It is all About the Finances in Healthcare Mergers and Acquisitions

By

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Abstract

The purpose of this research was to explore how hospital administrators prepare employees for a merger or acquisition and how employees are supported through the process, if at all. The literature in regard to the process is primary silent. What literature exists is prescriptive from the human resources viewpoint and appears in industry news articles. This study was exploratory using a qualitative approach, and the “long interview method”. Data was collected during the early days of the national quarantine from hospital Directors and C-Suite Administrators. The data analysis focus on the differences in employee treatment when two organizations merge, or one organization acquires another. Two distinct approaches emerged from the data, the Human Resources Driven approach and the C-Suite Driven approach. The findings revealed that once a Letter of Intent is filed the only communication with employees is to encourage continual productivity which exacerbates the anxieties of employees. Neither approach addresses due diligence regarding the cultural fit of organizations. Therefore, the outcomes of these approaches have led to failures in mergers and acquisitions. Both approaches do not seem to prepare employees for their merger or acquisition. Three recommendation were developed to help improve the process from the employee’s perspective: Educate employees about the process; Prepare an Elevator Pitch; and recognize the attributes of self-management.
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Chapter One: Introduction

The number of hospital mergers in 2017 reached the highest point in more than a decade (FierceHealthcare, 2018). According to a report from Kaufman Hall, (FierceHealthcare, 2018b), hospitals announced a total of 115 transactions in 2017, which was the most since 2000, when the group began monitoring hospital mergers and acquisitions. Many of the transactions included big price tags, “eleven deals in 2017 involved sellers with net revenues of $1 billion or more” (FierceHealthcare, 2018c). As the healthcare industry evolves, it's becoming more and more imperative for hospitals to build scale and grow organizational reach, according to the report. Mergers and acquisitions appear to be driven and justified based on projected financial outcomes.

Mergers and acquisition are a means to their end. By definition mergers and acquisitions are areas of corporate finance, management and strategy dealing with purchasing and or joining with other companies. There is a difference between a merger and an acquisition. In a merger, two organizations join forces to become a new business that usually emerges with a new company name. Because the companies involved are typically of similar size and stature, the term “merger of equal” is sometimes used (WhatIs, 2018a). An acquisition is when one business buys a second and usually smaller company which may be absorbed into the parent organization or operates as a subsidiary. The terminology “target” is a company under consideration by another organization for a merger or acquisition (WhatIs, 2018b).

Motives for merger and the incentive for acquisitions include; a) acquisition of assets, b) diversification, c) to increase the wealth of their shareholders and e) strengthen their market position (Postma & Roos, 2016). Also, efficiency and financial reasons are important drivers of merger activity in healthcare. Motives for merger are related to changes in health policies, in
particular to the increasing pressure from competitors, insurers and municipalities (Postma & Roos, 2016a). Even though drivers for healthcare mergers are to improve services, increase market shares, financially efficient and better patient outcomes, all actions effect employers and little is known about what the challenges are for employees in healthcare organizations. The primary reason for the success of a merger or acquisition on a score card may be based on the financial outcome and not necessarily on human relations.

**Statement of the Problem and Purpose of the Study**

While some literature exists regarding employers on employee outcomes in industry, little is known of the effects that management has on employees before through or after the merger or acquisition. The purpose of this study is to explore how hospital healthcare administrators or managers prepare employees for a merger or acquisition.

**Usefulness of the Study**

As the trend continues in healthcare the number of employees effected may increase or a number of employees may be repeatedly effected. How employees are treated affects the climate and culture of service delivery both before and after the transaction. There is a gap in measuring the success of the transaction and the resulting impact on employee. This study may be needed to understand the processes involved at the administrative level before other research can be designed.
Chapter Two: Literature Review

The literature review will explain factors that have an impact on employees during mergers and acquisitions in health care organizations. Mergers and acquisitions are related to changes in health policies, in particular to the increasing pressure from competitors, insurers and municipalities. Integrated Delivery Networks (IDN), Integrated Health Systems (IHS) and hospitals predominantly merge to improve the provision of healthcare services and to strengthen their market position. Efficiency and financial are important reasons and drivers for merger activity in healthcare. Most of all mergers are related to changes in health policies, in particular to the increasing pressure from competitors, insurers and municipalities. (Postma & Roos, 2016b). Also, the literature review will hopefully reveal the differences of employee treatment in the merging of different organization departments. A definition of terms is presented in (Appendix A). Finally, a theory that drives the researcher thinking in this area will be presented and discussed. This section includes laws that govern hospital mergers and acquisitions.

Laws Governing Hospital Mergers and Acquisitions

The Federal Trade Commission (FTC) is a bipartisan federal agency with a unique dual mission to protect consumers and promote competition. The FTC is dedicated to advancing consumer interests while encouraging innovation and competition in our dynamic economy. The FTC develops policy and research tools through hearings, workshops, and conferences (Federal Trade Commission, 2018). The FTC reviews hospital mergers and acquisitions but few are stopped. The Federal Trade Commission has the capacity to challenge only a few mergers, so they select the ones that most threaten competition. The FTC has been aggressive in tone and
substance and have been successful recently in court. The successes let providers know that anti-competitive mergers can and will be challenged (NEJM Catalyst, 2016).

Policymakers at the state and federal levels devise policies that make healthcare markets more competitive (I.E. State Department of Health and County Health Departments). Because healthcare is a thoroughly regulated sector, many policymakers throughout the government can have a hand in how healthcare markets work. State policymakers have more power in shaping these markets. States Attorney General can challenge anticompetitive mergers in their states, just like the FTC. Both insurance and providers are regulated at the state level, state policymakers—insurance commissioners, state licensure bodies, health commissioners, just to name some—have enormous capacity to inject competition into the market (AHCJ, 2018). The States Attorney General can place price controls and open their markets across state lines to allow competition.

State and federal agencies also make laws that address human resources responsibilities and employee rights. These agencies include but not limited to the Department of Labor, National Labor Relations Board, Occupational Safety and Health Administration and Equal Employment Opportunity Commission. The Department of Labor fosters, promotes, and develops the welfare of the wage earners, job seekers, and retirees of the United States; improve working conditions; advance opportunities for profitable employment; and assure work-related benefits and rights (US Dept. of Labor, 2018). The National Labor Relations Board (NLRB) is an independent federal government agency that acts to prevent, and remedy unfair labor practices committed by private sector employers and unions (National Labor Relations Board, 2018). Congress created the Occupational Safety and Health Administration (OSHA) to assure safe and healthful working conditions for working men and women by setting and enforcing standards and by providing training, outreach, education and assistance. The U.S. Equal Employment
Opportunity Commission (EEOC) is responsible for enforcing federal laws that make it illegal to discriminate against a job applicant or an employee because of the person's race, color, religion, sex (including pregnancy, gender identity, and sexual orientation), national origin, age (40 or older), disability or genetic information. It is also illegal to discriminate against a person because the person complained about discrimination, filed a charge of discrimination, or participated in an employment discrimination investigation or lawsuit. Regardless the type of organization or level of government it cannot be assumed that they are collaborative or cooperative.

**Professional Organizations**

There are several professional organizations that support administrators, managers and human resources before, during and after merger and acquisition. Some of these organizations are as follows: American Academy of Medical Administrators (AAMA), American Association of Healthcare Administrative Management, American College of Heath Care Administrators (ACHCA), American College of Healthcare Executives (ACHE), American Hospital Association (AHA), American Health Information Management Association (AHIMA), American Medical Association (AMA), American Public Health Association (APHA), Association for Healthcare Administrative Professionals, Association of University Programs in Healthcare Administration (AUPHA), Healthcare Administrators Association, Institute for Healthcare Improvement, Medical Group Management Association (MGMA), National Academy of Health Service Executives (NAHSE), National Association of Health Services Executives.

Some of the benefits that professional organizations offer administrators, managers and human resource professionals before during and after a merger and acquisition are access to research. The research can be found in publications and journals; events, conferences and webinars relevant to mergers and acquisition; interaction with other professionals in similar
positions; updates regarding federal and state changes in the delivery of healthcare services and information on the most recent innovations and improvements in healthcare. Professional Healthcare organizational membership is open to all healthcare professionals no matter what their grade, level or title. Healthcare professional organizations may offer tools to administrators, managers and human resources on preparing employees for mergers and acquisitions. Unfortunately, the healthcare organizations offer little preparation to the employees of a merger and acquisition.

**Literature Summary**

There are articles that speak about factors that have an impact on employees during mergers and acquisitions in health care organizations. One article details the process and steps of mergers and acquisitions that include the best thing to happen to company; finances; silence period; what happens following the transaction closure; changes in benefits; issues leaders face; sign of layoffs and what employees can do (Chron, 2019). Another article details the process of mergers and acquisitions that include employee and staffing; 30 percent of redundancy of staffing; prepare employees for a culture shift; focusing on training and keeping employees motivated during and the transaction closure (Circa, 2020).

Even though these articles and other company literature speak about the impact on employees they are created to provide and/or sell company and consulting services to meggers and acquisition organizations. The services do not offer healthcare organizations employees to prepare for a merger and acquisition.

**The General Theory of Management**

Henri Fayol wrote about the principals of management in the 19th century (Mind Tools, 2016a). Fayol’s work became known in America in the 1920’s and was based on experience in
mining engineering. The theory represents a command-and-control approach to management and preceded the scientific management era (Mind Tools, 2016b). Fayol does not address or dictate the management style of the leaders. Although this researcher has over 25 years of experience in governmental, non-profit and for-profit environments, from the inside of organizations, the principals of command and control listed below are an accurate description for the daily operations. Fayol theory is very old it may be still relevant today because an organization is still a group of individuals who come together to perform a set of tasks with the intent to accomplish the common objectives.

However, organizations are now based on the concept of synergy, which means, a group can do more work than an individual working alone. In order to study the relationships between the individuals working together and their overall effect on the performance of the organization is now studied through research. Below is a figure explaining the relationship among Organizational Theory and Organizational Structure, Culture, Design and Change.
Figure 1. Relationship Between Organizational Theory, Structure, Culture, Design, and Change. Adapted from Slide Player. (2018). Retrieved from https://slideplayer.com/slide/4539329/

Fayol’s theory is supported 14-fourteen principles (Toolshero, 2018). This researcher will use the following 10-ten principles for this study:

1) EQUITY: All the employees in the organization must be treated equally with respect to the justice and kindliness.

2) STABILITY OF TENURE: The employees should be retained in the organization, as new appointments may incur huge selection and training cost.
3) INITIATIVE: The manager must motivate his subordinates to think and take actions to execute the plan. They must be encouraged to take initiatives as this increases the zeal and energy among the individuals.

4) DIVISION OF WORK: The work should be divided among the individuals on the basis of their specializations, so as to ensure their full focus on the effective completion of the task assigned to them.

5) AUTHORITY AND RESPONSIBILITY: The authority and responsibility are related to each other. Authority means the right to give orders while the responsibility means being accountable. Thus, to whomsoever the authority is given to exact obedience must be held accountable for anything that goes wrong.

6) DISCIPLINE: The individuals working in the organization must be well-disciplined. The discipline refers to the obedience, behavior, respect shown by the employees towards others.

7) UNITY OF COMMAND: According to this principle, an individual in the organization must receive orders from only one supervisor. In case an individual has the reporting relationship with more than one supervisor then there may be more conflicts with respect to whose instructions to be followed.

8) UNITY OF DIRECTION: Unity of direction means, all the individual or groups performing different kinds of a task must be directed towards the common objective of the organization.

9) REMUNERATION OF PERSONNEL: The payment methods should be fair enough such that both the employees and the employers are satisfied.
10) SCALAR CHAIN: This means there should be a proper hierarchy in the organization that facilitates the proper flow of authority and communication. It suggests that each individual must know from whom he shall get instructions and to whom he is accountable to. Also, the communication either going up or down must pass through each level of authority. In certain circumstances where the quick flow of communication is required, the rigidity of a scalar chain can pose problems. Thus, Henri Fayol has suggested “gang plank” which means anybody in the hierarchy can interact with each other irrespective of their authority levels.

**Summary**

A review of the laws and literature pertaining to the treatment of employees during mergers and acquisitions revealed that the area is constrained by regulatory processes and non-peer reviewed articles designed by consulting organizations to establish business connections. Even though there are many different kinds of healthcare consolidations taking place, the distinction between for-profit and nonprofit hospitals need not be emphasized. What research exists proves that for-profits and nonprofits pursue the same pricing strategies (AHCJ, 2018a). The US spends more on healthcare than any other nation and exhibits worse outcomes. The US also has enormous opportunities to allow market forces to inject creativity and innovation into the health sector but does not measure the impact of managers and human resources have on the employees involved in the merger and acquisition (AHCJ, 2018b).
Chapter Three: Methods

This chapter focuses on the research design. The research design will focus on how data will be collected, analyzed, the sample frame, sampling size, protection of human subjects and the limitations of the research.

Research Design

The research design is imperative because it addresses key factors and issues as to who will be studied; how the administrators and employees will be selected and what data will be selected; and what data will be gathered from them (Monette, Sullivan, Dejong, & Hilton, 2014a). The study is non-experimental with a qualitative approach. Qualitative research techniques involve data collection in the form of people, pictures, words, narratives or descriptions, rather than numbers which is referred as quantitative research (Monette, Sullivan, Dejong, & Hilton, 2014b). The method for data collection that will be used is “interviews” (McCracken, 1988a). Interviews are to be face to face for 1.0 – 1.25hrs in duration. (Monette, Sullivan, Dejong, & Hilton, 2014b).

Sample Frame

It is crucial to identify a sampling frame. A sampling frame can be viewed as a list of all elements in a population and in many studies the researcher draws the actual sample from the list created (Monette, Sullivan, Dejong, & Hilton, 2014c). This research study, sampling frame will include administrators from mergers and acquisitions. The geography of this study will not exceed the United States boarders. The study will focus on hospital human resources and management preparation of employees before, during and after a merger and acquisition. Interviews will be conducted with current or former human resource managers and administrators involved in these mergers and acquisitions.
Sample Size

The sampling for this study will be purposive and involve snowball or chain sampling. In a purposive sampling the investigators use judgement and prior knowledge to choose the sample participants who best serve the purpose of the study (Monette, Sullivan, Dejong, & Hilton, 2014d). This researcher has worked in corporate healthcare organizations over 25 years and been involved in 4 to 5 mergers and acquisitions. Therefore, the purposive sample begins with personal network and contacts. The researcher will refer to personal networks, colleagues, managers and employees for 8 – 12 participants. The researcher hopes to continuously find interviewees through chain sampling. Chain sampling is when the researcher starts with a few cases of type to be studied, and lets them lead the researcher to more cases, which in turn leads to even more cases and so forth (Monette, Sullivan, Dejong, & Hilton, 2014e).

Data Collection

Within a research design, it is crucial to understand what kind of data will be collected and how the data collection is done. Through this study, data will be collected through face to face, one on one in person interviews that will be recorded or transcribed. The researcher plans to interview 8 – 12 participants asking approximately 5 – 8 open-ended interview questions. The interviews may last 45 minutes to 1-hour. A follow up interview by phone may be part of the member checking process. This tool may retrieve the most information possible regarding this study and will proceed until saturation is reached.

Data Analysis

Analysis of the data collected refers to a method of transforming the content of a document that includes words, pictures, images or narratives to form the qualitative, unsystematic form into a category form (McCracken, 1988b). The researcher plans to follow the
five stages of the analysis process as described by McCracken (1988) that helps analyze the data gathered. The five-stage process is a movement from the particular to the general and the stages help the researcher to move upward from recording and transcripts to general observations.

1) First Stage: treat each interview transcript in its own terms and ignore the relationship to other aspect of the text.

2) Second Stage: take observations and develop them, first by themselves, second according to the previous literature and cultural review.

3) Third Stage: Examine the interconnections of the second level of observation.

4) Fourth Stage: Take the observations generated at the previous levels and subject them in a collective form and determine patterns of theme and consistency.

5) Fifth Stage: take the patterns and themes as they appear and subject them to a final process of analysis.

**Methodological Rigor**

Methodological rigor refers to the integrity and quality of the researcher. The researcher is relying on the dependability and trustworthy from the hierarchy in the organization top to down. With qualitative designs, as with this study the challenges of credibility, dependability, transferability, confirmability, and trustworthiness occur. The primary results for this study will be member clarity. To overcome these challenges the researcher will follow up after the interviews through calls with the participants. Before the interviews, the participants will be provided with interview release forms and the researcher’s human subjects research certification.
IRB Approval

The researcher completed online training through Collaborative Institutional Training Initiative (CITI) as well as for the Institutional Review Board (IRB). All certifications and documentation will be attached in the appendix (Appendix B).

Confidentiality

The confidentiality of the participants will be protected throughout the study. As stated in the IRB section, all CITI and IRB training documents will be attached for review. Also, when analyzing or presenting any data, participants will be referred to by codes. Participants will be provided with a letter describing the study as well as an informed consent form before participating in the study. All interviews will be tape recorded or transcribed and all the documents and recoding will be stored in a safe and locked room. Once the study is completed and accepted, all documents and recordings will be destroyed in a shredder. The sealed informed consents will be kept for 3 years in the locked safe.

Limitations

Limitations occur in every study and might constrain the effectiveness or quality of the research study. There may be limitations to this study due to the selection of participants only being in one state; the participant levels in the hospitals; lack of time to fully understand; collect; analyze the findings and due to lack of money to further explore this study.
Chapter Four: Results

This chapter reports the research process, presents the findings, discusses the findings, and reviews the theories that drove the thinking of the researcher. Results of this research project address the problem statement “How Do Healthcare Administrators Prepare Employees for Mergers and Acquisitions”.

Research Process Updated

In late February and early March of 2020, this researcher was approved to proceed with face to face interviews and had scheduled appointments with health care administrators when the pandemic, caused by the Covid – 19 virus, interrupted the data collection process. The researcher had planned face to face interviews with 8 healthcare administrators with titles at the levels of CEO, CFO, COO and or Sr. Director Level Administrators. The pandemic changed the face to face interview plan for all IRB research at California State University, Bakersfield. This research protocol had to be amended and re-reviewed by the IRB for adjustments in the research design for the Zoom environment (Appendix C). Meantime, health care administrators also had to adjust to a new service delivery model I.E. work from home or sheltering, changed or cancelled all initial appointments and sometime rescheduled or new participants were located. Health care administrators were forced to delay, change and or cancel interviews which extended the data collection process. At the conclusion of data collection 6 administrators diverse in gender, race, nationality, age and color participated. All Zoom interviews were 30 – 45 minutes in duration and recorded by Zoom automatically and retrieved for analysis purposes (Appendix D). The results of the content analysis appear on the next page.
Findings

The results of the content analysis are that 2 corporate approaches emerged from the data and that the processes were slightly different in each case for mergers and acquisitions. The 2 approaches are titled Human Resource Driven and C-Suite Driven. The results of each approach will be presented separately. The differences will be analyzed and discussed.

Human Resource Driven and C-Suite Driven Approaches

The goal of each approach in terms of the analysis is essentially the same. In the case of mergers the organization needs time to assess financial and human resources in all organizations that are involved in the merger. In the case of acquisitions, the acquiring organization needs time to blend financial resources and “cherry pick” the best employees for the next organization phase.

Regarding employees what does that mean? All employees of the involved organizations are assessed. The final head count of the dominant organization may be less than at the offer. The employees in the dominant organizations being merged may be eliminated either by severance, sell, dissolution of the organization and or no compensation at all. The result is the same for remaining employees after the process is completed. The difference in the approaches is who handles the employees. However, the process always begins with an offer.
Figure 2. HR Driven Approach.

Figure 3. C-Suite Driven Approach
The Letter of Intent

The Letter of Intent (LOI) is a document declaring the preliminary commitment of organization “A” to do business with another or other organizations. The letter outlines the chief terms of a prospective deal. The LOI is commonly used in major business transactions. Once the parties involved reach an agreement on the details laid out in the LOI, a binding agreement or contract that conforms to the LOI details is drawn up. Once organization “A” signs a letter of intent to purchase an organization or business and the seller accepts the letter, then the buyer will have a specified period of time in which to conduct a due diligence investigation of the seller and the company. The buyer will then perform an independent financial analysis of the organizations or companies. The LOI is the framework that creates a final agreement and leads to a “Quiet Period” for the seller organization or companies.

Quiet Period

The Quiet Period is a set amount of time in which an organizations management and marketing teams cannot share opinions or additional information about the firm. There are no details of events and talks regarding merger or acquisitions shared with the company employees until the transaction is completed. The Quiet Period is in place for publicly traded companies so the organization or companies cannot make any announcements about anything that could cause a normal investor to change their position on the company's stock. (Chron 2019).

Due Diligence

Before one or more organizations is merged or acquired, “Due Diligence” is performed. Due diligence is performed to decide if the merger or the acquisition is feasible. The due diligence is an essential task for the transaction and allows for a comprehensive review and analysis by a prospective buyer to establish its assets, liabilities, appraisals and evaluate its
commercial potential. Due diligence can be performed by an internal or independent agent. An interviewee shared “nothing happens unless due diligence is performed after a letter of intent (LOI) is signed.”

The Human Resource Driven Approach (HR)

During the Quiet Period either the HR approach or C-Suite Driven approach (C-Suite) is initiated. In the case of mergers, the Board of Directors of one or more companies allows the HR department to manage messaging, head count, culture, administration, morale, daily operations and performance. HR is the champion in coordinating all departments, stakeholders and messaging between one or more companies involved in the merger. There is a collaboration between organizations at the HR department level in the merger to compile and implement the best of all human resources to strengthen the dominant organization.

In the case of an acquisition HR manages all directives from company “A” to company “B”. Even though head count, culture, administration, morale, daily operations and performance is important to company “A”, company “A” sets the standards for Company “B”. There is little to no collaboration from HR Company “A” with HR Company “B”.

Messaging

HR is responsible for managing all messaging during the “Quiet Period”. As the quiet period begins the HR department is directed to begin the process of addressing employees through crafted messages such as, “continue performing your daily operations”, and preparing for the eventual post acquisition employee mix. Regardless of what person or Department delivers the message all messages are approved at the Board of Directors level.

The purpose of the message is twofold: a) to divert the focus of employees and b) keep the culture upbeat to maintain productivity. In response to an employee question, HR might
respond “there will be additional management opportunities after close since there will be additional market share”. An interviewee shared that during the quiet period time they experienced in a union hospital, “the union wanted to become part of the process and began communicating to employees to resist the transaction.” Another interviewee shared that in their union hospital, the union wanted to become part of the process and began communicating to employees to accept the transaction.

HR also delivers the messages in an acquisition. Company “A” provides the message and sometimes incentives to company “B” to maintain daily operations during the transaction. This messaging is sent from company “A” HR to company “B” HR in the form of a memorandum again to keep employees focused on the business during the transaction. During the same time HR is managing the messaging to kill rumors.

**Head Count of Total Employees**

HR is responsible for the final headcount in a merger. A report of the headcount is sent to the Vice Presidents. This is the number of positions and employees in the position after the merger and or acquisition. HR is given a financial number from finance for employees and must manage the financial number to put into place all employees and positions for the future state of the merger closure. Meeting the number for positions and employees may be based on merit, performance evaluations, seniority, education, and company experiences. The goal of HR during this task in the transaction is to retain the best employees within the financial budget. HR must manage the reduction of force but keep the best employees for the new companies in a merger. An interviewee stated the financial balance sheet of merger head count must be met before or immediately after the closing. In an acquisition company “A” HR must meet the financial number for all positions and employees. Company “A” may require all company “B”
employees to interview for their current position; offer severance packages; or manage furloughs and termination of positions.

**Training**

When the new workforce is established, HR manages the training for all employees during and after the closure of the transaction. In the case of a merger of one or more companies, it is the responsibility of each HR organization to ensure the employees are trained and prepared after the transition. In some cases, there may be fewer employees after the merger, but the new organization will have HR make sure the retained employees receive the proper instructions but not the necessary training to perform the daily operations. During the acquisition HR manages the expectations of company “A” that all employees of company “B” are already trained in performing their current positions or they should not have been retained in the financial head count. In an acquisition HR maintains that the retained employees are self-motivated and have the training required to perform their existing and new daily operations in company “A”. After all previous performance evaluations are based on the employee knowing how to perform daily operations and are not based on the employee being trained by company “A” to perform the daily operations. An interviewee informed “if an employee finds themselves in a position they need training for after company “A” has acquired company “B”, this may be a good time for the employee to seek other opportunities outside of company “A”, before the employee finds themselves on a performance planner”.

Training is pivotal for HR to manage. Training can determine the success of the new organizations in the case of mergers and when Company “A” has acquired company “B” in an acquisition. Another interviewee stated the expectation is employees should be already trained. If not they should be part of a list to be released.
From the organizations and employee’s perspective training of employees in mergers and acquisitions is an oxymoron. HR manages the training process through a check list, not education and learning opportunities. Unfortunately, when employees fail in their existing or new positions within the organizations, they usually state “I was never trained, or I was never trained properly for the daily operational task”. Employee dissatisfaction is the result and has a direct effect on client satisfaction. The effects from dissatisfied clients can result in employees leaving or termination.

The financials of a merger and or acquisition may look good on paper as a result of the due diligence but no consideration was given financial consideration that addresses the consideration of employees lost, poor morale, and cultural indifference. These factors may determine if the merger of organizations or the acquisition is successful or becomes a failure.

**The C-Suite Driven Approach**

This process is in the hands of the executives. Executives direct interactions that are managed by Human Resources.

**Culture**

Human Resources is to assess and balance the cultures of all organizations involved with their merger and or acquisition. An interviewee stated that merging each different company culture is represented and carried into the strategic goals of the dominant organization or the newly formed organization. The HR departments of one or more companies come together frequently and discuss how to manage each culture. They deliver the directives from the Board on how to migrate the cultures after close to keep the core values of each culture in place. An interviewee stated merging different company culture is a key performance indicator in the new strategic acquisitions HR is concerned about migrating company “B” culture into company “A”.
Company “A” HR is to manage and make sure that company “B” employees adhere to the core values and mission.

**Messaging**

C-Suite is responsible for managing all messaging during this time period. The messaging to employees is little to none with a theme of “continue performing your daily operations.” An interviewee informed the C-Suite offer to company “B” sometimes lead to employee messaging that they may be required to interview for their current position.

**Head Count**

Company administrators know, the biggest cost of doing business is often labor. Labor costs can account for as much as 70% of total business costs, include employee wages, benefits, payroll or other related taxes (Paycor, 2020). Therefore, there are incentives to Sr. Management to maintain or improve status quo until completion of a merger or acquisition. The incentives are put in place when the Sr. Team from Company “A” organizes the merger and or acquisition. The incentives are usually offered to the SR. Management Team from Company A to company “B”. One interviewee informed that the incentives is usually a huge sum of money to Sr. Executives of company “B” to successfully assist in maintaining operations, increasing productivity, keeping morale up, reducing cost and possibly leaving the company at closing of the transaction. This is a best and final offer and the proposal is presented to Company “B” Sr. Management and does not include an assistance to Company “B” employees during the acquisition.

The C-Suite Driven approach pays no attention to employees and or culture of Company “B”. Company “B” C-Suite Management Team must adopt or find employment somewhere
else. Unfortunately, one participant shared, the incentives are not employee focused and are not
offered at the daily operations employee level.

Analysis

Employees and their individual and collective abilities are not the focus of either the merger or
acquisition nor the approach used. All these processes are driven by perceived financial
advantage as revealed in the data.

The Personal Perspective

The researcher has been involved in corporate organizations for more than 30 years.
More than 23 years have been in the healthcare industry. During the past 30 years I have been
part of 5 mergers and or acquisitions and in one instance was at the administrative level. I have
continued being employed, have survived, and observed the following from the employee
perspective: a) No one prepared me for the process; b) No one from HR trained me for being
absorb into another company nor did they oriented me to the new culture; c) no one informed me
about the cultural indifference, for example idea stealing and lack of collegial support; d) No one
gave me direction, feedback or accolades for at least a year regarding my performance; and e)
there was usually a period of time absorbing the personal financial consequences. The study
participants confirmed that the researcher experience was typical but new was the impact of the
regulatory environment.

Toward Self-Management

Employees in health care may be motivated be a variety of values, such as a mission to
serve or religious convictions. Therefore, the long-term success of a merger or acquisition
begins with an effective communication strategy regarding employees and must address the issue
of the culture of the resulting organization.
Several participants were aware and knew culture should be part of the due diligence process before the closure of the transaction. Unfortunately, most of them fail to conduct cultural due diligence before they finalize the deal. Culture is one of the main causes, that this researcher was told from interview participants on why mergers and or acquisitions deals do not deliver the value to their full potential after closure. The failure to address culture during due diligence is a failure of both driven approaches to realize significant synergies. Successful mergers and acquisitions require a holistic view of culture at an early stage, and a strong focus on people-related issues.

Healthcare administrators must also develop a process for managing mergers and acquisitions before they occur. Employees may not know the reasons or conditions of the law during the “Quiet Period”. Providing too little or no information during this time and employees minds start to run wild with ideas about promotions, layoffs, and everything in between. How two or more different healthcare providers deliver the same type of services may have different processes. Hospital administrators must develop new processes without disfranchising the other organizations employees to preserve a culture of service rather that industry.

**Self-Management as a Goal**

When employees first hear a rumor or an announcement they should begin to self-manage their career. There is public information available through the media and although designated as rumor it is generally reliable and assumed to be gather from insiders. Available to employees are outplacement organizations, social media and healthcare professional organizations like American College Healthcare Executives.
Systems Theory

Systems Theory is the predominate organization theory in healthcare. In the case of mergers and acquisitions the companies or organizations involved are originally part of the environment outside of the dominant organization. Each of them have a culture that is different. This research study reveals that the dominant organizations acts as they can simply absorb the other organizations into their through put processes without considering due diligence of the other cultures. The integration of human resources depends on the motives of members of the dominant culture. (See Figure on the previous page)

Summary

The research study asked how Do Healthcare Administrators prepare employees
for mergers and acquisitions. The findings reveal that there are 2 approaches. But in each approach and regardless of the type of action employees are not prepared for either the process of a merger and or acquisition or the results. Mergers and acquisitions in healthcare clinically oriented organizations are new and the success of integrated health systems Accountable Care Organizations and Integrated Health Networks may depend on attention to integration of culture.
Chapter Five: Recommendations

The purpose of this study was to explore how hospital healthcare administrators prepare employees for mergers and acquisitions. This type of business activity is relatively new in healthcare where hospital organizations are still centered in the nonprofit arena. Seven administrators were interviewed using the “long interview” approach of Grant McCracken and the data from the interviews analyzed using a thematic approach. The analysis identified a single theme—that employees were not being prepared in either mergers or acquisitions. Rather, either administrators at the Vice-President or cabinet level (HR Departments) were assigned responsibility for maintaining the productivity level of employees in all affected organizations.

Likely, mergers and acquisitions will continue in healthcare and are incentivized by the practice of government, through CMS, rewarding actions toward accountable care organizations and integrated health care systems. Therefore, the recommendations that emerged from the data that employees cannot look for career guidance from the organizations involved in mergers and acquisitions because current government regulation restrains transparency. The research was undertaken to assess the gaps between the actual experience of the employee and actions from the administration. Three recommendation were developed to help improve the process from the employee perspective.

Recommendation 1: Prepare and Educate Employees About the Process

Hospital administrators, usually in Human Resource, can prepare an in-service or continuing education module about the merger or acquisition process that is open and honest about the regulations and internal message constraints. The module could then be embedded in the on-boarding of new employees and then offered yearly. The regular scheduling of this module session will meet regulatory requirements because this continuing education must occur
long before the merger and/or acquisition is anticipated. Included in this education Human Resources could address the concerns and rumors from a scenario or role playing basis. The cost of this approach is already included in a Human Resources Department budget. Human Resource can also develop departmental and employee “Scorecards” to measure cultures during the merger and acquisition. Organization’s different processes can be listed and ranked against each other. Example Company “B” and other companies may believe their performance in a process is an 8 and Company “A” may believe their performance is a 6. This difference can prompt a discussion on opportunities on the best culture and then measured against the scorecard. Todd Davis, the chief people officer for Franklin Covey, states, “Strong productivity is the result of many things, but at its foundation is a winning culture. The greater the culture, the more productive people will be because they are engaged. (Todd Davis, 2019). High performance cultures foster high performing team members just like positive peer pressure. In a merger and or acquisitions merging cultures of companies and or company A and B together should be the highest is a precursor for success.

**Recommendation 2: Prepare an Elevator Pitch**

Employees may elect and/or attempt to influence their retention. If so, the employee can develop a 30 – 45 second pitch ready to share with boss, managers, directors, vice presidents and/or administration. The pitch should address how they could save the new merged company “X” percent in annual operating costs. "You let me run this, I'll save you “X” percent." Another approach would be to let the Executive Team know you are prepared for more responsibility or give the manager your elevator pitch and present him or her with your plans for how you would structure the new organization and save the combined company money. Alternatively, let the
executive team or your management know that you don't have a problem leaving the company and hoping to get a severance package.

This researcher has survived direct experience with both mergers and acquisitions. Employees might also learn heuristics from employees with experience. For example, my advice would be the following: a) the employee time to be heard is early on to protect their interest and future; b) have patience and wait; c) focus on the work at hand; and d) avoiding gossiping, speculation and spreading rumors.

**Recommendation 3: Self-Management During the Process**

In the administrative communication the employees must become the captain of their own ship immediately when there is an announcement or rumor of a merger or acquisition because as the data analysis revealed in this study, the company may not have their best interest in mind. Because the data indicates the focus is on finances not employees.

The worst thing that can happen in a merger and acquisition is that the employee gets fired and does not get a severance package. However, more than likely the employee will get severance and can probably collect unemployment for 6 months to a year. If an employee loses their job this may be an opportunity to try something else. The employee may want to start their own business; move into a different career or retool by going back to school. This all depends on the employee seeing the situation as an opportunity. Another “rule of thumb” is to keep your eyes open and it doesn't hurt to do some networking while you are waiting for the outcome of the merger or acquisition. Please avoid jumping at the first job that comes your way. The data also revealed employees get promoted during acquisitions and some get retention bonuses for taking on the risk of staying with the company. Most of all the employee should
consider what will be best for them because Company “A” has already considered and decided what is best when the transaction closes.

**Plan for the Best**

The best-case scenario if you keep your job is you get promoted to lead a new group or the same group that suddenly is much larger. Think about how you would manage it? How would you structure your new team? What would the budget look like? Which systems or applications would you keep or get rid of? Employees need to question everything, for example are we organized properly? Should we merge with other departments? Can I do work outside of my current job function?

Have answers to all these questions. It's a safe bet that someone else is questioning everything, so you need to be prepared with the answers. Most of all always have a solution documented on how you can save money, improve services and provide value. In conclusion this researcher has learned always be positive, fly under the radar and prepare yourself for the next opportunity.
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Appendix A: Definition of Terms

**Hospital** – a place where sick or injured people are given care or treatment and where children are often born (“Hospital”)

**Merger** – is a corporate strategy of combining different companies into a single company in order to enhance the financial and operational strengths of both organizations, (“Merger”). Horizontal merger will be used for the purpose of this study, since hospital mergers are two companies in the same industry.

**Acquisitions** - is the purchase of all or a portion of a corporate asset or target company, (“Acquisition”). For the purpose of this study an acquisition is when a hospital acquires a target hospital the target hospital ceases to exist in a legal sense and becomes part of the purchasing company. Acquisitions can be either hostile or friendly.

**Integrated Delivery Network (IDN)** – IDN is an organization or group of healthcare providers, which, through ownership or formal agreements, aligns local healthcare facilities and manages them with one governing board. They share a vision and mission of improving the quality of care and patient satisfaction.

**Integrated Health Network** - A network of organizations that provides or arranges to provide a coordinated continuum of services to a defined population and is willing to be held clinically and fiscally accountable for the outcomes and health status of the population served.

**Human Resources** - is an organizational function related to the procurement and retention of talented employees, (“Human Resources”). Hospitals deal with human resources in some form. Hospital Human Resources deals with hiring; maintaining morale; creating motivational compensation plans; creating and maintaining performance-appraisal programs; ensuring that
important information about benefits, laws, and employment issues is disseminated; and helping employees maintain and develop their skills.

**Administrators** - a group of people who manage the way a company, school, or other organization functions, (“Administrators”) Hospital Administration is the performance of executive duties.

**Management** – the act or skill of controlling and making decisions about a business, department, sports team, etc. Hospital Management are the people who look after and make decisions.

**Employees** – a person who works for another person or for a company for wages or a salary, (“Employees”). Hospital employees are usually below the executive level and are hired to perform a service especially for wages or salary and are under the organizations control.
Appendix B: IRB Certification and Documentation

This is to certify that:

Urie Norris

Has completed the following CITI Program course:

CITI Conflicts of Interest (Curriculum Group)
Conflicts of Interest (Course Learner Group)
1 - Stage 1 (Stage)

Under requirements set by:

California State University, Bakersfield

Verify at www.citiprogram.org/verify/?w765e3832-e15c-4775-ac4e-b0af7da7e2fc-24632829
19-100 - Initial: Exempt Letter
irb@csub.edu <irb@csub.edu>
Wed 4/8/2020 6:42 PM
To:

- BJ Moore <bjmoore@csub.edu>;
- Urie Norris <unorris@csub.edu>

California State University, Bakersfield
Human Subjects Institutional Review Board
FWA00013908

Date: April 8, 2020

To: Urie Norris, Department of Public Administration
BJ Moore, Department of Public Administration
cc: Chandra Commuri, IRB Chair
From: Isabel C. Sumaya, University Research Ethics Review Coordinator

Subject: Protocol 19-100: Authorization Following Exemption from Full Review

I am pleased to inform you that your Protocol, "Healthcare Administrators Prepare Employees for Mergers and Acquisitions," has been approved on April 7, 2020, following exemption from full review. This research activity was exempted as defined in: Category 2. Research involving the use of educational tests (cognitive, diagnostic, aptitude, achievement), survey procedures, interview procedures or observation of public behavior, unless: (i) information obtained is recorded in such a manner that human subjects can be identified, directly or through identifiers linked to the subjects; and (ii) any disclosure of the human subjects' responses outside the research could reasonably place the subjects at risk of criminal or civil liability or be damaging to the subjects' financial standing, employability, or reputation.

Authorization is based on the protocol received on April 8, 2020. This authorization will be valid until the exact date, April 8, 2021. Use of the Psychology Subject Pool is not authorized.

The PI is responsible for ensuring that all research personnel who participate in data collection and/or obtaining informed consent are Human Subjects Protection Training-Certified.

This authorization is strictly limited to the specific activities that have been authorized by the IRB. In conducting this research, the investigator must carefully review the final authorized version of the protocol to ensure that the research is conducted as authorized by the IRB. If you want to modify these activities, notify the IRB in advance so proposed changes can be
reviewed. If you have any questions, or there are any unanticipated problems or adverse reactions, please contact me immediately.

Any signed consent documents must be retained for at least three years to enable research compliance monitoring and in case of concerns by research participants. Consent forms may be stored longer at the discretion of the principal investigator Urie Norris. The PI is responsible for retaining consent forms. If the PI is a student, the faculty supervisor is responsible for the consent forms. The consent forms must be stored so that only the authorized investigators or representatives of the IRB have access. At the end of the retention period, the consent forms must be destroyed (not re-cycled or thrown away). Please destroy all audiotapes after scoring if applicable.

Isabel C. Sumaya, Ph.D.
University Research Ethics Review Coordinator
California State University, Bakersfield
Appendix C: Zoom Interview Questions and Process

The sample titles (CEO, CFO, COO and or Sr. Director) that had Zoom interviews are diverse in age, gender, race, nationality and color. The sample titles were asked 7 questions on “How Do Healthcare Administrators Prepare Employees for Mergers and Acquisitions”. The interview question is as follow:

1) What did HR or Administrators do to prepare Employees:
   - Before; During; After; Role changes; The migration of cultures during and after the merger or acquisition; Communicate organization changes from the merger and acquisition?

2) Can you describe the training investment for both organizations?
   - How was the training investment used to prepare employees on new processes, products and service offerings?

3) How did HR or Administrators evaluate and decide who would be kept or let go?

4) How did HR HR or Administration keep their employee focused on the:
   - Organization core values and purpose?
   - Employees doing their job?

5) What were you not prepared for?
   - What would an effected employee say was good about the process?
   - What would an effected employee say was bad about the process?

6) If you were responsible for designing the process what would you do?

7) Tell me a story about the best thing that happened and the worst thing that happened in the merger or acquisition process?