Post-Merger Integration: The Balance of Forces

Pete McGinn for HealthLeaders News, March 6, 2009

Healthcare providers are witnessing the onset of another round of wide-ranging consolidation, with economic forces likely to continue as the main driver. To gain the hypothetical benefits of consolidation, healthcare CEOs should invest time in building structures and systems that work. Synergy may be a logical outcome of integration, but there are inherent forces in organizations that undermine it. CEOs must understand the natural forces that fight integration, as well as the tools they can use to create sustainable structures that keep the competing forces in balance.

No matter how you approach it, leaders of recently merged organizations must create balance. Building a stable and sustainable organization demands keen insight and effective action to manage opposing forces and competing priorities. Leaders of merged organizations seek stronger performance through market strength and effective organization and use of resources. Easier said than done. These lofty goals require more sustained attention than many results-driven executives want to invest on the front end.

Just as with designing buildings, designing organizational structures requires clear goals, careful specification of priorities, and the pragmatism to make trade-offs. In post-merger integration, leaders must create structures and systems that support strategy, streamline decision making, and align competence and responsibility. They should encourage freedom, innovation, and growth while exercising control and promoting accountability. And they must manage the conflict between appropriate specialization and desired integration of functions.

Pretty soon, it can seem distressingly bureaucratic. CEOs face concerns about centralization versus decentralization, process versus structure, and service and customer group compatibility. They will need to make decisions about reporting relationships, organizational layers, spans of control, communications, and interdependencies. Fortunately, there are a few basic principles that can help busy executives deal effectively with this complexity.

Buckets and system design

Designing an integrated system is a bit like swinging a bucket of water around your head. As you swing the bucket, you create centrifugal force that makes the bucket feel like it is pulling away from you. To keep the bucket from flying off, you need to have a strong rope attached to it and a firm grip on the rope. In the language of physics, the rope and your grip on it create a *centripetal* force that keeps the bucket moving in a circle around you. *Centrifugal* force is one that pulls away from the center, while a centripetal force is one that pulls toward the center. In the language of business, you have created a balance between *decentralizing* forces moving power away from the central authority and *centralizing* forces tending to concentrate power in the central authority.
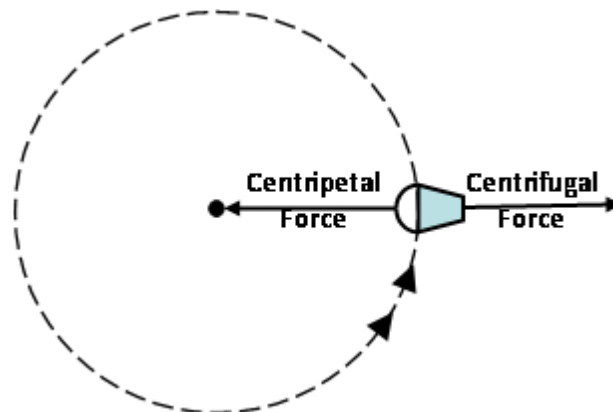
Centrifugal forces in organizations

In business, just as in physics, there is a natural tendency for things to fly apart unless there are specific offsetting forces. Executives planning post-merger integration should be aware of the natural forces that would cause the system to disintegrate, and they should recognize and employ the necessary centralizing forces to counterbalance these.

Organizational cultures create the greatest centrifugal force. Financial and legal structures intended to segregate and protect the assets of individual organizations contribute to pulling it apart. Organizational silos, whether within or between organizations, create wedges that weaken integration efforts. Complexity or lack of clarity about mission, vision, strategy, or standards of performance add to the forces of disintegration. The common desire for organizational autonomy, managerial independence, control of unit resources, and freedom of action all tend to move authority and control away from the center. That is why organizational centrifugal force will lead organizations to split apart rather than integrate unless leaders create strong ties to hold them together.

Centripetal forces

To achieve successful post-merger integration, CEOs should employ design principles that offset the natural forces of disintegration. The first action is to create a strong, stable center. Just as with the spinning bucket, CEOs need to use a strong rope and maintain a firm grip so the integrated system does not fly apart. However, to continue the metaphor, if the rope is too short or if CEOs grip the bucket itself, movement and momentum can be stopped completely, and organizations stagnate.

Healthcare CEOs then need to consider the structure and systems that impact five interrelated—but separate—constituencies: line employees, middle management, senior management, the medical staff, and the board. At each level, different kinds of identity with the mission and vision of the organization exist. A shared sense of purpose within and between levels is a critical centralizing force. CEOs must recognize the power of symbolism and build a common identity for the members of a merged organization. This becomes the foundation of organizational culture.

Next, CEOs should build divisional and departmental structures within the organization to get work done efficiently without segregating the functions that need to interface smoothly. This process begins with a careful assessment of end-users (patients) and other customers (doctors, families, etc.) and an analysis of the organizational services and processes. The goal is to design work interfaces that eliminate unnecessary steps, work-arounds, and other inefficiencies that frustrate staff and tend to set them in opposition to the institution and each other. Uniform processes across organizational sub-units and compatible, interlocking systems hold the parts together even in the face of centrifugal forces.

Managing trade-offs

As the structure is built with these principles in mind, CEOs will need to make decisions regarding the balance between centralization and decentralization and between a flat, broad organization or a narrow, deep one. Practical considerations like span of control and management layers must be addressed.

Decisions will reflect a CEO's style and preference, but they must be informed by the degree of specialization required to provide certain services or to meet the needs of specific customer groups. It is imperative that the structure is aligned with organizational strategy. Savvy CEOs will recognize that each decision involves trade-offs, and no given structure will work perfectly.

Nevertheless, CEOs must also recognize that poor design choices will interfere with growth, innovation, communication, and decision making, and undermine integration and synergy.

Business integration and clinical integration

Most healthcare CEOs begin post-merger integration on the business side rather than the clinical side of the organization. Business systems, like billing, are more easily integrated clinical systems because business systems are typically more generic. Most CEOs and CFOs can more readily identify the efficiencies and consequent cost savings.

Moreover, business systems do not directly challenge the professional autonomy that clinicians, especially physicians, exercise in healthcare settings; however, clinical services are the core business of healthcare organizations. To exclude them from post-merger integration means foregoing the most significant opportunities for operational improvement.

To integrate or centralize business systems while leaving clinical systems essentially non-integrated means that there will continue to be powerful forces working against post-merger integration. However, in many healthcare settings pushing clinical integration too fast will generate strong resistance. Once again, CEOs must consciously evaluate the trade-offs. If they defer clinical integration for practical reasons, they should revisit that decision on a regular basis to test for readiness, as it is likely to change over time. Some healthcare CEOs have found that centralizing performance improvement/quality assurance and building meaningful leadership roles for respected clinicians in the process has been an effective *centripetal force* that has increased readiness. Others have found that creating uniform standards in key areas like ancillary services has similarly increased readiness for further post-merger clinical integration.

Although CEOs may not welcome an additional task on their already full plates, designing effective consolidated organizations is one of their primary responsibilities, akin to strategic planning. It requires many of the same skills and analytic rigor. Like planning, design requires a deep understanding of the business, it forces choices, and it is not permanent. Fortunately, strategic planning and organizational design overlap and are mutually supportive, although design does not involve as many unknowns as strategic planning. But organizational design is not simply moving boxes around on an organizational chart. CEOs who design as carefully as they plan will add to their competitive advantage and create stronger, healthier, and more vibrant healthcare organizations.

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