Marry in haste, repent at leisure: when do hospital mergers make strategic sense?
Many hospital mergers fail. But when a merger is supported by both a compelling strategic rationale and strong pre- and post-deal management, the impact achieved is impressive.

Across the developed world, ongoing pressure to deliver higher quality care at lower cost is translating into efforts to control, consolidate, and reduce clinical activity levels in hospitals. Consequently, an increasing number of hospitals are planning mergers to ensure their clinical and financial viability. In the United States, for example, twice as many hospital mergers were announced in 2011 than in 2009, and the number of beds involved more than doubled. This pattern of consolidation in the acute care sector is one we see globally — and we anticipate it will continue for some time, given current economic realities and the increasing focus on care quality.

How successful are these arrangements likely to be? An initial review of the evidence is not encouraging. Over the past 20 years, hundreds of hospitals around the world have merged, and in many cases, perhaps most, the arrangements did not deliver the desired outcomes.

In other cases, though, mergers have produced substantial improvements in clinical quality and financial performance. Indeed, some of the most highly regarded hospital systems in the world today, such as the Mayo and Cleveland Clinics, have grown in part through mergers.

We therefore set out to develop a more nuanced understanding of why hospital consolidation succeeds or fails, and what lessons can be derived from history. To do this, we analyzed hospital mergers in multiple countries, interviewed senior payor and provider executives, and reviewed a wide range of academic papers and other articles. The insights we gained will be useful not only for hospital leaders considering mergers, but also for those contemplating other joint ventures, such as alliances with physician networks or community care providers.
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The test of time
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1. The test of time

The current wave of mergers is not the first time healthcare markets have seen hospital consolidation. In the United Kingdom, 112 hospitals merged between 1997 and 2006.² Between 2000 and 2010, there were 99 hospital or clinic mergers/acquisitions in France and 129 similar deals in Germany.³ In Norway, 17 hospitals merged between 1992 and 2000.⁴ (To put this number in context, Norway currently has about 60 hospitals.)

Our review suggests that few of these mergers captured the anticipated clinical or economic advantages. These findings are consistent with an earlier McKinsey analysis of more than 700 US hospital mergers, which found that in many cases the cost savings achieved were substantially less than the identified opportunity.⁵ Most academic researchers have come to similar conclusions.⁶-⁸ A study of 12 US hospital mergers, for example, found that only four improved care quality.⁹ An analysis of more than 100 UK hospital mergers discovered that none enhanced care quality; at most of the hospitals, clinical productivity remained unchanged and financial performance deteriorated.¹⁰ Another investigation determined that only one of the 17 Norwegian mergers increased the hospitals’ cost efficiency.¹¹

It is not always clear why so many of these mergers failed to deliver the anticipated benefits. However, the absence of substantive changes in service delivery appears to have played a major role in most cases. Improving care quality requires real changes in the ways services are provided, and there is little evidence that such changes were implemented. Similarly, many mergers were unable to achieve the anticipated rationalisation of services and sites. Weak management practices undoubtedly contributed to the lack of positive impact as well. In our work with hospitals around the world, we have frequently found that — even long after a merger — leadership structures, performance evaluations and incentives continue to focus on individual facilities, not the combined entity. The time and effort required to integrate or replace separate IT systems is underestimated. All too often, service lines — and the doctors running them — are allowed to carry on as if the merger never happened. Dual running costs persist, and the benefits of scale (in terms of both cost and quality) go unrealised.

However, some hospital mergers do produce substantial results. The UK’s University College London Hospitals (UCLH) Foundation Trust, for example, arose through the merger of six local hospitals. The critical mass UCLH has achieved has given it strong market share in several key specialties. It scores highly in national rankings of care quality and patient satisfaction and has sustained robust financial performance.¹¹,¹² Other notable examples of successful mergers include the Giessen and Marburg University Hospital in Germany, Tayside Hospitals in Scotland, and Guys and St Thomas’ NHS Foundation Trust in England.

These successes make it clear that hospital mergers are not doomed to failure. Our research demonstrates that two factors maximise the chances of a good outcome:

- **Compelling strategic rationale:** Successful mergers are based on a deep — and objective — appraisal of the clinical and economic value that could be generated for either the combined institution or the broader health economy.

- **Effective pre- and post-merger management:** Although a compelling strategic rationale is necessary for a successful hospital merger, it is not sufficient on its own. It must be accompanied by sustained focus on value creation, as well as by excellent preparation and rigorous execution.
Ensure your merger has a compelling strategic rationale
Amongst the business rationales for a hospital merger, three are cited most often: to reduce operating expenses, increase revenue, or reconfigure service delivery (Exhibit 1). However, any business rationale must be accompanied by a clear statement of how the merger will improve patient care. Without a strong clinical rationale, hospital mergers are substantially more likely to fail victim to vested interests and public disquiet.

Below we discuss each of the classic rationales for mergers and identify what it takes to deliver on them.

**Reduce operating expenses**

Perhaps the most frequently cited financial rationale for hospital mergers is cost reduction through economies of scale. In theory, the potential to cut hospital expenses is significant: about half of all hospital costs are indirect (the exact percentage depends on the hospital and health system). Purchased goods and services, the largest component of indirect costs, typically total 30 to 35% of all hospital costs. Yet most hospital mergers do not reduce costs to anything like the fullest possible extent.

Nevertheless, some mergers do manage to cut costs significantly. Our experience shows that large hospital chains are often able to increase efficiency and raise operating margins by 2.5% to 3% in the facilities they acquire. In part, this success results from strong due diligence – the chains acquire hospitals only when there is a significant opportunity to reduce costs. However, the chains’ scale also works in their favour: their centralised overhead, procurement, and support service costs are typically 10% to 15% lower than those at stand-alone hospitals. Furthermore, the chains usually have extensive experience in managing mergers and thus can move quickly to capture opportunities, avoiding many of the missteps that plague less experienced players.

However, individual hospitals can still achieve savings if a merger is executed well. The key to success appears to be strong performance management, with a focus on standardising and integrating work processes, support functions, suppliers, and investments. This, in turn, requires a willingness on the part of senior managers and clinical leaders in both organisations to adopt new processes that will capture the shared benefits.

More radical changes can further reduce costs. Integration of clinical services (usually through consolidation to a smaller number of sites) is often highly contentious but can produce...
substantial savings. We recently calculated the incremental cost savings that could be achieved through the merger of two UK hospitals, one of which operated two sites. If no clinical services were consolidated, the savings would be in the range of 1% to 2.5%. But if all services were consolidated at two sites and the third site was closed, the savings would be between 12% and 14%.

These results are consistent with those obtained by Dranove et al in a study of 122 US hospital mergers. These authors found that when hospitals amalgamated their licenses following a merger and thus (the authors assumed) reduced clinical capacity, productivity improvements of almost 14% were realised. However, no productivity improvements were achieved by the hospitals that did not combine licenses.

Increase revenues

A merger provides an opportunity to enhance hospital revenues in at least three ways. The first is increased market access. For example, a small hospital that delivers highly specialised services may have difficulty reaching all potential patients who could benefit from its services. A merger could help extend its reach within a larger network; the revenue derived from the added volume of patients could help ensure the small hospital’s survival.

Second, a merger could enhance revenues if it strengthens a hospital’s revenue cycle management processes. More accurate coding and more efficient billing could enable the hospital to more rapidly receive the money it is entitled to.

The third way a merger could help increase revenues is through greater market power. Although hospitals are often circumspect in citing market power as a rationale for consolidation, it has clearly been an underlying motive in some mergers.

Whether or not it is an explicit or intentional rationale for the merger, increased market power gives hospitals greater leverage in negotiations with payors. However, the ability of merged hospitals to negotiate better terms depends heavily on the local market. The more a merger drives market consolidation, the greater the negotiating power acquired by the hospital. The result is that prices in those markets decline less — or increase more rapidly — than in unconsolidated markets. Studies have shown that when mergers reduce competition in a local market, non-merging hospitals are often able to raise prices as well.

The extent of the revenue enhancement resulting from higher prices depends on the proportion of the hospitals’ revenue base that is susceptible to price negotiation — something that varies by hospital and country. In the United Kingdom, for example, most revenue is ‘on-tariff’ and thus prices are set nationally, leaving only about 30% of revenue to be negotiated regionally or locally. And only a portion of that 30% would be subject to changes in market power resulting from a merger (very specialist work often operates in a regional rather than a local market and so might be moved to an alternate regional provider, for example).

Reconfigure service delivery

Most developed countries are facing a growing mismatch between the health services their populations require and the way service delivery is configured. Demographic changes, for example, are increasing demand for integrated primary and community care. Advances in medicine and technology are making it possible to deliver more services on an outpatient basis. The result, in many cases, is a need to reduce and consolidate certain hospital-based services.

Restructuring service delivery is, however, difficult. Stakeholder resistance can be substantial, especially in the absence of a strong and well-argued case for change. Without such a case (and sometimes even with one), the debate almost always becomes intensely political once major changes — especially site closures — are proposed. For example, public protests against
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2. Ensure your merger has a compelling strategic rationale

A proposed service reconfiguration at two hospitals run by the Shrewsbury and Telford NHS Trust have persisted despite the fact that both hospitals have been cited for having markedly higher than average death rates.17,18

Merging hospitals can sometimes ease the challenges involved in reconfiguration. Service consolidation typically requires a trade-off: one site loses volume and income, whilst another site gains both. When the two sites are in the same organisation, the trade-off may be easier to arrange. The West Hertfordshire Hospitals Trust provides a good example. Since the Trust was formed in 2000 through the merger of two smaller hospitals, it has been able to consolidate accident and emergency services at a single site and to separate elective and non-elective hospital care.19 The result has been improvements in both patient outcomes and operational efficiency.

Quality

For any hospital merger to succeed, the case for change must include a persuasive argument for how care quality will improve. Otherwise, it will be impossible to overcome clinicians’ resistance or win public support.

A well-executed merger provides multiple opportunities to enhance patient outcomes. Consolidation, for example, can improve care quality if it eliminates subscale service provision. Clinical studies make it clear that for many services, a sufficient volume of patients must be treated to enable staff to keep their skills sharp. A merger can help ensure that volume. A well-executed merger can also improve patient outcomes if it increases transparency into care quality or if it results in improved performance management processes that help leaders identify where (and why) problems are occurring.

Other rationales

Our research identified a number of other credible business rationales for a merger. It can provide a way for hospitals to acquire new skills or technologies more rapidly than would be possible if the facilities remained independent. For example, one facility may be able to acquire skills from its new partner or get access to its partner’s advanced technologies.

In some cases, the combined entity may be able to access capital or afford to provide new services that would have been prohibitive for either hospital on its own. Finally, the price at which the merger can be completed may simply be so attractive as to make a deal financially compelling.
03
Focus on effective pre- and post-merger management
Hospital leaders should not underestimate the difficulty of merger execution — most hospital mergers fail because of poor execution. However, leaders can significantly increase the chances of long-term success by adopting the approaches outlined below, which are based on both our analysis of past hospital mergers and our practical experience of supporting more than 1,000 mergers in healthcare and other industries (Exhibit 2).

Below we discuss each of those approaches in more detail.

**Align stakeholders**

Many hospital mergers are strangled at the start because of staff or public opposition. To prevent this, hospital leaders must ensure that the rationale behind the merger is articulated in a compelling way to all key internal and external stakeholders, including regulators and local politicians. They must therefore:

- Develop and communicate a clear case for change that can be understood by all stakeholders
- Actively work with stakeholders (particularly the hospitals’ top clinical and managerial talent), from the start of the merger process through to completion and beyond
- Build a critical mass of stakeholder support.

Hospital leaders should not misjudge the effort required to achieve stakeholder alignment. It takes real work to develop and deliver a coherent, compelling message that articulates in simple, concise terms the merger’s rationale and what the combined organisation will be known for in three to five years (e.g., its areas of clinical excellence, focus on teaching, etc.).

It is crucial that all groups with vested interests — especially those likely to resist the merger — are identified quickly so that conversations with them can begin as soon as merger discussions start. Likewise, potential allies should be addressed so that they can be enlisted to support the merger. Political and cultural differences within and outside the hospitals must also be understood and planned for appropriately.

Stakeholder support is particularly important when the capture of merger benefits requires a significant change in activity at one or more

**Exhibit 2 : 10 best practices in hospital merger integration**

<table>
<thead>
<tr>
<th>Align stakeholders</th>
<th>1. Ensure stakeholder buy-in</th>
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<tbody>
<tr>
<td>Focus on value creation</td>
<td>2. Quantify clinical and financial value rigorously</td>
</tr>
<tr>
<td></td>
<td>3. Anchor integration architecture in the merger’s rationale</td>
</tr>
<tr>
<td>Prepare well</td>
<td>4. Protect core activities while building merger momentum</td>
</tr>
<tr>
<td></td>
<td>5. Define a comprehensive, tailored integration approach – and stick to it</td>
</tr>
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<td></td>
<td>6. Empower an integration management office (IMO) that attracts top performers and line leaders</td>
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<td></td>
<td>7. Don’t underestimate culture; use scientific approach to identify issues and intervene as needed</td>
</tr>
<tr>
<td>Execute rigorously</td>
<td>8. Provide outstanding, vigorous leadership during the merger and for years to come</td>
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<tr>
<td></td>
<td>9. Track the hospitals’ performance metrics to ensure that the merger’s goals are being met – and patient care is not suffering</td>
</tr>
<tr>
<td></td>
<td>10. Over-communicate with messages tailored to every stakeholder group</td>
</tr>
</tbody>
</table>

SOURCE: McKinsey Merger Management Practice
hospitals. Opposition to such plans from the clinician community can be fierce. However, the odds of success rise markedly if leading clinicians help develop the consolidation strategy and take responsibility for articulating how the changes will improve care quality.

The public is also likely to react negatively to the idea of moving services away from local hospitals, but this reaction can be overcome with careful communications. The Danish health system is reducing the number of its hospitals that deliver emergency care by almost half. Although there has been extensive public debate about the project, it is proceeding on track. The country’s leading clinical societies have given the project credibility by explaining how improvements in quality will result from service consolidation; in addition, most Danish politicians at the regional and national levels have come out in favour of the plan. Support from these groups has helped substantially diminish the public’s opposition to the changes.

Focus on value creation

Too often, mergers are seen as exciting transactions — bold strokes that will cut through the strategic thicket. Consequently, the potential benefits tend to be overstated and costs understated. Hospital leaders must be rigorous in quantifying what value the merger is likely to deliver. This requires three steps.

1. **Identify potential sources of clinical value.** Management teams must begin by asking themselves where clinical value will come from. For example, will the merger enable increased scale to improve clinical quality? Will it permit the hospitals to provide better senior clinician coverage for highly specialised services, such as intensive care? Will the hospitals be able to offer patients greater access to advanced technologies? Will the clinical staff be given more opportunities to improve care quality and advance professionally?

2. **Quantify the likely financial value.** To ensure that the economic assessment is realistic and rigorous, the assumptions underlying it should undergo objective challenge. In our experience, simply combining two hospitals usually saves, at most, about 2.5% of the cost base (primarily from low-hanging fruit, such as procurement changes and reductions in administrative burden). Further savings require substantive changes to the way hospitals are run. Hospital
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3. Focus on effective pre- and post-merger management

Focus on effective pre- and post-merger management

leaders should ask themselves difficult questions: which services will be consolidated and where? How will fixed costs be removed? Which sites will be shut? How many staff will be let go? What time frame is realistic? What transition costs will be incurred?

We counsel hospital leaders considering mergers to develop detailed models showing the institutions’ financial performance with and without a merger, as well as with and without service reconfiguration. This approach forces them to understand the impact of not making substantive changes. More details about this type of model are given in Exhibit 3.

3. Anchor the integration architecture in the source(s) of value. If a hospital merger is to achieve its objectives, the approach used for integration must be firmly anchored in the source(s) of value for the deal, whether they are clinical, financial, or otherwise. It is crucial, therefore, that the integration architecture be designed so that it maximises the opportunity to capture the value identified. For example, if the merger’s value stems primarily from consolidation of services to a lesser number of sites, then the process and approach to integration must be orientated around this.

Prepare well

Mergers are amongst the most complex managerial challenges any hospital leader can face. Appropriate preparation is vital for success. There are four steps to consider in the preparation stage.

1. Protect core activities while building merger momentum. The first step is to ensure that the hospitals’ operational and financial performance does not suffer during the merger process. Evidence from multiple industries shows that organisations often lose business momentum after a merger announcement. In many companies, for example, sales start to slide and expenses rise as managerial and staff focus shifts away from core business activities (Exhibit 4). In some cases, the business momentum is never recovered. Similar changes can occur following a hospital merger — patient care can suffer, and cost control can be lost.

At the same time hospital leaders must build the merger’s momentum to get change underway. Perhaps the best way to do this is to make all critical decisions well before close and complete all key activities within the first 100 days.

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### Exhibit 3: Evaluating the potential impact of a hospital merger and consolidation

<table>
<thead>
<tr>
<th>Base case: before merger and reconfiguration</th>
<th>Merger: before reconfiguration</th>
<th>Merger: after reconfiguration</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Model what the finances and activity would likely be in 5 or 10 years in an “as is” scenario</td>
<td>• Model the savings that would result from merger alone, before reconfiguration</td>
<td>• Model the savings incurred from reconfiguration</td>
</tr>
<tr>
<td>• Ensure that all leaders of the merger/reconfiguration agree about the following assumptions</td>
<td>• Typically includes</td>
<td>• Includes two main savings categories</td>
</tr>
<tr>
<td>– Demographic and non-demographic growth</td>
<td>▪ Back-office savings: HR, finance, IT, facilities, management, and board</td>
<td>▪ Savings from shifting service lines and (potentially) reducing unprofitable activity</td>
</tr>
<tr>
<td>– Future service demand</td>
<td>▪ Procurement savings linked to the combined hospitals’ increased volume</td>
<td>▪ Savings from increased productivity enabled through economies of scale after consolidation</td>
</tr>
<tr>
<td>– Reimbursement/price changes</td>
<td>▪ Inflation (pay and non-pay)</td>
<td>• Ensure that all leaders of the merger/reconfiguration agree about the following assumptions</td>
</tr>
<tr>
<td>– Margin cost assumptions</td>
<td>▪ Marginal cost assumptions</td>
<td>– Where clinical activity will move under different scenarios</td>
</tr>
<tr>
<td>– Likely efficiency improvements</td>
<td>▪ Minimum staffing requirements to sustain clinical quality services</td>
<td>– Potential efficiency gains</td>
</tr>
<tr>
<td>– Minimum staffing requirements to sustain clinical quality services</td>
<td>• Model the savings incurred from reconfiguration</td>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>▪ Procurement savings linked to the combined hospitals’ increased volume</td>
<td></td>
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<tr>
<td></td>
<td>▪ Staff savings linked to shared rosters (or rotas) across sites (this category may not be practically feasible before the reconfiguration stage)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Ensure that all leaders of the merger/reconfiguration agree about the following assumptions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>– Where clinical activity will move under different scenarios</td>
<td></td>
</tr>
<tr>
<td></td>
<td>– Potential efficiency gains</td>
<td></td>
</tr>
</tbody>
</table>
2. Define the integration approach. The second step is to define a comprehensive, tailored approach that will be used for integration. Real choices have to be made, especially around leadership and execution (Exhibit 5). In both cases, the ‘right’ approach will depend on the nature of the hospitals and their current leaders. A key leadership decision to be made early on is the governance structure for the combined organisation. At a minimum, this structure should include a designated CEO and new board. All relevant parties should agree on who will serve as CEO before the merger becomes official. Board members should be carefully selected to avoid favouritism.

Exhibit 4: Protect base business momentum to avoid typical loss of revenue

Percentage change in performance among 122 target companies in quarter following merger announcement (relative to preceding quarter)

<table>
<thead>
<tr>
<th>Measure</th>
<th>Sales</th>
<th>Return on sales</th>
<th>Return on assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>-8.3</td>
<td>-24.0</td>
<td>-29.0</td>
</tr>
</tbody>
</table>

SOURCE: McKinsey performance transformation database

Exhibit 5: Define a comprehensive, tailored integration approach

- Leadership and governance
  - Leadership role of CEO
  - Role of integration office
  - Integration decision-making model
- Program-based execution
  - Degree of planning before regulatory approval
  - Degree of strategic reassessment
- Team-based execution
  - Integration approach
  - Pace of integration

EXAMPLE

Note: Choices shown here are for illustrative purposes only; they are not necessarily appropriate for all hospital mergers.

SOURCE: McKinsey Merger Management Practice
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3. Focus on effective pre- and post-merger management

towards individual hospitals and ensure that the new board is concerned solely with the best interests of the merged organisation. The remainder of the new executive team should be appointed no later than 6 to 12 weeks after the deal’s completion to ensure focused leadership is in place as soon as possible.

To ensure strong execution, the integration approach must include a robust implementation plan that will deliver results quickly and position the hospitals to eventually capture all the value identified. The plan must include a rigorous, systematic method for integrating the organisations and achieving the merger’s goals. To reassure clinicians, the public, and other stakeholders, the plan must also contain a programmatic way of identifying any clinical or operational problems that arise during or after the merger and a clear strategy for correcting those problems rapidly.

Although the implementation plan must be detailed and cover a wide range of eventualities, it must also be pragmatic. In any merger, available resources and timeframes are finite. The goal is not to define a theoretically perfect end state but rather to outline practical ways through which care quality and the hospitals’ economics can be improved. By mapping out a way to achieve at least some results quickly, the plan can help increase support for the merger and the changes it requires.

3. Establish an integration management office. The next step, a critical one, is to put in place an integration management office that is empowered to make decisions and intervene decisively — and which will therefore attract high performers. The integration management office should be staffed with a dedicated team, separate from line management: the effort needed to plan and oversee the tasks required by a merger cannot easily be bolted onto existing jobs.

Because the integration management team plays such a significant role, it is not unusual for the designated CEO to lead it personally, entrusting day-to-day management of the new organisation to a deputy. After all, a merger is likely to be the biggest change programme a hospital ever undertakes. If the designated CEO is not part of the integration team, it is crucial that all team members report to the same senior executive or another single point of accountability (e.g., a board member) to ensure that everyone clearly understands who is answerable for the merger’s success. Responsibilities within the integration team should also be clearly identified, and timetables for all activities should be established.

4. Investigate cultural compatibility. If the transformational change programme is to succeed, it is crucial that the integration team scientifically investigate the hospitals’ cultural compatibility — how well the top executives and the frontline staff are likely to be able to work together. Cultural differences can slow the speed of change and increase transition costs considerably. In some cases, they can derail a merger. By analyzing how compatible the two hospitals are, the integration team can also double check whether the assessment of value is realistic.

Execute rigorously

The official merger is only the start of a long process. Real hospital integration, particularly re-organisation of clinical services, may take years to complete. All too often, hospital mergers fail because leadership attention flags, resources are reallocated too quickly, and the initial momentum dissipates. Tenacity is perhaps the most underrated characteristic of successful mergers. Whilst establishing momentum is crucial for getting a merger off the ground, sustaining that momentum over months and years is even more important for long-term outcomes.

Three sets of activities can help ensure that a hospital merger succeeds over the long term:

Provide visible leadership for years to come: an organisational change of the magnitude of a hospital merger is a true test of leadership ability. Change makes most people nervous, and the obvious presence of leaders is never more critical than during times of major
change. Outstanding, visible leaders who continue to be involved in the change effort are therefore vital if a merger is to succeed.

Board members and other senior executives share responsibility with the CEO for making their support of the merger visible. These leaders must remain involved in — and visibly supportive of — the integration for several years to come, to ensure that staff resistance to change is surmounted.

The challenge of engaging disaffected staff members should not be underestimated. Even the best stakeholder management plan will not convince all staff members that the merger is a wise idea. However, strong, visible senior leadership support can help win over at least some of the disaffected. It can also help sustain the support of important external stakeholders, such as local politicians and regulators.

Track key clinical and financial metrics. The merger’s rationale must be supported by a carefully defined set of specific objectives if long-term success is to be achieved. The objectives must cover the full range of activities that will be undertaken during and after the merger to ensure that the necessary changes to processes and practices are embedded into the new organisation.

In addition, progress against the objectives must be assessed regularly. To accomplish this, the integration management team must translate the objectives into a carefully defined set of clinical and financial metrics. It must then track those metrics regularly for several years.

In our experience, two of the most common errors in hospital mergers are that the integration management teams are not given sufficient resources and that they are shut down prematurely. As a result, progress against objectives is not assessed carefully enough, and problems are permitted to persist.

Over-communicate with stakeholders. From the day a merger is first announced until long after it is consummated, hospital leaders — especially the designated CEO of the combined organisation — must communicate regularly with and reassure staff members, as well as all other important stakeholders. Because stakeholder communication is so important, we provide practical tips about how hospital leaders should communicate, and what topics their communications should cover, in the sidebar on p. 19.

A successful hospital merger requires leaders to define carefully the source(s) of value, plan effectively to capture that value, and then execute flawlessly in pursuit of it. Historically, this has proved a rare combination of skills. However, when this combination is present, leaders have the opportunity not only to improve their hospital’s economics and care quality, but also to transform the way services are delivered to their patients.
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3. Focus on effective pre- and post-merger management

Any hospital leader undertaking a merger who ignores the need for clear communication does so at his or her peril. Uncertainty, anxiety and rumours will be rife, even after the merger has become official; frequent, open, and honest communication with both internal and external stakeholders is therefore vital to establishing as much cohesion and common direction as possible.

The following practical tips can help hospital leaders think about how, and what, to communicate to staff members during and after a merger.

- Given today’s communication options (e.g., social networking sites and tweeting), leaders should assume that all messages, including those designed for internal distribution only, will eventually appear in the public domain. They should also carefully think through the sequencing and timing of their announcements, since news can be spread so rapidly.

- Communication must be frequent, open, and honest. Although some announcements may need to be tailored for specific audiences, there must be consistency in all messages delivered. The effort must be sustained, even though the resources required for communication may ebb and flow.

- When a merger is announced or rumoured, no issue attracts more interest in the minds of staff members than how it will affect them personally. Who gets what roles in the combined organisation and the perceived equity of the appointments process will strongly influence staff support for the merger. Thus, all merger-related HR policies and processes must be open and fair — and be seen to be fair by the staff. To ensure this, leaders should make sure that they clearly communicate the HR policies and processes that will be used during and after the merger.

- It is imperative to move as quickly as possible towards the new organisational structure. Uncertainty saps energy and morale like nothing else. In this case, no news is not better than bad news. Maintaining the interest and motivation of all hospital staff members over the long haul of a merger is difficult; it is likely to prove impossible if uncertainty persists. The appointment of good clinical leaders, coupled with regular, clear communications about the importance of patient care, can go a long way towards settling the staff’s concerns.

- If, as is often the case, the designated CEO is from one of the merging hospitals, all relevant parties must agree on how he/she will engage with and communicate sensitively to staff members from the other facility.

- A simple, but sometimes overlooked fact, is that the operational changes required by the merger will have to be implemented by the hospitals’ staff. Thus, the integration communications must focus on ensuring that all staff members understand why the changes are important, how to execute those changes, and have accepted responsibility for ensuring that the changes are made.

- In addition, any change in activities must be carefully spelled out in the job plans of affected individuals — and all staff members should be informed that their job plans may be modified. It is crucial that the activity changes be seen as central to the mission of the merged hospital, or it is likely they will be ignored. Although the changes may require some staff members to stretch in new directions, they should be achievable. The merger will fail if staff members are not motivated or not supported to deliver on their new objectives.

- Some staff turnover is inevitable during and after a hospital merger. It is almost certain that some senior people will leave and valuable organisational memory will be lost as a result. When leaders are assessing which staff members are the most important to retain, they should consider not only each person’s technical skills but also what that person knows about the organisation. Leaders can then take steps, as early in the merger process as possible, to entice the right people to stay. How they communicate with all staff members will influence how successful they will be in this effort.
References

Biographies

Penny Dash, MD is a partner in the London office of McKinsey & Co. She leads McKinsey’s work with healthcare systems across EMEA to improve healthcare value. Penny’s work focuses on redesigning care pathways and restructuring models of healthcare provision to improve quality and productivity. Penny has over 15 years experience in healthcare consulting during which time she has supported the merger of many organisations in healthcare, pharmaceuticals, and other industry sectors Penny is a physician by background, has a MBA and is currently vice Chairman of the Kings Fund.

Jonathan Dimson is a partner in the London office of McKinsey & Co. He leads McKinsey’s UK healthcare restructuring efforts and has worked with numerous public and private organisations in merger planning, due diligence, organisational and cultural implications, and post merger delivery.

David Meredith, an associate principal in McKinsey’s London office, specialises in strategy for health systems and payors. He has worked extensively on health system reconfigurations and hospital mergers.

Paul White is an experienced Healthcare CEO in both Public and Private sectors who has led a number of mergers and major organisational transformations. He is the former CEO of Barts and the London Hospitals. He currently provides advisory support to Boards and senior teams leading major complex change in UK and Internationally.