representatives,** where applicable, prior to terminating employees to ensure compliance with federal and state labor laws, as well as contractual provisions.

Merging Physician Practices: Six Risk Management Considerations

The following checklist offers suggestions intended to help both physicians and acquiring organizations reduce risk and patient complaints during the merger period. The recommendations should be modified, as necessary, based upon the nature and scope of the merger.

1. Conduct due diligence.

- **Verify financial statements,** including payer mix data, assets, indebtedness, income, costs and planned future expenditures.
- **Review past regulatory compliance,** including government approvals for clinical operations and any investigations involving violation of healthcare-related federal or state laws.
- **Secure copies of all active contracts for legal review,** including those with payers and professional service providers, as well as related management and licensing arrangements.

2. Assess legal exposures.

- **Perform a market analysis** to detect potential exposure under the federal Stark anti-referral statute, as well as antitrust laws.
- **Identify high risk billing practices,** such as price-fixing, that may have legal consequences post-merger.

3. Obtain appropriate insurance coverage.

- **Complete an underwriting analysis** of the newly acquired providers' credentials, including state medical board inquiries as well as background and criminal checks.
- **Review insurance program requirements,** including professional liability, general liability and cyber liability coverage.
- **Analyze a 10-year insurance loss run history** of the acquired practice and ascertain the status of pending litigation.
- **Consult insurance company representatives** regarding pending claims and coverage for exposures occurring prior to the merger date.

4. Integrate IT systems and databases.

- **Evaluate the other organization's electronic health record system,** ensuring that it is compatible with one's own.
- **Map out a process to transfer patient healthcare information records** between organizations by an established date.
- **Back up HR records** in order to prevent loss of data during the transfer process.

5. Identify clinical risk factors.

- **Conduct site visits of the soon-to-be acquired practice** to review high risk processes, including provider credentialing, laboratory and diagnostic test result reporting, authorization of scope of practice for unlicensed staff, supervision of advanced practice providers, if required by state law, as well as consultation and referral practices.
- **Check for visible hazards** and common causes of claims within the acquired practice.
- **Scrutinize the reporting system of the practice** for sentinel events and claims.

6. Communicate upcoming changes to patients.

- **Notify patients in writing** of the pending acquisition and effective dates.
- **Inform patients of any change** in the employment status of their healthcare providers.
- **Prominently post signs describing impending changes** – such as new billing/insurance practices or higher service rates – and include this information on the practice website and on social media sites.

Note that mergers involving medical practices are generally overseen by state legislatures, creating state-specific compliance requirements. (For more information about merger oversight laws, see Gudiksen, K. and Brown, E. "A Tool for States to Address Health Care Consolidation: Improved Oversight of Health Care Provider Mergers." Issued by the National Academy for State Health Policy, November 12, 2021.)

Anticipate IT Incompatibilities

As clinical settings are not fully integrated until data systems are merged and functional, discussion of IT issues should begin as soon as the transition is announced. The following proactive steps can help the merging enterprises detect data convergence needs and potential IT incompatibilities:

- **Engage IT experts early in the M&A process** to assess clinical IT systems for interface readiness.
- **Resist the temptation to immediately "rip and replace" existing systems,** which can be a costly mistake. Instead, use a data warehouse or data operating system to identify content from both systems, then populate new applications with it.
- **Include frontline providers in the reconfiguration process** in order to ensure that IT systems and clinical applications are both user-friendly and adapted to existing work processes.
- **Evaluate electronic healthcare record and documentation formats for interoperability.** Measure the effectiveness of new or revised e-formats in test groups before launching, and invite user feedback to ensure that the technology performs as intended.
- **Standardize cyber security protections across the combined systems,** especially in the area of data breach prevention.
- **Develop a written plan regarding transfer of patient/resident healthcare information records** well before the merger date, and back up records prior to transfer.
- **Schedule ongoing staff training sessions** in using new computer systems correctly and securely.

Acquiring Distressed Aging Care Facilities: Risk-related Red Flags

Acquiring organizations should be vigilant and proactive with respect to the following "red flags," among others:

1. **Rigid leadership** that is resistant to change and ignores staff input.
2. **Obsolete or nonexistent policies and procedures** relating to clinical care and operations.
3. **Lack of injury prevention programs,** and adverse trends in professional liability and/or general liability claims.
4. **Inconsistent staffing,** high turnover levels and a deficient skill mix.
5. **Non-secure residential settings,** enabling elopement and abuse.
6. **Documented history of noncompliance** with state and federal laws and regulatory requirements.

Past state survey reports should be reviewed before the acquisition to ensure all prior deficiencies have been sufficiently addressed. If the above findings or other problems areas persist, the integration plan must articulate the measures that will be taken to mitigate continued exposures.

Integrate Risk Management Functions

When the risk management departments of merging facilities fail to align, serious clinical and regulatory repercussions may result, including overlooked compliance issues, unreported patient/resident injuries and inadequate emergency preparedness. Pre-acquisition planning should therefore include assessment of each entity's risk management program and the steps required to consolidate the following tools, policies and procedures, among others:

- **Documentation formats** for electronic health records.
- **Clinical support systems,** such as medication dispensing systems, laboratory and diagnostic reporting software, and computerized order-entry systems.
- **Privacy safeguards** to prevent disclosure of sensitive patient/resident healthcare information.
- **"Just culture" protocols** aimed at creating a safe, inclusive workplace and maintaining open, two-way communication.
- **Adverse event reporting systems** to ensure that incidents and near-misses are followed up in a timely, consistent and documented manner.

During the transition, creation of a unified, efficient system for preventing, reporting and investigating claims and adverse events is imperative. Once responsibilities have been assigned and expectations clarified, the combined risk management department should proceed to ask and answer the following important risk-related questions:

- **Are merger-related liability exposures adequately addressed** by existing risk transfer arrangements, including contractual agreements?
- **Will merging the staffs produce new risks,** and is the combined entity adequately prepared to manage them?
- **Is the merger likely to affect patient/resident privacy,** and have sufficient safeguards been established and implemented to minimize new risks?
- **What are the legal and regulatory implications of the consolidation,** and is the merged entity poised and ready to comply with state and federal requirements?

Maintain Community Ties

Prior to the merger, affected facilities and practices typically have enjoyed a beneficial history with the communities they serve. To preserve this goodwill, it is necessary to keep local and regional partners informed about the pending merger, and to assure them that community service remains a priority.

Designation of a marketing liaison, whose job is to reinforce the message that the combined organization will continue to support the community, is a sound and proactive measure. Spokespersons should highlight the upside of the merger, including new locations, additional services, improved billing procedures, enhanced provider access, greater resources and other improvements. It is especially important for facilities and practices to maintain healthy relationships with emergency management services personnel, state compliance surveyors and community health partners, among other outside parties.

Mergers and acquisitions continue to reshape the healthcare industry, maximizing efficiency while producing new safety concerns and liability exposures. By working proactively to ascertain and address differences in organizational policies and procedures, workplace culture, IT infrastructure, staffing practices, risk management programs and other areas, leaders will be able to utilize the transitional period after the merger announcement to create a well-integrated, smoothly functioning healthcare enterprise.

Quick Links

- "7 Best Practices for Merging Your Medical Practice." Posted by *IronMark*, April 20, 2021.
- LaPointe, J. "Healthcare Mergers, Consolidation Increase Patient Safety Risks." *RevCycle Intelligence*, April 10, 2018.
- Rice, K. "Physician Practice Mergers: The Importance of Due Diligence and Mutual Trust for All Involved." Fellowship paper published by Medical Group Management Association, August 27, 2018.
- Scott, J. "How to Manage Healthcare IT Integration During an M&A Deal." *HealthTech*, July 9, 2021.

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