VYNAMIC INSIGHT

OVERLOOK THESE M&A INTEGRATION TIPS AT YOUR OWN RISK

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There are an increasing number of mergers taking place in the healthcare industry. Managing the integration of merged organizations requires deftly managing four often overlooked areas including communication, the integration team, critical path activities, and risks & issues.

Merger activity across healthcare increased significantly in 2015 and is continuing to accelerate according to the *Wall Street Journal*[1]. The pace is fueled by many factors, both general and unique to healthcare, and is likely to continue. In fact, we are seeing a bit of an arms race as key players, such as drug manufacturers, hospitals, health insurers, drugstore retailers, and pharmacy benefit managers, try to gain leverage with one another.

There is unfortunately no such thing as a simple integration. When combining two organizations, leaders must address a myriad of challenges, including combining IT systems, creating new organization structures, retaining talent, process changes, and many more, all while minimizing impact to customers. In addition, while the integration is taking place, leaders may need to answer to an executive team and Board with high expectations.

With each merger, healthcare leaders are under pressure to quickly realize the desired benefits and value that has been promised; however, leaders should act deliberately as the path to integration is fraught with many potential pitfalls.

There are many well-documented reasons why M&As struggle: the wrong deal structure, lack of strategic fit, unrealized economies-of-scale, failure to address cultural differences, and negative impacts to customers; however, a few often-overlooked factors also play a critical role in determining success. With the deal complete, and the celebratory champagne still cool and bubbly, leaders must not overlook these key tenets of integration management:

1. AVOID AMBIGUITY WITH THE KEY "PEOPLE QUESTIONS"

A lack of timely, valuable information will negatively impact productivity and chase away the most valued and talented employees. To avoid this problem, set expectations with an aggressive-yet-realistic schedule for key updates. Then, stick to it!

Naturally, people resist change, but when leaders allow the post-acquisition plan to be ambiguous, the result is leadership distrust, loss of talented employees, and further erosion of productivity. Consider this common scenario: Company A acquires Company B. Soon after the public announcement, Company A welcomes Company B employees, touting all of the benefits of the acquisition. Included is a promise to stay tuned for more information. Company A even shares its internal website where employees from both organizations can find out more details. Then, only a slow trickle of information – or worse, nothing.

People understand that not everyone comes out as a winner in M&A, but when their personal career and financial situation are at risk, they are stressed and easily distracted by the most basic questions:

In the absence of answers and a plan to know them, team members fill the void with a doubt-filled reality that drives them to the bottom of the Kubler-Ross Change Curve: Depression[2]. (See right.) Naturally, productivity dips, and people begin to look for stability outside of the organization.

This is especially true for the most talented and valuable employees – those who would be most coveted by you and your competitors.

The Kübler-Ross Change Curve

Source: Ready to Manage

However, while employees have many questions on their mind, they also understand that finding the answers can take time. To stem the tide of losses to productivity and talent, quickly create and communicate a schedule of announcements that will directly answer the key, people-oriented questions.

Even though much of the impact of acquisition may be felt by the acquired company, the plan should include regular communications and announcements to the personnel of the acquiring company too. In most instances, the need and frequency for communication is not as great, but similar doubts and questions will arise without proper communication, resulting in similar reductions to productivity.

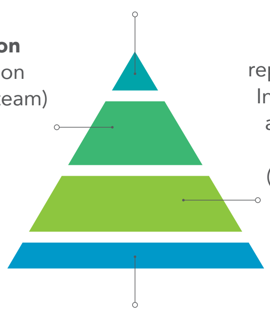
With a plan in hand, strictly execute it by providing on-time and meaningful information to boost employee confidence and belief in the integration plan. In doing so, you will mitigate the effects of doubt and ambiguity to retain more of the talent you covet and recover the productivity you need.

2. CREATE AN EMPOWERED AND DEDICATED INTEGRATION TEAM

If the integration management team is not properly structured and empowered, it will lead to delays and missed opportunities. Define a structure that is tailored for the deal and empower it with clear authority. Then, ensure that company leadership supports it vigorously.

Typically, a lot of time is spent getting the right people to manage an integration; however, equally important is having the right integration team structure and governance approach. When poorly defined, decisions are delayed, leading to ongoing churn, missed milestones and opportunities, and increased costs. Companies A and B, mentioned above, will need to look at the resources they have available to see who can best manage the integration.

No two integrations are alike, which is why the structure of the integration team will need to be tailored. Most commonly, there is a basic, hierarchical structure with four tiers:



Whether using this basic structure or something completely different, it is important to be both nimble and effective to adapt while driving results. To do so, when setting up the structure, leaders should:

RECOGNIZE THE UNIQUE NEEDS AND BUILD AROUND THEM

The roles, responsibilities, and focus areas should be tailored to address the specific needs of the deal and involved organizations. For example, if the two organizations have significant cultural differences, create a specialized role or team to focus solely on cultural integration that reports directly into the Overall Integration Lead.

DEPLOY A FULLY DEDICATED TEAM

Avoid partial allocations that usually lead to partial success. Pull your key integration leaders from all other daily activities outside of the integration. It is always difficult to pull managers away from their current roles and responsibilities, but having managers fully dedicated to the integration will minimize distractions, enabling them to adequately focus and be held accountable.

In addition to structure, a proper Governance approach is essential to ensure that decisions are timely and effective. Integration Governance will be effective with these three guiding principles:

FLEXIBILITY – A rigid approach will not be compatible with a nimble structure. Therefore, to properly address urgent needs, it is critical that important decisions are not hindered by a set-in-stone governance timeline. Instead, ensure that the Governance approach supports a flexible decision-making process that can adapt to time-sensitive needs.

UNQUESTIONED AUTHORITY – Empower the integration management team with clear authority to make quick decisions and drive accountability. This authority should be accepted and supported by all stakeholders.

CLEAR ESCALATION PATHS – Define a clear and timely escalation process. Even when empowered, integration management will need to escalate some decisions or emerging risks and issues to company leadership (e.g., the C-level or Board). Confirm that the escalation path is clear to enable visibility and guidance.

3. ALWAYS KNOW THE EVOLVING, CRITICAL PATH

It is essential to always know what truly matters most during an integration, as time, resources, and attention are in high demand. Identify the critical path early in the process, monitor its evolution, and apply careful attention and rigor towards it.

With integration planning, there are two key facets: (1) creating the comprehensive integration plan and (2) creating the critical path plan. Most companies do well with the comprehensive plan, but many companies wait too long to identify the critical tasks, dependencies, and milestones that MUST be met to maintain pace and hit integration targets. Doing so early in the planning process will ensure the effective use of management attention and resources for the core matters that determine success.

A critical path item should be anything that, if missed or delayed, would:

- Have legal or regulatory consequences;
- Negatively impact the perception of the company with customers or employees; or
- Result in missed integration goals and targets (e.g., business case objectives)

In other words, an overlooked task or missed milestone within these areas can have an oversized impact to the integration or the overall company.

With that context, the critical path is usually comprised of key milestones and actions related to the core functions of HR, IT, Legal, Finance, Communications, and Sales. Additionally, other functions may be heavily involved, depending on the specifics for each integration.

For example, one of the early critical path items should be to establish the rules of engagement between the personnel of both Companies A and B. Management of the acquired company ("B") can become overwhelmed with requests for information and meetings from their counterparts within the core, acquiring company ("A"). The confusion of priorities and increased demand for attention impacts the productivity and effectiveness of the individuals and their teams. Quickly defining the rules and expectations while providing a structure for engagement will mitigate these negative effects.

Another example of a common critical path item, one that can be easily mismanaged, is the integration of communication tools, such as email and instant messaging applications. This is critical for two reasons:

THE SPEED OF CHANGE

The sooner communication tools and systems are integrated, the sooner impacted people will accept the change and integrate themselves into the new company and its culture. Don't underestimate the power of an email address with the "@new-company.com" domain.

THE PERCEPTION OF THE INTEGRATION

Communication tools are highly visible, and the migration from one system to another is a common barometer for the overall success of the integration. All levels of the organization will be impacted, so be sure to do it well.

To properly identify and manage the full critical path plan, integration leaders should:

Start Early

Make the critical path the first step towards the comprehensive plan, and then revisit it at the end to be sure nothing was missed.

Engage Stakeholders

Work directly with leaders from the core functions to identify the critical path items within their areas.

Monitor Separately

Pull the critical path items into a separate summary to monitor with special attention during integration status and governance meetings.

Adjust As Needed

Update the critical path, which is not set in stone, as integration progresses.

Monitor Escalations

Immediately escalate any risk or issue that may impact a critical path item or dependency (while following the integration escalation process).

4. EMBRACE EFFECTIVE RISK AND ISSUE MANAGEMENT

Things will go wrong, and it's the handling of those things that usually defines the internal perception, and ultimate success, of an integration. When it comes to risk and issue management, define and execute a process specific to the integration, and, above all, be human.

A well-run run integration is not the one that avoids problems, but the one that properly manages them when they arise. One common mistake is that integration leaders often do not define an end-to-end process for managing integration-specific risks and issues; rather, they rely on informal management via status reporting. The list of ongoing integration issues and their important details is often buried in PowerPoint decks and email inboxes.

Integration leaders should codify a process for risk and issue management instead that incorporates the following best practices:

DEDICATED MEETING – Establish a dedicated "Integration Risks & Issues" meeting that is separate from other status and governance meetings to allow for proper time and attention.

CENTRAL LOG – Create a central, online log that allows the capture of detailed risk/issue information, including the names of owners and other relevant stakeholders.

BROAD ACCESS – Provide access to the log for all integration stakeholders and participants.

AUTOMATED VISIBILITY – Use an online log with automated alerts to keep everyone informed.

ENFORCE USE – Strongly enforce the prompt logging and active, ongoing tracking within the central log. Do not rely on email or other channels to manage.

SHARE FINDINGS – Conduct root cause analysis and share the findings and corrective actions to ensure a thorough resolution.

CELEBRATE PROPER RISK MANAGEMENT – Escalating risks before a wide audience can be daunting, so applauding the "brave" individuals who escalate will ensure that integration team members don't attempt to hide or mask risks until they become issues.

Lastly, on the softer side of risk and issue management, it is important that integration leaders be human. When issues arise, learn from them and confidently share the lessons. If appropriate, admit mistakes and apologize. Through candor, leaders can use challenging situations to build the credibility of the integration team and build confidence in the overall integration with stakeholders.

Integrations have a vast impact on many stakeholders – shareholders, management, impacted employees, customers, and more. The fate of integrations, however, is often shaped by things that are easy to overlook. By focusing on the four tenets described above, integration leaders can avoid common mistakes; build confidence and buy-in with stakeholders; and deliver faster, more successful results.

Interested in learning more? Click here

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END NOTES:
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