WHITE PAPER

Three Common Mistakes of Physician Group Mergers

Acquiring another practice can be a powerful tool for your group to achieve growth and build long-term value. There are, however, a few key mistakes that are often made which could be avoided with more thoughtful reflection.

1. Failing to define a vision-*before* the integration occurs.
Crafting a vision that clearly spells out the opportunity inherent in the transformation ahead should, but often doesn't, start long before a deal is pursued. Drawing from an "expanded due diligence" process that explores quantitative metrics, like physician group operations and financials, as well as the people and culture of the merged entity, is key.

Leaders must build and communicate a vision of success that is understandable, tangible, and compelling to employees throughout the ranks of both practices. Factoring in in the value of the people, assets, and cultural elements of each practice will empower leadership to look beyond the basic additive advantages of the deal and construct a more holistic vision-inspired by both head and heart-for the opportunity ahead.

2. Forgetting to ask, "What more could we become together?"
The single biggest pitfall that derails successful transactions occurs during the actual integration process. Those involved often focus too heavily on ensuring the tactical aspects of the deal are covered, including technology integration, financial reporting, operations, and merging organizational structures.

The real power of any physician group merger comes from both practices challenging each other to ask, "What more could we become together?" How can each practice learn from the best of each respective practice and let go of old biases? This will build the two parts into a better whole. Viewing the integration process through this lens will help build collective urgency and alignment around shared goals and generate excitement among employees for the new entity's future.

3. Underutilizing your people to drive change.

Throughout the merger integration process, leaders at each practice should deliberately involve staff from throughout the practice to help facilitate change. The practices should empower employees at all organizational levels to join and lead a volunteer army to accelerate the transference of ideas and inspire the desired culture of the new combined practice.

With so many moving parts throughout the process, empowered employees working as informal networked groups can work with agility and adaptability to help the two physician groups gradually become one.

One simple but effective way to ensure a successful acquisition is to study why others have failed and do something different. Here are nine common root causes of failed acquisitions.

1. Strategy: Poor strategic logic or fit. No strategy used to determine goals of integration.

2. Synergy: Overestimation of potential synergies, or underestimation of synergy complexities or timetable to delivery.

3. Culture: Fundamental incompatibilities (including buyer's lack of self-awareness), ineffective integration, or squelching positive attributes of target's culture in name of uniformity.

4. Leadership: Weak leadership, delays in appointing new leadership team, loss of key talent, insufficient participation in the transaction and integration process, ego clashes, or failure to deliver on pledges.

5. Transaction parameters: Overpaying, inappropriate deal structure, or endless negotiations which bleed both practices dry.

6. Due diligence: Insufficient investigation (especially little or no strategic and operational due diligence), or failure to translate findings into actions.

7. Communications: Failure to communicate with sufficient transparency, awareness, depth or frequency, failure to take key messages to appropriate stakeholders, failure to address the concerns of each group with targeted yet strategically consistent messaging, or making empty promises.

8. Key talent: Failure to identify key personnel or failure to act swift enough to retain them.

9. Technology: Failure to identify fundamental incompatibilities (poor due diligence) or underestimating complexities or time required for system integration.

So, how can you avoid these problems? Successful acquirers embrace the process of integration as the single-most powerful value creation tool available, and view their investment in integration as one of the elemental costs of doing a deal. And, they understand that integrating and operating are two different processes, with unique objectives and requiring separate attention and separate skills.

Running a practice is an ongoing process aimed at optimizing an existing set of circumstances. Merging two physician groups is a temporary process aimed at changing those circumstances. Running a practice is a recurring evolution. Acquiring or merging is a finite revolution. The two have different objectives and require different approaches altogether.

Ideally, integration insight is woven into virtually every step of the acquisition process. It is incorporated into the strategic thinking and target identification, into the due diligence and the valuation process. It plays a huge role during the months before and after closing. And it carries on long after the deal is done and the bankers and lawyers have all gone home. Thinking about integration at every step in the deal process will help physician groups avoid transaction failure.

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