All proposed healthcare mergers and acquisitions stem from the rationale that, together, the merging organizations can be more successful and achieve a higher purpose than they could achieve on their own. This rationale considers the future competitiveness of one or both organizations and community needs and benefits.

Similar to the vision statement developed during strategic planning, the rationale describes a preferred future state that is ten or more years away. The future state is a stretch target that motivates, energizes, and inspires the combining organizations.

Guidelines to developing a vision for a merged organization are listed in Exhibit 1.1.
BENEFITS TO EACH ORGANIZATION

Organizations frequently cite the potential for growth as part of their rationale for joining together. In many cases, the merging organizations can develop new services or clinical capabilities because after unifying they have sufficient mass to support them and to attract new subspecialty physicians to the area. Merging organizations often establish a presence in one or more new geographic markets or solidify the market position of one or both organizations. The combined entity’s capacity might also enable existing programs to be expanded or relocated.

Improved performance is often another expected outcome of a proposed merger or acquisition. The combining organizations typically aspire to provide a higher quality of care and better patient experiences. In response to the growing number of initiatives that link payment rates and clinical outcomes, merger rationales today place particular emphasis on quality of care. Other desired outcomes include shared best practices, including those related to clinical protocols and care processes, and the delivery of integrated, coordinated care.

Most potential merger partners anticipate that financial benefits will occur as a result of the new relationship. Organizations of all sizes identify opportunities to improve access to capital, attain financial security, and benefit from economies of scale. Financially stable organizations may view potential mergers or acquisitions as a way to increase operating margins, spread

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EXHIBIT 1.1: Guidelines to Developing a Vision for a Merged Organization

- Describes a purpose that can be achieved only collectively
- Defines what success looks like ten or more years in the future
- Considers the benefits that will accrue to the community and the potential partners as a result of the merger
- Inspires and challenges the organization
- Is briefly stated and clearly articulated
overhead across a larger base of operations, or achieve a certain scale or volume. The ability to fund facility improvements, new construction, investments in technology, and other growth initiatives is often paramount and will help meet the demand for services.

Spectrum Health, based in Grand Rapids, Michigan, continues its development as a fully integrated healthcare system. In early 2009, the system included seven hospitals and the Priority Health insurance company and employed nearly 100 doctors in the recently formed Spectrum Health Medical Group. Michigan Medical, P.C. (mmpc®) was the largest physician-owned, multi-specialty physician group in West Michigan, with 200 doctors and 100 other healthcare providers in more than 30 specialties. The two organizations had engaged in talks off and on since 2006. The initial round of talks ended when several physicians objected to being excluded from the discussions, and in 2008, governance issues led mmpc to withdraw, following a decision that remaining a physician-owned practice was in the best interest of the community (Spectrum Health 2009; Grand Rapids Press 2009; Schroder 2008). Discussions resumed in the spring of 2009.

Expected benefits of a merger included the ability to provide more effective, accessible, coordinated care to the residents of Western Michigan and to control healthcare costs by minimizing duplication. The medical director of mmpc indicated that “doing business as usual is not an option for physicians. It makes more sense to be in a system that’s not wasting resources.” The merger, which was effective August 2009, formalized an existing alignment between the two organizations that had spanned several years and, for Spectrum, furthered the organization’s goal to become a medical destination similar to Mayo Clinic and Cleveland Clinic (Spectrum Health 2009; Grand Rapids Press 2009).

The merger between Sun Health and Banner Health is another example that clearly illustrates the benefits two organizations can realize by joining together. In September 2007, Sun Health owned two hospitals and several other healthcare facilities in rapidly growing communities northwest of Phoenix, Arizona, but its efforts to meet the healthcare needs of area residents were placing a strain on its resources. Banner Health operated 16 hospitals in six western states, including eight in the Phoenix metropolitan area. As
part of Banner’s aggressive growth plans, significant expansion projects were under way at several facilities and two new hospitals were under construction. However, all but one of Banner’s Arizona facilities were located in Phoenix and the cities of Mesa and Scottsdale to the east (Alltucker 2007; Gonzales 2007).

For Sun Health, a merger meant financial stability, access to new sources of capital, and more advanced technology. Banner would be able to solidify its market leadership position, expand its geographic reach, and establish a significant presence in growth markets without having to build new facilities. Shortly after the merger of the two systems was announced, Banner acquired Arizona Medical Clinic, a multispecialty group practice with nearly 90 physicians and 15 midlevel providers who already admitted all of their patients to Sun Health facilities (Gonzales 2007). The deal between Banner Health and Sun Health closed in September 2008 (Alltucker 2008).

**ENHANCING COMPETITIVENESS**

For most organizations evaluating a potential merger or acquisition, a driving force is the prospect of implementing strategies that would not be feasible independently. These strategies may direct investments in facilities and/or new technology and the recruitment of new subspecialty expertise, but the majority of initiatives can be categorized as one of two kinds of growth opportunities: improved market position and clinical services development.

Increased market share and greater retention of patients who might otherwise choose to leave the area to obtain care are common elements of the rationale for two organizations in the same region to come together. With more critical mass and broader geographic coverage in the market, the combined entity will be better able to defend against competitive threats and initiatives. Another motivating factor might be to secure more physician referrals, particularly if several area physician groups have merged or if competing hospitals and systems have stepped up efforts to acquire practices. Some organizations may be driven by the prospect of improved negotiating leverage with private payers, although in many cases, the consolidation of the insurance industry over the last decade has made this factor less important.
The development of new services is also frequently mentioned in merger announcements or discussions. A larger service area population and patient base often justify building a regional center of excellence or subspecialty expertise. In other cases, consolidation of the merging organizations’ programs might justify development of a new service. Alternatively, the increased patient volume resulting from the combination of two referral streams might be a reason to establish a new component along the continuum of care.

In April 2009, Johns Hopkins Health System and Suburban Hospital Healthcare System, two organizations that operated in separate but adjacent markets, announced an agreement to integrate. At the time, Johns Hopkins Health System, a member of Johns Hopkins Medicine, included two acute care hospitals in Baltimore, Maryland, and a third in Columbia, Maryland, a bedroom community of Baltimore and Washington, DC. However, Johns Hopkins Health System did not have a presence in the nation’s capital or any of its close suburbs. Suburban was a community-based, not-for-profit health system in Bethesda, Maryland, just outside the northwestern city limits of Washington, DC. Suburban had established multiple clinical partnerships with the National Institutes of Health (located across the street from the hospital) and Johns Hopkins Medicine during the previous 13 years (Suburban Hospital 2009a).

Suburban, a financially strong hospital highly regarded in the community, initiated the discussions between the two systems. The hospital’s leaders believed that integrating with Johns Hopkins Health System, a strong organization with an international reputation for excellence, would augment its clinical services and open up more opportunities for innovation, research, and education. The combined organization would also provide new opportunities to serve patients along the continuum of care and deliver coordinated and efficient care (Suburban Hospital 2009b).

A stronger, expanded regional integrated healthcare network would position Johns Hopkins Medicine to assume an important role in managing health for Maryland’s population—a role particularly important in an era of healthcare reform and constrained resources. The new Johns Hopkins Medicine would also establish a presence in the Washington,
DC, healthcare market. Suburban’s board leadership expressed the belief that the affiliation “will be recognized by future generations as a turning point for transforming the healthcare delivery process for our local community and, more broadly, for the greater Washington, DC, region.” The merger became official in July 2009 (Suburban Hospital 2009a).

**TANGIBLE COMMUNITY BENEFITS**

When organizations come together, one or both entities envision achieving a stronger competitive position and better clinical and operational performance, gaining financial stability and access to capital, and developing a greater breadth and/or depth of services. In addition, mergers or affiliations bring important benefits to the communities served, such as those described in the previous example regarding the Johns Hopkins–Suburban affiliation. Specifically, a greater breadth and depth of service offerings means patients have access to more healthcare options locally, reducing the need to travel longer distances for specialty and subspecialty care. Patients in the community will also benefit from better coordination and continuity of care.

Certain costs should be avoidable following a merger or affiliation because duplicative capital investments and program development initiatives that would have been made are no longer necessary. Selectively consolidating and strengthening clinical services will improve the quality of care and reduce costs. Additional cost reductions are typically realized once administrative and clinical support services are combined. While historically cost reductions have not translated into price reductions for consumers and payers, there is the likelihood that under healthcare reform, both government and private payers and consumers will begin to benefit from these cost reductions.

In many cases, successful mergers stimulate the local economy. Initiatives implemented by the combined entity may create jobs, either within the newly merged organization or in companies in related industries. Coordination of care for the vulnerable populations in the community should also improve following a merger or affiliation because the organizations can pool their resources.

The merger between Sanford Health and MeritCare demonstrates the effect that combining forces can
have on the surrounding community. Sanford Health includes Sanford USD Medical Center and a network of community hospitals and clinics in South Dakota, southwest Minnesota, northwest Iowa, and northeast Nebraska. MeritCare, North Dakota’s largest health system, has many regional sites in North Dakota and northwest Minnesota. Both systems are perceived to be leaders in their respective regions and are committed to system integration as the way to deliver quality, cost-effective care. The two organizations signed a letter of intent to merge in July 2009 and a definitive agreement in November 2009 (Sanford Health–MeritCare 2009a).

The unified efforts of Sanford Health and MeritCare are expected to create growth opportunities, including the development of regional centers of excellence and services not offered by either system; to attract physicians, nurses, and other health professionals; to expand education and medical training programs; and to promote economic development in the region. Expansion of Sanford Health’s market area into North Dakota is also expected to reduce the outmigration of patients to other markets, and the combined financial position should improve access to capital needed to fund strategic initiatives. This merger will also expand research opportunities and help medical schools in the Dakotas collaborate on training and residency programs to retain more graduates in the region (Sanford Health–MeritCare 2009b).

The partnership between Advocate Health Care and BroMenn, completed in January 2010, is another arrangement expected to yield significant community benefits. In late 2008, Advocate Health Care, the largest healthcare provider in Illinois, had more than 200 sites in metropolitan Chicago, including eight acute care hospitals, two children’s hospitals, and a large medical group (Advocate Health Care 2010). Before the end of 2008, Advocate acquired a ninth hospital situated in a northern suburb of Chicago. Three months earlier, Advocate had approached BroMenn Healthcare System, located 130 miles southwest of Chicago in the central Illinois city of Bloomington, about a potential partnership (BroMenn Healthcare 2008).

The opportunity was attractive to BroMenn, a two-hospital system with 11 medical practices, because the organizations share a mission of providing community healthcare with faith-based roots, excellent
reputations for clinical care, and a commitment to working in partnership with physicians. For Advocate, this first partnership outside of Chicago is a significant step toward its vision of a statewide health system (Advocate Health Care 2009).

The University of Pittsburgh Medical Center (UPMC), which has completed more than a dozen mergers/acquisitions over three decades, has a vision of community change on a grand scale. UPMC has transformed itself from a loose federation of six hospitals into a multibillion-dollar global health enterprise with 20 hospitals, 400 outpatient sites, a 1.4 million member health plan, and a clinical presence in multiple international markets. Its early vision was to create a leading-edge healthcare system in western Pennsylvania and transform the economy in Pittsburgh and throughout the region. Today, UPMC’s vision is to create a new economic future for western Pennsylvania by exporting excellence nationally and internationally. To achieve this vision, UPMC plans to develop new businesses to commercialize its expertise, to continue to make significant investments in new fields of medical research, and to implement information technology capable of integrating care settings (UPMC 2009a, 2009b, 2009c).

**CONCLUSION**

The rationale for combining two organizations is a statement that guides the discussions and important decisions following the proposal of a merger or acquisition. While the benefits of a merger or acquisition, such as the potential for growth, financial stability, and higher-quality, more accessible patient care, may seem tangible and obvious to the executives and boards participating in the discussions, the rationale, as expressed in the vision statement, will communicate this message internally and externally. Many constituents, particularly those outside of the organizations, will come to understand the need for the merger or acquisition only through expression of the organizations’ shared vision. The vision statement will also provide a reference point for future decision making, as the complicated initial stages of the merger process unfold.

**CHAPTER 1 KEY TAKEAWAYS**

- It is imperative to start the merger process with a clear sense of what
(at a high level) is to be accomplished because it will be tested frequently.

- The underlying rationale for the merger must describe higher purposes and significant benefits that the merging organizations can realize collectively but not on their own.

- The rationale should describe a preferred future state that is ten or more years away and represent a stretch target that motivates, energizes, and inspires the combining organizations to attain it.

- The primary elements of the rationale usually include opportunities for growth, better performance, and improved finances as well as tangible community benefits, such as more local healthcare options and new economic development.

- For many constituents, particularly those outside of the two organizations and the rank and file within them, the vision is likely to be the way they come to understand the need for the transaction, so it should be a central feature in both internal and external communications about the merger or acquisition.