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Hospital Mergers: Managing Complex Change in a Complex Environment



Hospital mergers are an increasingly common phenomenon in the healthcare sector but how can we successfully manage such radical changes? (E)Hospital spoke to Dr. Soki Choi, a consultant, teacher and researcher from the Karolinska Institute to find out more about the topic. Dr. Choi performed an extensive study of the flagship merger of two Swedish university hospitals: The Karolinska Hospital and the Huddinge University Hospital in Stockholm, Sweden. Her results provide some very useful insights for hospital managers regarding mergers and also change management in general.

Mergers are Commonplace in many Industries but Less so in the Hospital Sector. Why is This?

That is quite interesting as it is not true. There have been a lot of hospital mergers, in fact it has been described as "merger mania". Perhaps the reason is that the media are not reporting about hospital mergers in the same way they do with the private industry.

We have to remember that mergers in healthcare actually started already in the 1980s in the United States and came to Europe in the 1990s. You can see in my dissertation more specifically that mergers have taken place for a number of years in the UK and Sweden for example.

What are the Main Drivers for Hospital Mergers?

You can say that, in general, mergers have been justified by promising dramatic financial and operational improvements. When it comes to university hospitals, which are a special case, additional key drivers often include strengthening R&D in the international arena. Also, one other important circumstance is that if you look into Europe, where we have more publicly funded healthcare than in the US, there is often a political agenda behind hospital mergers: To win organisational legitimacy rather than organisational efficiency.

So it is important to be specific whether we are looking at private, public sector or university hospital mergers. But what is common with all these types of hospital mergers is that the main driver predominantly is to achieve quick and large financial savings.

And are Mergers Normally Successful? Do Hospitals Achieve these Large Increases and Savings?

Well no, what we can see from 30 years of international research is that it is quite common to have "small wins" initially in forms of savings from straight-forward consolidation of administration, but they are often eaten up by the larger bill of the change process itself. Decision makers and managers often underestimate the challenges, the cost and the time it takes to carry out such an extremely difficult operation. Actually, merging hospitals might be the most difficult change process you can deal with and it is very often that they do not fulfil the intended goals.

You have Studied the Merger Process of the Karolinska Hospital and the Huddinge University Hospital in Stockholm, Sweden. Could You Tell Us a Little About this Merger?

I studied the merger from 1995 until 2010. I looked at both the pre-merger and at the post-merger processes. The thesis I have written is by international comparison extensive as most studies look only at a one to three year period. This short timeframe can be misleading, since it usually takes between seven to ten years to realise synergies. So, you might have to extend it for several more years to see the long-term effects.

The decision was extremely controversial from the outset. There was a historic rivalry between these two university hospitals in Stockholm and also political conditions were unfavourable with a change of political majority after every election. This meant that the region didn't have the long-term political stability supposedly needed to effect reforms and radical change such as mergers. Still, the final decision was made by the regional parliament and passed by one single vote. It was really dramatic in terms of voting.

It was very, very clear the goal was to reduce expenditures by 700 million kroner (the equivalent of 70 million euro) over three years in order to achieve budget in balance by the next election. So there was also a political agenda for the political majority to win the election in 2006. The second merger goal, which was more vague but still espoused, was to strengthen Stockholm's competitive position in the international research community by concentrating on highly specialised care through the merger.

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Were These Cost Savings Reached?

No, they were not reached. The original implementation plan was withdrawn by the next election period and in 2006 there was a new political majority in the regional government and the hospital director was fired. That was the outcome of the merger for the first three years. Costs were escalating instead of decreasing; people were calling the merger a "black hole" due to uncontrollable costs that continued for even two more years.

However, the new hospital director (still in the position today) at that point came in with a different change strategy in line with modern change management literature and was able to turn and break this bad result. So Karolinska University Hospital has been going really well ever since, and even produced a financial surplus for the last two years.

When I visit clinics today, the integration seems to be going quite well and things seem to be coming into place seven years postmerger. Again we can see that it takes time to reap the benefits of a merger.

What Were Main Obstacles to Overcome Within this Merger?

If you look into the traditional industry merger research, which begins in the 1960s, the main obstacle pointed out is typically the horizontal tension or differences between the two organisation cultures. So, if you only look at recommendations from the traditional industry you might be misguided. You risk missing the primary obstacle, which is the vertical clash between managerialism and professionalism. We can see that this is one of the major mistakes that the first hospital director made. She immediately focused on the horizontal tension by for example putting a lot of effort into building one new brand, fairness by having two offices at each site, etc.

It doesn't mean that the horizontal tension doesn't exist but that it is dominated by the vertical conflict in a merger, at least initially. This is a very important conclusion from my dissertation, which is why I put it in the title: "Competing logics in hospital mergers". I think this is the main message that my long-term research project has been contributing to.

Could You Define Managerialism and Professionalism?

To put it simply, these are the different working logics between managers and professionals. Using research terminology, managerialism and professionalism represent two competing institutional logics inherent within healthcare. Managerialism, which now dominates healthcare since 1980s, calls for hospitals to adopt "business-like" structures and managerial practices. From a market-managerial perspective, professionalism distorts the operation of markets, promotes rising costs, and encourages "producer capture" of services. Professionalism, which dominated healthcare 1945-1964, calls for hospitals to adopt traditional clinical working principles and medical practices based on discretion, autonomy, clinical expertise and academic credentials. In healthcare these two logics are inherently in conflict, which is why the vertical tension and not the horizontal created more problems in the case of the Karolinska University Hospital merger.

What Role does the Hospital Manager Play in the Merger Process?

First we have to be clear that the hospital management plays a critical role, which is not always given in professional service organisations, where physicians have a powerful position as a norm. In the private industry, senior managers usually take the role as the visionary, authoritarian figure actually executing radical change, such as mergers. But in the healthcare industry, managers seem to be limited to initiating radical change and then forced to take the role of the scapegoat. Research shows that the costs both emotionally and professionally are typically much higher for managers in the healthcare sector.

Merging Two Hospitals and Their Staff, Each with Their Own Way of Working Must be a Key Problem. In Your Opinion, What can the Management do to Ensure the Process Goes as Smoothly as Possible?

This goes back to the reasoning about horizontal and vertical tensions, that I was talking about before. Don't waste too much energy and time only handling the horizontal clash. Again, the prime obstacle seems to be – at least initially – the vertical conflict between managers and professionals, and not the horizontal conflict in radical change, such as hospital mergers.

If you look at the Karolinska case, the new hospital director invested a lot of time and money into the new common name, logo, brand, mission, vision etc. to handle the horizontal challenge. But business was going on as usual on the floor, who thought that upper management's strategy (i.e. managerialism) was incomprehensible and futile in comparison to saving lives (i.e. professionalism). So what you also can observe is that professionals seem to have double citizenship: One goes to the professionals and the other to the organisation. Research shows that physicians usually have stronger loyalties to their identity as medical professionals rather than the management and hospital as a whole. Hence, management in hospital mergers need to also have a strategy for handling the vertical conflict between managerialism and professionalism and not only a strategy for handling the two merging organisational cultures.

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