E-Briefings
Volume 15, No. 5 • September 2018

Merger Playbook: Best Way to Govern throughout the Process

By Jim Finkelstein, President and CEO, and Kellie Fielding, Senior Consultant, FutureSense LLC

How can you achieve the most efficient and effective alignment of governance as you navigate through the merger process? The new partnership is exciting, full of potential, and each side brings strengths and weaknesses to the relationship. The boards must be willing to embrace the strengths of each organization and utilize them to fill weaknesses of the other. As with any new venture, when two entities come together, it is natural for differences in process, procedures, and potential incompatibilities to exist. Accurately identifying these challenges and creating a proactive plan to overcome them is necessary to achieve successful integration. Examining cultural differences in both boards, and in the overall organizations, early in the relationship will assist in reducing cultural clashes that may be looming on the horizon.

For the combination to be successful, the vision and goals for the future must be aligned for all involved. Taking inventory in each of these recognized areas will allow the boards to build a prosperous synergy as they continue through the merger process.

Key Board Takeaways

In order to be properly prepared for a smooth governance transition during any merger activity, boards should:

1. Transparently determine and agree on the reason(s) for the merger in order to determine the competencies required for a future board.
2. Assess knowledge, skills, abilities, and attitudes (KSAAs) of existing board members to determine appropriate role in transition (if any) aligned with the reasons for the merger.
3. Identify gaps in KSAAs for board integration team and fill the gaps.
4. Form a board integration team.
5. Work with management to maintain entity and local boards in transition to ensure communications and connections with constituencies.

Merger Basics

Although there are several underlying causes for failed mergers, some of the more common factors include: the inability to reach agreements upon key elements, incapability to match and blend cultures and people, and poor integration planning and implementation. How can you avoid this from occurring? As you begin to strategize and envision your playbook, don't overlook the basic building blocks necessary to facilitate the success of your company's merger. In the article "Proper Governance Key to Mergers," authors Bill Ide and Crystal Clark state that the primary oversight responsibilities of healthcare boards can be grouped into six functional categories: culture, talent, strategy, compliance, risk, and governance.[1] Each of these areas must be scrutinized effectively to produce the desired goals. So, how do we accomplish this and why is developing a playbook important? Spending the time to create an innovative approach to the merger will provide a pathway to make sure it is successful.

A 2018 survey by Grant Thornton revealed that most M&A deals fail to exceed expectations due to lack of cultural alignment. Only 14 percent of all respondents felt that deals exceeded their initial expectations.[2]

Identifying the Meaning behind the Merger

What is the real reason for the merger? This is the first question that needs to be answered and will set the stage for effectively creating your playbook. The board must be willing to accept the purpose of the merger and conduct themselves accordingly. Knowing the true meaning behind a merger opens opportunity to thought-provoking questions and sets the foundation for developing a strategic plan for the future. In a recent Deloitte

1 Bill Ide and Crystal Clark, "Proper Governance Key to Mergers," *Healthcare Finance*, August 27, 2014.

2 "Defining What Is Vital for Deal Success," Grant Thornton, May 2018.

survey of over 1,000 corporate executives and private equity investors, "key strategic drivers for mergers and acquisitions included technology acquisition, expanding customer bases in existing markets, diversifying and expanding products and services, digital strategy, and talent acquisition."[3] In a 2017 study by Charles River Associates, interviews with hospital executives identified benefits of hospital mergers as cost reduction, scale-related savings (including supply chain, IT, and back office), capital access and avoidance, clinical standardization to reduce cost and improve quality, clinically integrated networks, and other operational items.[4]

However, we have found that the principal reason for a merger can generally be classified in one of three ways, and each comes with its own obstacles and challenges and potentially unique playbook and/or alignment of the boards:

1. **Survival.** It may simply be out of a necessity to survive as the healthcare industry continues to evolve and is characterized by a board from the stronger entity dominating the new board.
2. **Merger for scale.** Perhaps the transaction would be classified as a merger of "equals" in order to create scale in revenues and cost control. This requires the highest and best use of talent on the board as entities combine.
3. **Innovation and advancement.** The merger intention may be the creation of new and innovative possibilities to accelerate future growth.

Once you have clearly and transparently identified the merger's purpose, it's time to focus on the development of the new board structure.

3 *The State of the Deal: M&A Trends 2018*, Deloitte.
4 Monica Noether, Ph.D., and Sean May, Ph.D., *Hospital Merger Benefits: Views from Hospital Leaders and Econometric Analysis*, Charles River Associates, January 2017.

Creating the Future: A Playbook for Organizing the Board

Are you finding yourself in a situation where the boards are being combined? At this stage, board members may feel protective about preserving the company's legacy. However, it is essential to be proactive—not reactive—throughout the process. Adapt the philosophy to *abandon* old processes, *choose* to combine the best practices of each company, and *create* new approaches to drive the future.

Boards, like executive and staff teams, must first be tasked with the objective of discovering the highest and best use of each board member consistent with the purpose of the merger. Perhaps there is a strong need to add talent to the team, or an organization is interested in advancing into unchartered territories and these goals will require additional board resources to achieve them. Or, the board needs to be shrunk and simplified as operations are combined and reduced.

When planning for the post-merger, non-profit strategy expert David La Piana explains that strategy, people, program, and systems are the four focus areas to achieve full integration. He states that, "post-merger integration is where a merger succeeds or fails. This critical effort is often viewed as an afterthought and is typically under-resourced."[5] Knowing this in advance allows governance to better prepare and achieve a well-executed integration implementation strategy. For example, if you are seeking innovation and advancement, instead of just having an Integration Management Office (IMO), consider an Advancement Management Office (AMO). The name itself encompasses a 360-degree view of the new company's ambitions and a motivator to strive for a brighter and more interesting tomorrow.

5 David La Piana, "After the Merger: Getting to 'Yes' Is Only the Beginning," Stanford Social Innovation Review (SSIR), June 22, 2018.

Another option is to create a board integration team that is both the overseer and ambassador for the board integration process. This team should stay in place for at least six months following the merger.[6] While the integration team is being formed and prior to the final combined board being established, it is also critically important to maintain "local" presence. There may be the need for multiple boards/teams with different responsibilities:

- **Board integration team:** integration management, including focusing on the new board culture
- **Final combined board:** ultimate fiduciary responsibility, including focusing on strategy executive selection
- **Legacy entity board:** legacy board(s) with strong relationships to the transitioning executive and staff teams—for continuity purposes; eventually they will be either decommissioned or turn into advisory boards, depending on the structure of the deal
- **Community board:** strong ties to the local community and donor bases, which ultimately may become local financial development and community relations boards or committees

Creating the Future: A Playbook for Board Members

Although we would prefer to describe ourselves as a population that ambitiously accepts change, human behavior tends to resist the unknown, retreat to the comfort of our current foundation, and cling to the process flow that we have grown to rely upon. Transitioning your mindset as a board member is a critical component to embracing the possibilities of this new journey.

6 "Bring the Boards Together," Nous Group and Whitelion.

As with any new venture, when two entities come together, it is natural for differences in process, procedures, and potential incompatibilities to exist.

Perhaps your role is to assist with the facilitation process, through the transition phase, but you aren't planning on continuing as a member of the governance post-merger. Or perhaps you shouldn't continue on because of a lack of appropriate skills. As board members are asked to change their roles, it is critical that they understand why their roles are changing and why their new role is in the best interest of the new company. Over-communication on this point must be emphasized, with ample opportunity for board members to voice their concerns and feel that they are being addressed.

In conclusion, there is no one-size-fits-all universal playbook that can be referenced or built. Each merger includes unique components that must be accounted for during the process. A successful outcome requires you and your board to begin building your merger playbook early, with both short- and long-term new company goals being aligned and assessing and identifying the best board talent to make it all happen. And ultimately, boards must decide who can best serve the new organization by stepping away from the board or stepping up to build the playbook and execute against it.

The Governance Institute thanks Jim Finkelstein, President and CEO, and Kellie Fielding, Consultant and Director of Client Success, of FutureSense, LLC for contributing this article. You can learn more about their company and work at www.futuresense.com or contact them at jim@futuresense.com and kellie@futuresense.com.