NHS Improvement

## Making mergers work

# Factors affecting the success of NHS mergers

**May 2016**

## About NHS Improvement

NHS Improvement is responsible for overseeing foundation trusts, NHS trusts and independent providers. We offer the support these providers need to give patients consistently safe, high quality, compassionate care within local health systems that are financially sustainable. By holding providers to account and, where necessary, intervening, we help the NHS to meet its short-term challenges and secure its future.

NHS Improvement is the operational name for the organisation that brings together Monitor, NHS Trust Development Authority, Patient Safety, the National Reporting and Learning System, the Advancing Change team and the Intensive Support Teams.

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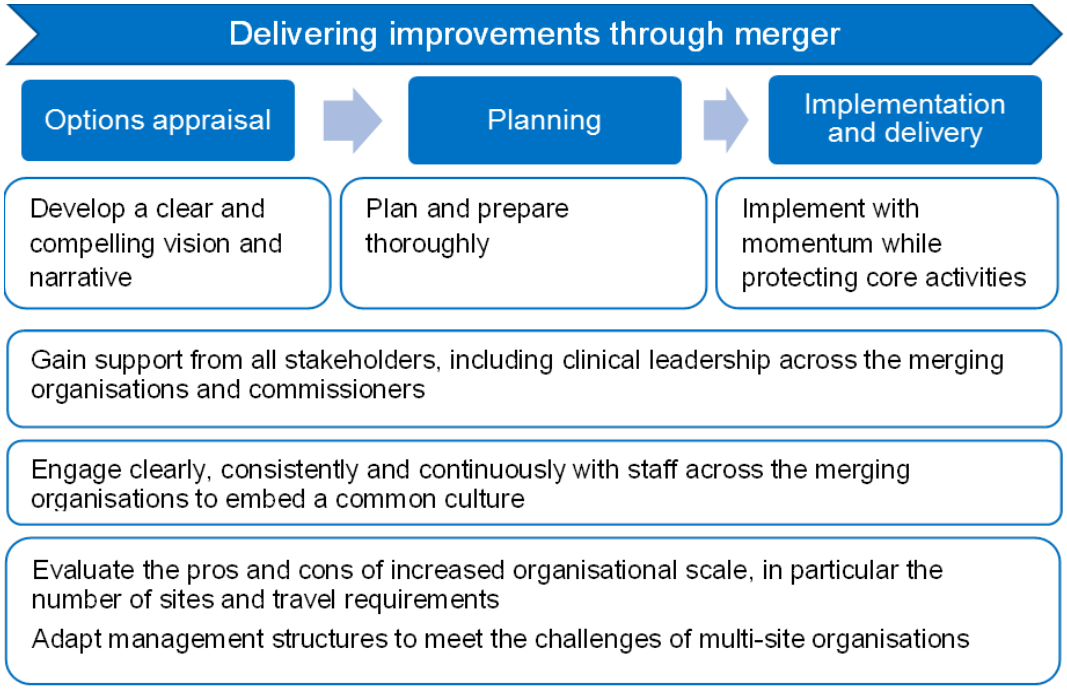
## Introduction

This paper is for executive teams of NHS providers who are considering, planning or implementing a merger,[1] and forms part of a series prepared by NHS Improvement.[2] This paper sets out the key factors that can affect the delivery of service improvements and savings through merger. This will help executives better plan and implement their merger in order to deliver improvements for patients through merger, where this is the best option.

Research and the experience of providers involved in healthcare mergers, in the NHS as well as in other healthcare systems, suggest it is challenging to deliver substantial improvements for patients through a merger. Our literature review and interviews with six providers[3] have identified factors that can make it more likely that a merger delivers improvements. Figure 1 below illustrates the stages of the merger process at which these factors can improve the likelihood of success. The sections below expand on each of these factors.

**Figure 1: Increasing the likelihood of delivering improvements successfully**

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1 In these documents, we use the term mergers to refer to both mergers and acquisitions.

2 Two additional papers have been published alongside this paper: *Improvements NHS providers have achieved through merger* describes what service improvements and savings NHS providers have achieved in the past, offering insight into what others can realistically expect to achieve through merger. Looking at the merger process from beginning to end, *Mergers in the NHS: lessons learnt and recommendations* sets out the biggest challenges that people leading merging trusts should anticipate and gives practical advice on how to overcome them.

3 The findings from these interviews are reported in more detail in: Aldwych Partners, *Benefits from mergers: lessons from recent NHS transactions*.

## Clear and compelling narrative about what the merger intends to achieve for patients

A clear and compelling strategic narrative is necessary if a merger is to deliver improvements for patients.[4] It will explain the value that a merger can realistically deliver in terms of patient outcomes and clinical quality, as well as financial sustainability. While this may seem obvious, the track record of past healthcare mergers suggests that the need for a strong narrative can often be overlooked.[5]

A merger narrative is stronger if the context of the merger is clear, the strategic decisions to merge are not unduly influenced by external parties, and there is senior management support for the merger.[6,7]

Communicating the narrative effectively will help attract support for the merger from senior management, staff, patients, commissioners and other stakeholders. The narrative should explain why the identified clinical and/or financial improvements will improve services for patients, and how they will be achieved through merger, both overall and for each service. Moreover, the narrative should communicate a provider's direction over the next three to five years, creating a solid foundation for planning and implementing the merger, improving its likelihood of success.

Identifying and understanding how improvements can be delivered through a particular merger requires a thorough and objective appraisal of the potential clinical and financial value of the transaction. Half of the providers said a review of clinical and financial strengths and areas for improvements informed their vision for their merger. Such a review can also help identify potential improvements and the production of a long-term financial and clinical plan (see Example 1).

**Example 1: Developing a compelling narrative to acquire another organisation**

A local strategic health authority (SHA) supported a provider facing financial difficulties to run a process to find an acquiring party. The eventual acquirer listed a number of strategic reasons for this acquisition that had been carefully considered

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4 Aldwych Partners. *Benefits from mergers: lessons from recent NHS transactions*, paragraph 157 and *Literature review: the experiences of healthcare providers in delivering merger objectives*, p.14-16

5 *Literature review: the experiences of healthcare providers in delivering merger objectives,* p.14-16

6 For example, based on a review of publicly available documents, the King's Fund (2015) concluded that few of the NHS mergers completed between 2010 and 2015 could claim to have a distinctive strategic rationale. KPMG (2011a) and Corrigan (2012) discuss the effect of the perception that a merger is subject to outside influence, while a review of US hospital mergers highlights the need for management support for the transaction. (See p.14 to 16 of NHS Improvement, *Literature review: the experiences of healthcare providers in delivering merger objectives).*

7 See also *Mergers in the NHS: lessons learnt and recommendations* for further insights on developing merger rationales in the NHS.

when its board decided whether to participate in the process:

- already having clinical knowledge of the provider to be acquired
- its interest in expanding its own capacity in certain specialties
- interest in expanding its constrained estate through a less expensive means than a private finance initiative
- opportunity to provide care in a more co-ordinated way across the metropolitan area, especially for specialist services, which would mean patients were seen in the best place for their care
- opportunity to improve its clinical outcomes through increased scale and, as a result, to present itself as a provider capable of implementing change in any future regional reconfigurations.

The acquiring provider also developed a long-term clinical and financial plan before deciding to participate. The executives said that the planning process allowed them to assure themselves that the acquisition would be financially sustainable. The planning process also enabled the provider to form a compelling narrative for the acquisition and for the board to make an informed decision.

## Preparing and planning improvements through merger

Thorough preparation and detailed planning are required to ensure that a merger delivers the intended improvements. This will also help to identify issues ahead of the merger and reduce the risk of delays in the implementation and delivery of improvements (which in some cases have been as long as 18 months or more).[8]

There is evidence to suggest that there can often be a lack of merger experience among healthcare leaders. This can lead to an underestimation of the importance of preparation and planning in sufficient depth and detail. A KPMG paper reports that less than half of the healthcare providers they interviewed felt their organisation was fully prepared for their merger.[9] Another paper said that many NHS merger plans often extend little beyond the initial amalgamation of organisations and their back-office functions.[10] It also might seem safer to plan for small changes, such as gradual synergies around management and the back office. However, this creates the danger that if broader objectives are not planned, the often difficult process of

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[8] Additional practical advice on developing integration plans can be found in section 6 of *Mergers in the NHS: lessons learnt and recommendations.*

[9] NHS Improvement, *Literature review: the experiences of healthcare providers in delivering merger objectives*, p.16.

[10] As footnote 9, p.17.

integration can lead to the improvements that made the merger a compelling proposition not being delivered.[11]

The providers interviewed in our project reported similar findings. Half described encountering delays and unanticipated additional costs in implementing the merger due to insufficient levels of detail in their initial planning. This might, for example, happen if insufficient clinical due diligence is undertaken prior to the merger.

The literature offers the following advice for robust preparation and planning for mergers:

- Quantify the realistic value that the merger is likely to deliver, including improvements to clinical services and financial savings. The merger plan should identify the sources of potential improvements. To estimate the impact of the merger, financial modelling of the situation should be undertaken for scenarios with and without the merger, and with and without service restructuring. This can help to quantify the differences in financial savings under different scenarios.[12]
- Analyse how the capabilities of each merging organisation fit together. There could be opportunities to gain new areas of expertise or to apply existing expertise to a new service or a changing environment. This analysis can allow the providers to double-check whether they are realistic in their expectation that the complementarities can lead to the projected improvements.[13]
- Set realistic timeframes for improvements to be delivered (see Example 2), depending on the approach taken. For example, changes implemented soon after the merger can deliver improvements within one to two years. Meanwhile, KPMG cites a case where a phased approach to post-merger implementation meant that the provider started to achieve its objectives five to 10 years after the merger took place.[14]

**Example 2: Setting realistic timeframes for delivering change**

One provider aligned the roles and pay grades of the nursing staff employed by the merged organisation. The executives said this process can be a difficult task and is not welcomed by staff. The provider had initially planned to consult staff over 3 months and then implement the changes over a further 3 months. In practice, some of these changes took closer to 2 years, though most were completed in less than 18 months. (Similar changes for facilities management and estate staff took almost three years.)

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[11] NHS Improvement, *Literature review: the experiences of healthcare providers in delivering merger objectives*, p.17.
[12] As footnote 11, p.16.
[13] As footnote 11, p.17.
[14] As footnote 11, p.18.

A number of factors caused this delay. First, the changes to roles and pay grades required an upgrade to the IT systems at one of the hospitals so that patient administration could operate effectively across the merged organisation. The development of the IT system took longer than expected. Second, the changes to nursing structures had to be made while maintaining service stability. This careful implementation took more time than anticipated. It is therefore important not to be overly optimistic in setting timelines for important changes, and to take into account the potential for encountering unanticipated difficulties.

## Engaging with stakeholders

Engaging with clinicians and other staff within the organisation, patients, commissioners and other stakeholders is an integral part of planning and implementing a merger. In particular, obtaining the support of clinical leadership is central to implementing change successfully. For example, four out of six interviewed providers made it clear that engaging clinicians and gaining their support to undertake service change was important to achieve change. This is important for most kinds of improvements, but particularly for large-scale relocation or consolidation of services; standardisation of clinical rotas and processes; and savings on procurement of clinical equipment and products.

Managing relationships can be one of the hardest aspects of planning and executing a healthcare merger. The literature gives the following advice for effective engagement:

- Develop and communicate a clear case for change that is understood by all stakeholders (see Example 3).Communications should be grounded in how care quality will improve for patients as a result of the merger.[15]
- Engage with staff across all departments and at all levels of the organisation. As many of the most influential clinical staff (including doctors, nurses and other healthcare professionals) may work at different levels of the organisation, engagement should not be limited to executive board or senior clinical director level.[16]
- Start engagement with all relevant stakeholders early in the merger process, such as at the preparation and planning stage.[17]

[15] NHS Improvement, *Literature review: the experiences of healthcare providers in delivering merger objectives*, p.18.
[16] As footnote 15, p.19.
[17] As footnote 15, p.18.

**Example 3: Clinicians can help build external stakeholder support**

One provider formulated plans to reorganise services at the provider it acquired. The acquired hospital's services (including emergency services) were not considered to be clinically safe. Developing the merger plans was described as an intensive process for the acquiring provider's management team. The acquiring provider worked with clinical staff at the acquired provider to get their support for the rationale behind service reorganisation. The process from staff engagement (which took three months) to local consultation and decision-making by commissioners took approximately nine months. The whole process from merger to service change took approximately 18 months.

It was also important to get external stakeholder support. The acquiring provider and one of its commissioners said local doctors who led public discussions were instrumental in convincing the public that the changes were required. The interviewed provider and one of its commissioners explained that the many clinical issues that were already apparent at the acquired hospital reduced the level of public challenge to the transaction. The financial position of the acquired provider was also acknowledged (to some extent) by the public as a reason for supporting the reorganisation.

## Maintaining momentum of implementation while protecting core activities

Sustaining momentum in implementing the merger plan is central to delivering improvements (see Example 4),[18] but at the same time leaders must safeguard the day-to-day delivery of existing services (see Example 5). Maintaining an appropriate balance between the two priorities avoids unintended consequences for either.

One paper in the literature gives examples where the management team's focus on implementing the merger had negative consequences for patient care.[19] On the other hand, providers reported that realising planned improvements took longer than anticipated due to a lack of continuous and dedicated management focus, as well as a lack of dedicated capacity and resources for implementing the merger. One provider mitigated this risk by having one of its non-executive directors monitor the delivery of improvements. Another provider highlighted the importance of beginning organisational restructuring and staff rationalisation early in the merger process, completing this by the third month. It added that these changes can be more difficult

[18] Further insights on implementing integration plans are set out in sections 7, 8 and 9 of the *Mergers in the NHS: lessons learnt and recommendations.*

[19] NHS Improvement, *Literature review: the experiences of healthcare providers in delivering merger objectives*, p.20.

to make later in the merger process as teams become accustomed to operating with their larger size.

**Example 4: Changes in senior management can delay the merger process**

The management teams at a number of the providers involved in one merger left before the merger took place. As a result, there was little 'corporate memory' at senior management level at all but one of these providers. This meant the merged organisation's management team had to spend most of its first year learning the existing financial and clinical models at those hospitals simply to enable patient care to continue. This did not allow time for any significant focus on the improvements for patients that might have otherwise been implemented during this period.

**Example 5: Balancing merger implementation and maintaining core activities**

One provider revised the divisional management structures for its clinical and back-office teams. Reorganisation of the clinical teams' management took longer than for back-office management. They said that the focus of the executive team had been to return to business-as-usual delivery of services and outcomes as quickly as possible, with changes to management structures being only a secondary priority. As a result, the momentum for achieving these changes reduced as time passed following the merger, with management time being focused on other tasks considered to be a higher priority.

The merged organisation had also identified a site for developing a new treatment centre, which would enable significant reorganisation of clinical services. This service transformation was a multi-year objective and required commissioner support. Though the provider began a public engagement exercise, executives said that this process received less attention than other, shorter-term objectives. The change in commissioners from primary care trusts to clinical commissioning groups also complicated the process. These factors have meant that this new treatment centre has not yet been delivered.

## Creating and embedding a common culture

Bringing together potentially different corporate cultures is an important part of successfully delivering improvements through merger. It is especially important as a merger is likely to create stress for staff due to uncertainty and change, as well as the increase in workload associated with the process of integrating.[20] Merging

[20] NHS Improvement, *Literature review: the experiences of healthcare providers in delivering merger objectives*, p.21.

providers may have different cultures, for example due to different attitudes to innovation and risk, or an organisational focus on outcomes rather than process, or vice-versa. Cultural differences can also exist due to differences in performance between providers. More than half of the providers highlighted the importance of integrating organisations with clear and consistent communication and according to a common culture (see Example 8).

It is also important not to misrepresent a takeover as a merger of equals. This can create confusing and conflicting messages as to what is actually happening and delay necessary radical changes.[21] One provider highlighted that in an acquisition, the acquiring provider should remember that its staff will be affected as well as those at the acquired provider. It added that this should be acknowledged in merger planning, implementation and communications to staff.[22]

Staff engagement is also important following the merger, as it is prior to the merger. As part of this, decision-makers must not favour one of the merging providers unduly over the other; communicate a clear and consistent vision; and communicate with staff regularly.[23]

**Example 8: Embedding a common culture in the merged organisation**

One provider said it planned in detail how to deliver a single culture across the merged organisations. It saw this as essential to delivering the organisational change, service improvements and financial savings anticipated from the merger.

The interviewees said that although five years on the merged organisation does feel like a single entity, different cultures were evident at project board level on day 1 of the merger.

The provider identified three factors that contributed to the creation of a single corporate culture. The first two involved maintaining effective communication with staff throughout the process. In the lead up to the merger, the providers agreed to leave open vacancies, which minimised the need for redundancies. In addition, all corporate support staff teams were relocated from several different offices into a single office. The provider says that this has significantly improved communications. Lastly, recruiting staff according to the core values of the organisation has also helped unify its culture.

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[21] NHS Improvement, Literature review: the experiences of healthcare providers in delivering merger objectives, p.19.

[22] Further insights on achieving a common organisational culture are set out in section 11 of the *Mergers in the NHS: lessons learnt and recommendations.*

[23] Aldwych Partners, *Benefits from mergers: lessons from recent NHS transactions*, paragraph 152.

## Recognising and addressing the challenges of increased scale

A merger or acquisition will typically result in a larger organisation with an increased number of sites. Providers suggest the increased scale can have advantages such as:

- creating opportunities to improve services by relocating and/or consolidating services across the different sites
- taking advantage of the greater depth in certain specialties by increasing the number of sub-specialty rotas
- standardising and sharing best practice to uniformalise and improve quality of care across the different sites
- improving a provider's ability to recruit and retain staff.

Cost savings due to increased size may also be possible. Though the literature gives no evidence for scale economies in terms of the number of beds across multiple sites, providers can experience them at individual hospital level.[24] The literature consistently points to possible economies of scale at hospitals with up to 200 beds, with the optimal size for a single hospital site being between 200 and 400 beds.[25,26]

Together with its many potential benefits, increased scale also brings with it new challenges for management teams. In particular, the increased number of sites (and related travel requirements) in the merged organisation change the required nature and structure of management. Three of six providers found that centralising their management structure led to difficulties in managing day-to-day issues at individual sites (see Example 9).[27]

**Example 9: Effective management across multiple sites[28]**

Three providers suggested that ensuring effective managerial and clinical leadership across a number of sites is challenging, and that the challenge increases with the number of sites and the travel time between them. Two providers initially designed a centralised management structure across their organisation (eg one director for each specialty), but subsequently found they had to strengthen site-based management.

Three providers said that the need for managers to travel between multiple sites on a day-to-day basis can be problematic. In particular, this can be detrimental to a

[24] NHS Improvement, *Literature review: the experiences of healthcare providers in delivering merger objectives*, p.21.
[25] As footnote 24, p.21.
[26] As footnote 24, p.21.
[27] See also section 10 of *Mergers in the NHS: lessons learnt and recommendations* for further insight on establishing organisational structure post-merger.
[28] Aldwych Partners, *Benefits from mergers: lessons from recent NHS transactions*, paragraph 168.

manager's ability to oversee operations in a timely way (eg bed management and staff rostering). It can also affect their ability to maintain strong working relationships with staff at the various sites in the organisation.

One provider's main sites were located 20 miles apart, which was a sufficient distance to create challenges for management. The provider addressed those challenges in two ways. First, it required its clinical leaders to undertake clinical work at each site. This allowed them to keep in touch with all their clinical colleagues and become familiar with the day-to-day issues associated with practising at each site. Second, job plans were designed to minimise travel between the two sites during the working day.

# Contact us

NHS Improvement
Wellington House
133-155 Waterloo Road
London
SE1 8UG

T: 020 3747 0000
E: enquiries@improvement.nhs.uk
W: improvement.nhs.uk

NHS Improvement is the operational name for the organisation that brings together Monitor, NHS Trust Development Authority, Patient Safety, the National Reporting and Learning System, the Advancing Change team and the Intensive Support Teams.

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