CARL MARKS ADVISORS

HEALTH SYSTEM BOARD CHAIR: MERGING CULTURES NOT ALWAYS NECESSARY

By Philip Betbeze

Published by HealthLeaders Media, May 29, 2015

DRIVING SUCCESS THROUGH CHANGE AND GROWTH

HEALTH SYSTEM BOARD CHAIR: MERGING CULTURES NOT ALWAYS NECESSARY

By Philip Betbeze

Published by HealthLeaders Media, May 29, 2015

CARL MARKS ADVISORS

Mark L. Claster
Partner,
Carl Marks Advisors

CONTACT
212-909-8400
mclaster@carlmarks.com
v-Card

"If management and boards aren't proactive in this field, they'll get crushed," says the board chair of a top health system. Worrying about merging cultures is valid, but it can slow systems' ability to adapt in an industry that is being rapidly disrupted.

There's a lot of politics in the world of healthcare, and never are they more on raw display than in discussions between two leadership teams about either a merger or a strategic alliance. Those disagreements may never reach the public, but they're a real issue that has to be worked through for any relationship between two organizations—whether it's a merger or a handshake agreement to work together—to be considered successful.

One big hurdle: As healthcare organizations look to grow bigger in an attempt to remain essential to payers and employers, trying to merge cultures can slow the pace of change.

The good news is that mergers of culture aren't always necessary, says Mark Claster, a partner with Carl Marks Advisors, the consulting and investment banking arm of Carl Marks & Co. in New York City.

He should know. In addition to his many years of experience as a founding principal for an advisory firm that derives a large portion of its business from fixing failed mergers and rollups in healthcare and beyond, he's also the chairman of the board at North Shore-LIJ Health System.

North Shore-LIJ, which now owns five tertiary hospitals, nine community hospitals, and three specialty hospitals in the New York City area, is unquestionably one of the more aggressive systems nationally in combining with not only other hospitals, but also elements of the full continuum of care outside the acute care space, including a captive commercial insurance company.

Claster has had some role on the board of the health system and its predecessors for the past 33 years, when North Shore University Hospital in the town of North Hempstead was a small community hospital on Long Island "with a couple hundred beds," he says. Today, the health system is the nation's 14th largest based on net patient revenue, and the largest in New York state.

The many North Shore-LIJ deals in which Claster has participated run the gamut from full asset mergers to strategic alliances with Cleveland Clinic, Montefiore Medical Center, Barnabas Health, and even Boca Raton Regional Hospital in Florida.

Getting past disagreements means there are no hard and fast rules about creating an organization that works together efficiently despite a myriad of institutional histories and legacies, he says. It also means there are many available structures for partnerships.

Marks acknowledges that even in strategic alliances, culture concerns can still be very important, because alliances often are a prelude to a possible full merger. And he says the difficulty of merging cultures is real. It's the necessity of merging cultures that can be overstated.

He says while cultural symmetry can be important in strategic alliances, senior leaders should keep in mind that it isn't always necessary, and focusing myopically on culture when it's not always the most important concern in a partnership can be a detriment to achieving synergies.

"A lot of times [cultural conflicts] have to do with the governance of an individual healthcare organization, where individual boards are not ready to cede control of their assets unless they're forced to," he told me.

Sometimes separate organizations want to keep their identities but work together to share best practices, for example. And that doesn't have to be a deal-breaker. Claster cites a recent deal between North Shore-LIJ and the Cold Spring Harbor (NY) Laboratory in which $120 million will be invested to accelerate cancer research diagnosis and treatment for the approximately 16,000 new cancer cases seen annually at North Shore-LIJ's facilities. The deal is innovative in that it provides close cooperation between the laboratory's pure cancer research and clinical care at North Shore-LIJ's cancer treatment facilities. Marrying the cultures won't be necessary, Claster says.

"There's no reason to try to marry the two cultures. One area where both had a significant need to work with one another was in cancer. We got married in cancer treatments and research and clinical trials, but it is a contractual relationship. Our intent is to be married when it comes to cancer."

That's remarkably different than the melding the cultures of two organizations that are involved in roughly the same work, such as the 1997 deal that merged North Shore Health System and Long Island Jewish Medical Center.

"To the credit of the boards and management teams, they did fully integrate. That could have been very messy with us," Claster says, adding that the two organizations had been "like the Hatfields and McCoys."

Egos had to take a back seat. Part of that resulted from compromise. For example, at first, the two board chairs of the legacy institutions took turns being chair of the combined organization's board. Similarly, there were what Claster calls co-CEOs, although one former CEO was president and one was CEO. After a start in which **the two top leaders clashed**, "I think everyone understood quickly that you can't share those responsibilities like that," says Claster.

Jointly, both boards anointed current North Shore-LIJ President and CEO Michael Dowling as the sole top leader by 2002, after David Dantzker, former president of LIJ, resigned, and after the late Jack Gallagher, president and CEO of North Shore, retired. "We did it because you can't have two masters at the same time," Claster says.

Claster's overall point, after years of fixing bad mergers in his day job, is that boards and management have to be prepared to take risks. They can't let worries about potential culture clashes cloud their judgment in evaluating the many types of deals and partnership opportunities that exist and that could strengthen the organization. If either of North Shore-LIJ's predecessor organizations had squelched the deal due to what were very real cultural concerns, their present state might be very different.

"If management and boards aren't proactive in this field, they'll get crushed," Claster says. "You have to constantly keep moving and going down paths where you're not sure, and if it's not leading in the right direction, you have to be nimble enough to change course."

Disruption in healthcare is uncomfortable but the chances of success can be greatly improved with a nimble management and board that "never bets the ranch on any single initiative," he says. "There's not a more complicated industry out there, and we've spent millions getting ourselves ready for this, including infrastructure to deal with what we look at as a new world order in which we will be taking care of people from cradle to grave. So take risk, but never take a risk that will take you down if it doesn't work out."