Mergers and Acquisitions in Small and Medium Sized Enterprises in the Health Care Industry: The Effect of Regulations on Merger and Acquisition Success

Jessica Bucci
Coastal Carolina University

Follow this and additional works at: https://digitalcommons.coastal.edu/honors-theses
Part of the Management Sciences and Quantitative Methods Commons

Recommended Citation
https://digitalcommons.coastal.edu/honors-theses/49

This Thesis is brought to you for free and open access by the Honors College and Center for Interdisciplinary Studies at CCU Digital Commons. It has been accepted for inclusion in Honors Theses by an authorized administrator of CCU Digital Commons. For more information, please contact commons@coastal.edu.
Mergers and Acquisitions in Small and Medium Sized Enterprises in the Health Care Industry

The Effect of Regulations on Merger and Acquisition Success

2012

BY

Jessica Bucci

Business Management

Submitted in Partial Fulfillment of the Requirements for the Degree of Bachelor of Science In the Honors Program at Coastal Carolina University

December 2012
# Table of contents

Abstract ................................................................................................................... 1

Introduction .............................................................................................................. 1

Literature Review ....................................................................................................... 3
  - Merger Expectations ..................................................................................................... 4
  - Merger Challenges ........................................................................................................ 5
  - Organizational Culture ................................................................................................... 9
  - Organizational Culture Clashes ...................................................................................... 11
  - Strategies to Merge Cultures .......................................................................................... 12
  - Case Study Analysis ..................................................................................................... 15
  - Small and Medium Size Enterprises in M&As ............................................................... 16
  - M&As in Regulated Industries ....................................................................................... 19
  - Health Care Industry ................................................................................................... 20
  - Regulation in the Health Care Industry ........................................................................... 22
  - M&As in Health Care Industry ....................................................................................... 26
  - Potential Benefits of Health Care M&As ........................................................................ 28

Methodology ............................................................................................................ 29

Findings .................................................................................................................. 33

Discussion ............................................................................................................... 37

Conclusion ............................................................................................................... 42

Appendix A ............................................................................................................. 45

Appendix B ............................................................................................................. 46

References ............................................................................................................... 47
Abstract

This study aims to address the lack of information present on small and medium sized enterprises in the merger and acquisition process. An analysis of M&As in the health care industry was conducted. The regulations in the health care industry are also investigated in order to demonstrate their effect on SMEs wishing to participate in M&As. A qualitative analysis was conducted to analyze interviews of physicians who have participating in M&As. The results demonstrate the similarities and differences in large and SME M&As.

Introduction

During the past decade, mergers and acquisitions (M&A) have become an increasingly popular solution to current issues in today's corporate world. The number of M&As announced grew to nearly 5,900 through June 2012, up from about 5,100 in the first half of 2011 (Rexrode, 2012). Mergers are generally used by organizations in order to expand, increase profitability, and/or to acquire additional technology. However, as time passes, companies are continuously failing to meet the objectives set forth at the beginning of the merger. Studies show that only around 20% of those in M&As achieve the targeted expectations made prior to the M&A (Price, 2009). Whether the goal of the company is to increase its position within the market or to acquire new technology, the success of that goal is determined by how well the company can fuse more than one organization into a unified functional company. Organizations, both large and small, are applying strategies to attempt to integrate, not only the organizations as a whole, but the people and organizational culture within them. Large company M&As experience difficulties attempting to, not only, fuse business structures and financial aspects of the companies, but also when integrating organizational culture. The organizational culture of companies attempting to
integrate must be considered to successfully fuse the companies. No matter the size of the company, strategies for integrating organizations are crucial.

Although there have been numerous studies on mergers and acquisitions, mostly all research has been devoted to large corporations and the challenges which they face thus excluding small and medium sized enterprises (SMEs). There is a lack of research identifying if the activities in larger M&As are similar or can even compare to those in SMEs. In addition to the lack of SME merger insight, there is also an absence of strategies used by SMEs in highly regulated industries. A specific industry that represents a large number of SME mergers and acquisitions is the health care industry. Due to current regulations in this industry, hospitals and physician practices are beginning to participate in M&As. According to Mary Durfee, MD, "Hospitals and physicians together are facing future expectations for rapid improvements in quality of care and value as accountable health networks that would be difficult to achieve independently" (Berry, 2010). Regulations are continuously adding challenges to those in the health care industry wishing to merge. These challenges are forcing providers to develop sound strategies for survival (Suave, 2012). In order to develop an understanding of mergers and acquisitions of SMEs in the health care industry, research will be conducted to illustrate SME activities and their challenges compared to those of large corporations. Specifically, local physician practices and hospitals will be examined to determine the strategies and challenges in which they face. By exploring different SMEs in the health care industry, not only will there be further insight into smaller mergers and acquisitions, thus allowing for a comparison to larger M&As, but there will also be additional information regarding how the regulation in the industry effects the M&A process.
In the next section, a literature review will show the key benefits of mergers and acquisitions as well as the challenges which companies attempting to merge face. To demonstrate these challenges specific case studies are used to explore the M&A process further. Next there will be a brief discussion of M&As in regulated industries. Then, an overview of the health care industry will be discussed to ensure that there is an understanding of the specific regulations which will in turn effect the M&A process for SMEs attempting to merge. Finally, large mergers and acquisitions within the health care industry will be investigated to then compare the large M&A in this regulated industry to the findings of SMEs in the same industry.

**Literature Review**

Mergers and acquisitions (M&As) is the process in which two or more organizations combine in order to make a new larger company. Although generally used as a single terminology, there is a distinct difference between mergers and acquisitions. The difference between the two is the fact that mergers occur when organizations decide to come together as one and acquisitions occur when one organization takes over another organization. For the basis of this study mergers & acquisitions (M&As) will be used as a single entity to describe both processes. M&As are generally used by businesses in order to expand companies, increase profitability, and acquire additional technology (Evans, 2010). The effectiveness of a M&A is debatable depending on which objectives of the two companies are assessed. One particular element which can be assessed is the integration of the organizational cultures within the M&A. There are specific concepts within M&As that are seen as insignificant and sometimes even overlooked. As McShane 2000 says, “The corporate world is littered with mergers that failed because of clashing organizational cultures” (McShane, 2000, pg 460). No matter what the reason for the merging of organizations, it is evident that integration of cultures is crucial.
Although risks are present within M&As, there are potential benefits which attract organizations to continue to participate.

The three most common reasons organizations decide to participate in M&As are to acquire technology, products and market access, to create economies of scale, or to establish global or wider brand presence (Dixon, 2005). Within M&As, there are strategies which organizations take in order to make the merging process as smooth as possible. Dixon 2005, believes that the emphasis on the ‘people side’ of mergers and acquisitions is not fully addressed and that if the people within the organization are taken into consideration during the M&A then there is a greater chance of success. Once the M&A process begins, the companies established objectives or expectations of how the company will operate after the process is complete.

Merger Expectations

Expectations of M&As vary depending on the organizations and the objectives of the organizations. Within the past decade, mergers and acquisitions have become increasingly popular. Surveys of senior executives found that there were consistent expectations for mergers. The most common expectations of M&As are to create and exploit synergies, to increase market share, to protect markets by weakening or eliminating rivals, to acquire products and/or technology, to strengthen the core business by expanding, to gain footholds within other countries, and to achieve critical mass (Bohlin, Daley & Thomson, 2011). These expectations or objectives are established within the pre-merger stage. However, once companies merge the majority of mergers and acquisitions fail to achieve their previous expectations. The success rate estimates that less than 20 percent achieve their expectations in their entirety (Bohlin, Daley & Thomson, 2011).
Darryl Price, a merger consultant within the health care industry, believes that companies not only fail to reach objectives due to overly-enthusiastic expectations but also due to the fact that organizations underestimate the effect the change will have on the people/culture of the organizations involved (Price, 2012). The people and culture of the organizations within SMEs in the healthcare industry are especially important due to the nature of this service based industry. The term “failure” has been used quite frequently within the merger and acquisition literature. Those actually within the industry that have experienced the M&A’s believe that the term failure is very vague and depending on certain factors the process may not be a failure or in that case a success either.

Research clearly shows the main reasons for M&A’s, but why exactly are these expectations continuously not being met. KPMG International studied mergers and acquisitions and discovered that 83% of M&As fail to create their intended value (Appelbaum et al, 2009). There is a common error in estimating the complications that can arise. Organizations that are merging believe they will achieve higher goals but in actuality their goals are much lower. This results in a “2+2=3” rather than a “2+2=5” effect (Appelbaum et al 2009). The people issues within an organization were considered the “soft” issues; however, organizations have learned that there are hard consequences to disregarding these issues due to mergers. The lack of clear accurate expectations brings us to the challenges which are faced in mergers.

Merger Challenges

Within any size merger or acquisition, there is always the risk of failing to successfully integrate both organizations. Some of the main challenges which can lead to failure include finding synergies between organizational culture, establishing control of the M&A, and
preparing for the unknown (Weltman, 2005). Finding a good ‘fit’ between the organizations in the M&A process is crucial for both large and small mergers and acquisitions. For large M&As, the process of integrating organizations will be more difficult due to the size of the company and amount of people involved. The challenges for larger M&As are therefore, obviously, multiplied compared to those of SMEs. On the contrary, SMEs are faced with less of a challenge of cultural due diligence. This can be attributed to the fact that the size of the mergers is so small that the organizational cultures will be considered more closely, than larger corporations. Another challenge faced by all size M&As is the ability to establish control. Although larger M&As are faced with establishing a more substantial level of control, usually this decision is given to the company who is acquiring or has more to bring to the table. However, in smaller sized M&As, the establishment of control tends to be more of an issue. This could be due to the fact that founders of SMEs are usually involved in every aspect of the company and up until the merger each owner was supreme within their company. However, now that the organizations are merging, there is now the decision of who the control will be given to within the newly formed entity. The final challenge facing M&As is the preparation and ability to handle the unknown. For instance, there can be unanticipated liabilities and other issues which can arise within any size M&A and the steps taken to fix and contain the problem could make or break the success of the M&A (Weltman, 2005). The challenges of M&As are present within this process and can be demonstrated through actual case studies of large companies who have attempted to merge.

In particular, studies have been conducted to analyze the large companies in M&As. The research aimed to explore the key issues which are causing mergers to fail. Dixon 2005 believes that there is a need for cultural consideration within the merging process. He therefore conducted a study to discover the causes for the declines of quality ratings after a merger, even though the
products and services of the company maintain the same as before the merger. His study revealed that the extent of cultural assimilation is associated with the speed of organizational decision making and affects the quality rating given by customers. Therefore, the quicker the process of combining organizational cultures is complete, the more successful the company will be and the higher the quality of ratings will be. Like Dixon, Mohibullah also recognizes that culture must be recognized. Mohibullah believes that the success of a merger is directly proportional to the level and quality of planning involved. He explains that cultural differences are the most prominent issue for the lack of predicted performance, loss of key employees, and time consuming conflicts in merging businesses (Mohibullah, 2009). If organizations develop strategy to merge the organizational cultures then there won’t be as much conflict post-merger. This is a crucial point made by both Dixon and Mollibullah, which shows that in any merger, whether it be on a large scale or small scale, the recognition of organizational culture and the development of strategies within the decision making process will reduce conflict and increases potential success.

Weber and Camerer 2003 also conducted an experiment based on organizational culture in order to demonstrate that culture clashes are one of the main causes of merger failure and can present a challenge for organizations that are in M&As. The experiment consisted of two laboratory firms, with two subjects within each firm. Once the firms were established and working as completely separate entities, the firms were told they would be merged and were asked to establish performance expectations of how the firm would be post-merger. The two firms were then merged and the results were collected based on the performance of the newly formed firm. The experiment demonstrated that there was a decrease in performance following the merging of two firms. This decrease was due to the overestimation of the performance of the firm post-merger. The experiment also showed that the subjects overestimated the performance
of the merged firm. The subjects then attributed the decrease in performance to the members of the other firm. This demonstrates the overestimation of benefits of M&As by top management (Weber, 2003). In the health care industry, M&As taking place are likely to also overestimate their success and potentially cause the entire merge to fail. Not only will differences in cultures effect M&As, but the regulations within an industry will also lead to mislead expectations.

In addition to the scholars who have analyzed the need for organizational culture, other scholars have used the concept of organizational culture to assess how it affects other key areas within an organization. For instance, Tsai 2011 conducted a study of the relationship between organizational culture, leadership behavior, and job satisfaction. The study concluded that organizational cultures were significantly correlated to leadership behavior and attitudes. This emphasizing that culture within the organization partially depends on the behavior and attitudes of those in leadership positions. The values and beliefs within an organization ultimately start at top management and work their way through the organization. The study also indicated that there is a positive correlation between job satisfaction and leadership behavior. Therefore the better the leadership behavior, and ultimately the organizational culture due to that leadership, the more satisfied the employees will be with their jobs and the longer they will remain in the organization. This study reinforces the argument that maintaining a focus on the people within the organization during mergers, instead of just the 'hard' issues, such as financial measures, will allow for success within the merger (Tsai, 2011). Within SMEs participating in M&As, this could pose somewhat of an issue due to the fact that once merged there is a new level of leadership created which could significantly affect the overall organizational culture. The top management will need to maintain a strategy to further lead to the organization through the M&A.
Mary Kay Whitaker 2009 discusses the merging of cultures and what exactly organizational success entails post-merger. The purpose of her research was to identify the key attributes within organizational culture and predict functional behaviors as well as prevent dysfunctional patterns of employees. The research conducted aimed to determine the strategies, conditions, and approaches that are utilized in post-merger situations that may create functional and dysfunctional reactions to the organization’s newly formed culture. She found that the top management that was actively involved in the management of the integration process by including their employees in the process are more likely to succeed post-merger (Whitaker, 2009). Based on Whitaker’s findings and the findings of the other scholars mentioned, it is fair to say that the organizations who consider organizational culture tend to reach the expected goals and succeed post-merger. More specifically, SMEs in the health care industry, who are attempting to merger, should actively and continuously manage the business processes, regulations, as well as the employees during integration to reduce conflict. As shown above, there is an abundance of experimentation which attempts to understand the reasons for merger failures. The scholars have demonstrated strategies that can be used to reduce the conflict in M&As in order to reach successful integration. It is clear that one of the most significant challenges during M&As is the attempting to integrate organizational cultures.

Organizational Culture

Organizational culture is essentially the values, beliefs, assumptions, or more simply, the general way things are done within a particular organization. Organizational culture rests on the perception that culture is a “historically based, change resistant, deep social system which underpins all organizational strategy, or as just one aspect of the total organizational system” (Bellot 2011). Lesley Willcoxson and Bruce Millett 2000, establish the point that the perceived
role of organizational culture can be viewed one of three ways. It can rest on the perception that culture is a “historically based, change resistant, deep social system which underpins all organizational strategy, or as just one aspect of the total organizational system” (Willcoxon & Millett, 2000, pg 97). Numerous studies have shown that there are different ways to define organizational culture however; the fact that it exists and must be recognized by organizations is accepted.

Edgar Schein, a key scholar within organizational culture research, developed three levels in which organizational culture can be described. The levels consist of artifacts, espoused values, and basic underlying assumptions... Within an organization, patterns and strategies, including written/spoken language, make up the artifacts of the organization (Bellot, 2011). Deeper in the organization’s culture lies the values and beliefs which Schein says allows members of the organization to make sense of what “ought to be” (Bellot, 2011). The basic underlying assumptions of an organization are at the core of Schein’s three levels of culture. These assumptions demonstrate the preferred solutions and give members a sense of dominant values of how the organization “should” be (Ott, 1989). In addition to the three levels of culture, Schein believes corporate culture must be taken seriously in order to develop strategy, structure, and systems within an organization.

Although the organizational culture of a SME isn’t as substantially large as the culture of a large company, the organizational culture within is still just as important. In SMEs, there is a smaller scale of employees who encompass the culture however; this goes to show that there is more of an impact if the culture is changed even in the slightest. When SMEs merge the organizational cultures which are present will be extremely affected by the change. This doesn’t go to say that large companies are affected as well, it just conveys the point that even the
smallest change in a SME can lead to a large change, whereas in a large company one small change won't affect the culture as severely. The risk of cultural clash in SMEs in the medical industry is also an issue which, with such large amounts of regulation, becomes a major concern which must be addressed.

Organizational Culture Clashes

Cultural clashes tend to be a key factor within M&As that fail to meet expectations. Due to the fact that organizational culture is overlooked within most mergers and acquisitions, cultural clashes tend to take place post-merger. These failures occur due to the fact that once conflict is already present within the organization by the time top management realizes it and at that point it is usually too late to fix it. Management, then, must try to take reactive measures to fix the conflict. Marmenout explains that, culture clashes occur when two distinct organizations with different organization cultures collide, or clash, which in turn leads to negative consequences (Marmenout, 2010). Specifically, the newly integrated company can experience declines in performance due to cultural clashes. Van den Steen, explains in particular that culture clash reduces the operational performance of the overall organization (Van den Steen, 2010). TNS, an employee survey company, says “With individuals preoccupied by the merger and personal fate, performance levels drop, productivity may be reduced, employees are less engaged with their work and profits can suffer” (TNS, 2011, pg 2). This, again, emphasizes the crucial need for organizational culture to be recognized within any size merger or acquisition.

An example of a M&A which failed to succeed, based on organizational culture, is the merger of West Penn Allegheny Health System and Highmark. West Penn is a health care system based in Pittsburg and Highmark is one of the largest private health insurers in that area.
With the agreement of this merger Highmark invested more than $225 million last year. On September 28, 2012, West Penn announced it was backing out of its affiliation with Highmark. Experts say this failure is an example of the effects of not taking organizational culture into account. Although the two organizations were very similar, the way they wanted to operate, make decisions, and measure their success was very different and caused the merger to fail (Advisory board, 2012). The clashes between cultures are a common problem within M&As however, strategies to integrate these cultures do exist.

**Strategies to Merge Cultures**

The four main strategies for merging different organizational cultures are assimilation, integration, deculturation, and separation (Pikula, 1999). Professors at Arizona State University propose that the degree of congruence between the acquirer and the acquired organizations’ preferred modes of acculturation will affect the level of acculturative stress (Nahavandi, 1988). If organizations are similar within their business sector then the process of merging may be easier. The first strategy that can be used in M&As is assimilation. Assimilation between organizations occurs when the employees of the acquired firm willingly embrace the culture of the acquiring organization. This type of strategy tends to occur in situations where the acquired organizational culture is weak (McShane, 2000). Assimilation could potentially occur when a physician’s practice is beginning to fail and a hospital acquires them. Most likely an assimilation strategy would be used due to the success of the hospital. Integration is also a strategy to handle organizational culture. This occurs when the organizations within the merger incorporate the cultures of each organization using the best features of each of the previous cultures. This strategy is used mostly when all the cultures are somewhat weak or the organizations realize that their existing cultures are ineffective (McShane 2000). A specific example in which an
integration strategy would be used is if let's say two hospitals who are both weak merge. Cultural aspects from both hospitals would be used in order to take the best aspects of each hospital.

An additional strategy is deculturation which forces the acquired organization to embrace the acquiring organization's culture. If the employees of the acquired organization do not adopt the new culture, they will be terminated. This could also be within a hospital/physician practice merger however, there is force used by the hospital to make the practice cooperate. The final strategy is a separation strategy. This strategy occurs when the organizations decide to remain two completely separate entities and do not share practices or beliefs. This strategy is mostly used when the merging organizations are in entirely different industries (McShane, 2000). These strategies show the emphasis for some consideration of culture when organizations are in the merging process. In addition to the strategies which can be used to integrate cultures, there are components which Appelbaum believes are crucial for success. The components that should be considered in M&As are cultural fit, cultural potential, and the communication, leadership and direction (Appelbaum et al, 2009).

**Cultural fit**

The cultural fit of organizations during mergers can help to determine the overall success of the organization post-merger. Merely assessing the cultural compatibility increases the odds of post-merger success (Appelbaum et al 2009). The closer the organizational cultures are between the organizations, the less difficulty there will be once the organizations begin to merge. Weber observed that the performance and effectiveness of a merger is inversely proportional to the differences between the top management (Appelbaum et al 2009). However assessing the
cultural fit will also determine the barriers which must be addressed (Pikula, 1999). A key point to understand is that the cultural fit between organizations can also be too close, which can result in the organizations not realizing the potential improvements that can be made. However, the organizations could also be too far apart to merge without negatively impacting the performance of the newly merged firm. It's necessary to point out that the cultural fit of organizations in M&As will be different once the strategies discussed early are used.

Cultural Potential

The component of cultural potential consists of the framework in which a company operates. The potential of the culture is based upon the way in which relationships are built and the openness to change within the organizations (Appelbaum et al 2009). If there is resistance to change then it can severely impact the M&A process (Van Dam, 2008). Within cultural potential, there are four categories which are used as a barometer to judge the cultural potential of an organization. The first category is innovative potential, which is a measure of how open an organization is to new values and ideas. Next the organization can be evaluated on trust potential, which is how open the organization is to trust. Third, mutual dependence potential describes the possibility for two separate mindsets to work together for the greater good. Finally, integrative potential of the organizations shows the openness of working through conflict and understanding the differences between the organizations. This is a crucial element within M&As due to the fact that there needs to be a level of openness to change and a willingness to work together to accomplish common goals.
Communication, Direction, and Leadership

Although communication, direction, and leadership are all separate components which can determine the success of a merger or acquisition, they all are linked and dependent on each other. Within any business, leadership and direction are important, however, within mergers there is a need for a new style of leadership and direction. The quicker the top managers of the M&As are established, the easier the post-merger integration will be. The direction in which organizations are planning on going should be communicated by the top managers as soon as possible to make employees feel included in the merger. It has been said that early communication and employee involvement drastically reduced the stress and anxiety created by mergers and acquisitions (Appelbaum et al, 2009).

Case study analysis

Steve Appelbaum and his colleagues conducted an analysis of the most popular mergers of large organizations, some of which were successful and some unsuccessful. Within the analysis, the components of cultural fit, cultural potential, leadership, direction, and communication were analyzed. The Daimler-Chrysler merger of 1998 is the perfect example of a M&A of two organizations which demonstrated little to no cultural fit. “Chrysler had a reputation for having a more freewheeling, open culture, in contrast with the more traditional, top-down management style practiced at Daimler” (Appelbaum et al, 2009). The components of cultural potential were also analyzed for this merger. It was established that there was innovative potential due to the fact that Daimler-Benz admired the entrepreneurial thinking and innovation of Chrysler and Chrysler respected the engineering process of Daimler-Benz. However, there was no presence of trust potential and mutual dependence potential or integrative potential.
within the merger. A key mistake made on Daimler-Benz's part was the fact that key positions within Chrysler were replaced with members of their previous management team. This signaled a lack of trust and shared vision between the organizations. Thus there was a clear lack of direction, leadership and communication organization-wide. The leadership within both previous organizations refused to work together which led to the entire organization being divided. Communication of the M&A process wasn't expressed early within the deal because the executives didn't want their buyers to worry. The overall outcome of this M&A was failure. The failure was not only due to the cultural differences but also the inability of the organizations to accept change and develop a clear direction through leadership (Appelbaum et al, 2009).

As demonstrated the need to assess the "softer" side of an organization during M&As is essential. The case studies, which have been researched by many scholars, are large corporations which have merged to become even larger corporations. Main merger failures have demonstrated that even brilliantly conceived business ventures can fall short of their objectives if organizations don't take organizational culture into consideration (Hammer, 2004). When organizations fail to incorporate organizational culture into their pre-merger planning process, the entire process is likely to fail. If organizations don't recognize the need for an organizational culture strategy, then they are often forced to try and reactively address the issues usually half-heartedly which in some cases won't be enough to salvage the merger (Hammer, 2004).

Small and Medium Sized Enterprises in M&As

Just as large corporations merge to gain an advantage, small and medium sized organizations are also merging or being acquired as well. SMEs, globally, are responsible for up to 50% of the world GDP, thus showing that this sector is large enough to be important. The lack
of information on small and medium sized organizations merging is most likely due to the fact that the information is not as publically quoted which makes it extremely difficult to obtain reliable data (Weitzel & McCarthy, 2009). However, research has shown that small and medium enterprises (SMEs) tend to come together in order to serve two broad purposes. First, these companies are aiming to tackle their personal deterrent conditions and second, to achieve future success with the additional organization by combining both organizations financial wealth, leadership, and motivation (Raquib, 2002).

Additionally, theories as to the motives of SME mergers and acquisitions were developed. These value-increasing theories include the theory of efficiency, the market power theory, and the theory of corporate control. The theory of efficiency says that mergers will only occur when they are expected to create value and synergies which make the merge beneficial to both organizations (Weitzel & McCarthy, 2009). This theory demonstrates the idea that the motivations within small M&As are based on benefiting both parties at a more intimate level. The market power theory emphasizes the point that firms merge to increase their market power. Like large M&As, SMEs also merge due to the fact that organizations with greater market power are able to charge higher prices and earn higher margins through the appropriation of consumer surplus, ceteris paribus (Weitzel & McCarthy, 2009). Thus, the size of the M&A based on this theory is not significant to the motives. SMEs in the health care industry, specifically, are using M&As to have a greater amount of power against the numerous competitors in the industry. The final theory researched is the theory of corporate control. This theory states that there is always an organization which will take over an underperforming organization in order to capitalize on opportunities and improve their assets (Weitzel & McCarthy, 2009). An example of this theory, within the health care industry, would be when hospitals acquire physicians’ practices in order to
harness their talents and improve the overall assets of the hospitals as a whole. The theories presented demonstrate specific motivations SMEs have towards M&As and show that some, but not all, of the motivations are similar to those of large M&As.

Not only are the motivations of SMEs and large corporations within M&As a critical issue, but the performance in the M&As must also be discussed. Researchers have suggested that small M&As tend to produce higher performance than larger mergers due to the ease of combining smaller organizations (Brouthers, 1998). Studies have also shown that profitability of organizations declines with firm size (Aiginer, 1991). It is evident that the odds of SMEs succeeding in mergers and acquisitions are greater than those of larger corporations. Although both large and small firms face difficulties, small firm challenges tend to have to do with determining compensation strategies, splitting profits, and redefining the firm's image on a more intimate level (Katz, 2012). It is fair to say that due to the size of SME mergers and acquisitions, the effects of decisions are felt on a much faster level without time to reconsider poor decision making. Jensen and Meckling argue that “The directors of [large] companies, being the managers [...] of other people's money, cannot be expected to watch over it with the same anxious vigilance with which the partners in a private [company] watch over their own” (Weitzel & McCarthy, 2009, pg 1). The argument illustrates a key issue in performance differences between small and large M&As. The point is made that because, in large corporations, the money isn’t personally owned by those making most of the major decisions and potentially means that the decisions made may not be considered in as much depth as those decisions made by SMEs, who are making decisions with their own money. More specifically, in the health care industry, physician practices are owned by the physician who is connected to almost every part of the organization, thus making it difficult to allow for change on a professional, as well as, a personal
level. The physicians discussed are within the health care industry, which is one area which increases the challenges for M&As.

**M&As in Regulated Industries**

The size of the M&A, although important, is not the only issue which may affect the challenges in place for M&As. The industry in which the M&A takes place in may also show to be a challenge as well. The Chrysler and Daimler-Benz merger illustrates the challenges which occurred within the vehicle industry which has little regulation from the government. Although the merger did fail, there are fewer regulations which stood in the way of those failures. Mergers in industries which are highly regulated by the government raise even more complications, as the organizations need to handle the constraining effects of regulation, multiple levels of regulation, the ability to evade regulation, and the desire for efficiency (Carlton, 2007). These complications due to regulation cause M&As in these industries to become more complex and potentially increase the time it takes for the organizations to merge. In a study conducted by Ekelund, Ford, and Thorton, statistical analysis showed that mergers in regulated industries take about 80% longer to complete than unregulated industries (Ekelund, 2007).

One specific industry which is highly regulated and adds additional challenges during M&As is the health care industry. The government has placed a plethora of restrictions on organizations in this industry that there is a growing need to participate in M&As in order to survive. In particular, the acquisition of Coventry Health care Inc. by Aetna Inc. is a merger which has recently occurred in the health care industry because of regulations. The health care industry in general is highly regulated and presents obstacles due to this regulation. Like the Chrysler and Daimler-Benz Merger, this was a merger of large corporations however, the Aetna
and Coventry M&A had added complications of health care regulations. Within this merger, Aetna, a health insurance giant, is trying to capitalize on the growing enrollment of Medicare and Medicaid by acquiring Coventry Health care Inc. (Terhune, 2012). One of the main motivations for Aetna in this merger was to obtain Coventry’s Medicare and Medicaid customers. Coventry will add around 4 million Medicaid members and 1.5 million Medicare Part D members to Aetna’s membership which will substantially increase Aetna’s exposure to government sponsored health plans. Due to an increase in government programs, which will be discussed later, Medicare and Medicaid customers will begin to be significantly beneficial. The CEO of Coventry, Allen F. Wise, says, “Aetna and Coventry share a commitment to improving the health and well-being of our members. And with this transaction, our combined businesses will be positioned to better serve a broader market and develop new partnerships with providers to offer high quality and affordable health care” (Aetna, 2012). In order for Aetna to continue to be a major player within the market, the company must acquire companies like Coventry to position itself for success.

This merger clearly demonstrates the motivations and need for companies within regulated industries, such as the health care industry, to participate in M&As. The reality is that, in this industry, both large insurance companies and small physicians practices are using M&As to overcome regulations. Due to the most recent regulations in the health care industry there is an increased popularity of M&As.

Health Care Industry

In the US, the health care industry is separated into the public and private sector. Due to the increasing costs of health care in the United States, health insurance is used to assist with
medical expenses. Health insurance is used in order for individuals to receive timely medical care without first worrying about payment (Bovbjerg, 2007). According to the 2010 Employer Health Benefits Survey, the annual out-of-pocket responsibility for families covered by employer-sponsored health insurance in 2008 was $3,997 (ACA, 2010). Whether private or public, the need to have some form health insurance is crucial in the US. The U.S health care system is divided into two sectors; private health insurance and public health insurance. Due to the limited amount of public health care services available, the private health care sector is most commonly used. In 2007, more than 67% of Americans were covered by private health insurance (Turner, 2009). Health care facilities in the United States are also largely within the private sector. In the private sector insurance is either provided to the people via employer-sponsored insurance or individual health insurance. Employer-sponsored health insurance is the main way Americans receive health insurance coverage however, the percentage of people covered through employer-sponsored health care plans fell to a record low 55.3% in 2010 (Geisel, 2011). For the remaining Americans who do not qualify for employer-sponsored insurance, are self-employed, or are retired individual health insurance is available.

On the contrary, the public sector for health insurance in the United States provides insurance to specific individuals in the country that qualify for aid from the government. Medicare and Medicaid are the most popular programs which are publically funded however; there are other public systems which provide health care to those who qualify. Medicare is a program provided by the federal government which covers individuals aged 65 and older and disabled individuals as well (Farrell, 2009). This program is funded through federal income taxes and covers hospital services, physician services, and prescription drug benefits. Medicaid, like Medicare, is governmentally funded however; Medicaid is designed to assist low-income
individuals as well as those who are disabled and cannot afford private insurance. This program is jointly funded by the states and the federal government and is the largest source of funding for medical services for those with low income. In addition to these two large public programs, there are also other programs, such as the Veteran’s Administration (VA) that provides health care for military veterans, and the State Children’s Health Insurance Program (SCHIP) that covers children whose families earn more than the Medicaid requirement but cannot afford private health insurance. Due to the health care system or lack thereof in the US, individuals are starting to experience the downside of the current system. The regulation in the health care industry, set in place by the government, is showing to be a challenge for patients and physicians/hospitals.

**Regulation in the Health Care industry**

The health care industry as a whole faces serious challenges in upcoming years. With the recession in the US, this industry has seen many issues which affect not only the health care providers but the patients as well. The rising cost of medical care and health insurance is an overall problem affecting all Americans. According to a report conducted by Health care Problems, “In 2010, nearly 50 million Americans did not have health insurance, while 25 million were underinsured” (Health Care Problems, 2012). Most Americans receive their health insurance through their employers. However the high level of unemployment in today’s society leaves citizens without health care coverage. The lack of insurance results in an increase in the amount of bills Americans will struggle to pay. This in turn reflects back onto the health care industry as a whole thus continuing a vicious cycle of debt.

Due to the fact that health care organizations provide services which are for the common good of the overall population, the state and federal government place regulatory requirements
which must be followed. The health care system has been an issue in the US for years and therefore current regulations have been established to try and protect the people of the United States. The most recent laws which have been put in place attempt to reform the US health care industry are the Patient Protection and Affordable Care Act. Although the current regulations are attempting to resolve the problems within this industry, each section in the system is being affected by the changes (U.S. Department of Health & Human Services, 2012).

The Patient Protection and Affordable Care Act (PPACA), or Obamacare, as it is more popularly called in today’s society, attempts to decrease the amount of US citizens who are currently uninsured. This reform is also trying to place more restrictions and regulations on insurance companies, as well as providers, in order to reform the health care system in the US. The reform has affected states, consumers, employers, and providers in different ways. Since the reform, the states have been required to implement health insurance exchanges, which are regulated health care plans that individuals and small businesses can purchase for health insurance. The reform plans to create state-based “American Health Benefit Exchanges” through which citizens can purchase coverage with premium and low cost sharing credits available to low income individuals and families through an exchange (Haberkorn, 2011).

For consumers the health care reform will extend the coverage of insurance to help the millions who are uninsured. The government plans to do this by expanding Medicare to more citizens. Prior to these reforms Medicare by was provided to citizens dependent on each states definition of poor. In some states citizens had to be “sub poor” to be eligible for Medicare. By 2014, the “working poor” will be eligible for subsidies which help pay for their insurance and citizens will be judged based on their income based on the federal poverty level (Kennedy, 2012). For consumers, the government will also help to eliminate “junk” plans which have high
deductibles and almost no real benefit. The elimination of these plans will increase consumer confidence and help to provide more coverage to the people (U.S. Department of Health & Human Services, 2012).

From the employers’ perspective, the reforms are not as beneficial as those of the consumers. According to Health Affairs, the reform will force medium and large companies to make payments to the government if health insurance isn’t offered to employees and their dependents beginning in 2014 (Haberkorn, 2011). The government’s aim for this requirement is to encourage companies to provide more health insurance coverage to their employees. This will help with the millions of uninsured consumers. Providers of health care, such as hospitals and physicians, will prove to be the most difficult and challenging section of those affected by the reform. Due to regulations, such as the Affordable Care Act, those who are eligible and will receive Medicare will increase. Although this is a benefit to citizens, providers will continue to see decreases in the amount in which they are paid. Another affect which the regulations will have on providers is the fact that the government wants all providers to implement costly electronic medical record and will penalize those who don’t with steep taxes.

One specific group which faces the most significant challenges due to the current laws and regulations in health care is the providers, more specifically the physician practices and hospitals. There are currently four specific areas in which physicians are confronting. The first challenge posed for physicians is the increase of new patients which will be entering the system due to health care reform. This reform will change the compensation for physicians as well as force physicians to establish new practice models. Due to this regulation, 74% of physicians plan to change practice style in 1-3 years (Concentra, 2012). Another challenge facing providers currently is financial pressure due to a decreased amount of reimbursement from Center for
Medicare & Medicaid Services (CMS) and other private insurers. This is driving physicians to practice more profit-focused, fee-for-service medicine and ultimately M&As (Concentra, 2012). The next challenge for providers is the need to change practice dynamics. Due to government, insurance, and competitive pressures there is an intense focus on efficiency, profit, and documentation, which is causing physicians to pay less attention to personalized care and long term relationships. The issues which are changing practice dynamics are causing 94% of physicians to spend more time on non-clinical paperwork, to satisfy regulations, than they did three years prior (Concentra, 2012). The final challenge facing physicians is the increasing pressure for physician practices to change. Currently, Physicians in independent practices are currently considering leaving their private practices to either merge with hospitals and/or other physicians or leave the medicine entirely (Concentra, 2012).

The challenges faced by these physicians and hospitals are causing the workforce to experience dramatic changes in all parts of the workplace. The challenges affect training, incentives, practice settings, reputation, and income potential. From factors, such as training and resources to reputation, the workplace is changing due to the regulations in this industry. The training and resources within physicians’ practices has changed dramatically. Before the current regulations, the core competencies were set by the profession within specialties however, now there has been an adaption to evidence-based standards of care via the Patient Centered Outcome Research Institute (PCORI). The incentives and professional appeal within the practices have also changed. Prior to the regulations physicians’ practices were geared towards volume, specifically in tests and visits, where now, the practices are more focused on performance and outcomes. The physicians’ practices are looking to increase the satisfaction of patients and the efficiency of their practices. In addition the practice settings have changed as well. Practices
went from being primarily independent smaller practices to primarily large medical groups, which are aligned with health systems or hospitals. The reputation of physicians has also changed as practices are beginning to become a part of groups instead of independent private practices. The reputation is changing from an individual “brand” to a “system” affiliation. The income potential of the practice is the final area which has changed since the changes in the health care industry. Before the changes in regulation the income was productivity based, however now the income is based on value and outcomes (Deliotte, 2010).

**M&As within the Health care Industry**

Due to the regulations and current position of the health care system, physicians and hospitals are being forced to merge to survive. Within 2011, there were 86 hospital/physician mergers or acquisitions, the most in decades (Elliot, 2002). The laws in place for the health care industry are becoming so complex and potentially expensive that M&As organizations in the industry are being driven to merge. The most crucial issues driving organizations to merge are the American Recovery and Reinvestment Act, the Mandated Payment Innovation law, and the Accountable Care Organizations (Davidow, 2010).

The American Recovery and Reinvestment Act (ARRA), also known as the Recovery Act, is an economic stimulus package developed in 2009 to attempt and fix the recession in the 2000s. The aim of the law was to save and create jobs. Within the ARRA, the Health Information Technology Act (HITECH) was developed. This act aimed to modernize the health care system as a whole (HHS, 2012). The government established this law for the health care industry in order to promote and expand the adoption of Electronic Health Records (EHR). The EHR system would provide a more advanced system for health records and for those health care providers
who begin to implement and use this new technology incentives will be given by the CMS as well as increased reimbursement for Medicare and Medicaid (HHS, 2012). The benefit of using this new technology are very attractive to providers however, the implementation of this new technology is expensive (Terry, 2012). Due to the substantial cost associated with this technology, providers are using M&As to either obtain the EHR or to jointly purchase it. In addition those who choose not to adapt the electronic medical recording processes will suffer from slashes in Medicare reimbursements from the government.

Another driver of M&As stems from the Mandated Payment Innovation Act, which created an office in the Medicare/Medicaid department that finds ways of paying providers and eliminating the sustainable growth rate system. This act will also provide incentives for the adoption of innovative payment and delivery models to improve quality and efficiency of the system. In addition, the act attempts to reward those providers whose patients get better faster with fewer recurrences and don’t need to be readmitted. Therefore, the better the service is that is provided, then the quicker compensation will be to the providers thus increasing the health care system as a whole. M&As are occurring due to this act due to the fact that the more physicians within a group the better service that will be provided and the quicker the payments from CMS will be.

The last driver of mergers in the health care industry is the Accountable Care Organizations (ACO). According to the Health care Financial Management Association, “an ACO allows for sharing of cost savings or sharing of a set of payments for achieving quality measures, which will directly encourage integration” (Braown, Werling, Walker, Burgdorfer & Shields, 2011). Not only will companies be potentially rewarded by the government for
integration but there are also potential benefits which follow. As demonstrated, these regulations are driving providers to come together and potentially benefit from the process.

**Potential Benefits of Health Care Mergers**

The decision of whether or not to participate in a M&A within the health care industry is a difficult one. There are potential benefits that are present when organizations in this industry choose to merge. The most recognized benefits for health care mergers are the potential cost savings through economies of scale; the increased purchasing power; the ability to offer ancillary services (and share revenue and expenses from those services); the ability to hire management expertise; and the ability to invest in information technology. As well as the ability to invest in compliance, risk management and billing/collection resources; the ability to improve clinical quality through outcomes analysis, sharing of best practices and development of clinical practice guidelines; the improved lifestyle through vacation and on-call coverage sharing; and improved ability to negotiate with health plans. These benefits are very attractive to many providers when looking to participate in M&As (Investopedia, 2010).

Within any size organization, mergers and acquisitions are a strategy which is used to overcome the obstacles faced. There are numerous benefits to M&As if accomplished correctly. The cultures of the organizations should be analyzed as well as any potential regulations within the industry of the M&A. There are strategies which are in place for M&As in general, as well as for M&As in heavily regulated industries. However, these strategies are more distinctly aimed towards larger organizations. Although there is substantial information available, there is still a need for research on and understanding of SMEs and more specifically those SMEs in the health care industry. With high regulation from the government, the popularity of M&As in this
industry continues to increase. According to Daniel Nikcevich, president of Essentia Health, "A lot of these changes that are happening are being driven by necessary innovation. It's forcing integrations and affiliations that five or six years ago wouldn't have happened" (Caramenico, 2012, pg 1). The need for more information for SMEs when in M&As is critical. With the increasing amount of these M&As, if strategies aren't fully understood then there will be an increasing amount of M&As which fail to reach expectations.

Methodology

*Rationale for qualitative methods*

Several methods of research design were explored before the selection of a qualitative analysis, through in-depth interviews, was selected. Although there are alternative methods of qualitative analysis which can be used, the interview process will most accurately illustrate the specific information of each participant. Due to the fact that qualitative research is not predefined by specific variables, exploration of information and specific identifying circumstances can be developed. One of the main purposes of qualitative research is to describe and develop an understanding for specific issues in an analytic way. Specifically, qualitative research is useful for gathering and analyzing exploratory data as it is evolving (Max & Lynn, 2004).

*Point of view*

In this section I will briefly describe my point of view on the research conducted. Prior to the decision to do this research, I was unaware of almost any information regarding the health care system. I have experienced the health care system, but only to the extent of physicians' offices and hospitals. In addition to my knowledge, or lack thereof, within the health care industry, knowledge of mergers and acquisitions was needed to further develop my research. I
did, however, have previous knowledge of mergers and acquisitions due to the fact that I am a business student. However additional research into mergers and acquisitions was conducted to better understand the process. Within any qualitative study there must always be a recognition of potential bias which is created by the researcher. Due to the research which has been done on this topic, there is a potential bias which exists whilst analyzing the data and inadvertently identifying issues based on the information read. It is also crucial to state that as the researcher engages with the data collected, interpretation can potential impact the findings of the study due to the fact that researchers assess the usefulness of their information and reflect on it to develop personal meaning (Pappas, 1997).

**Participant Selection**

A sample of physicians was chosen for their ability to contribute feedback and to provide comparison between participants. The participants were selected based on their participation in a merger or acquisition in recent years. The selection of participants occurred using the internet as a source of identifying physicians who have been in M&As. In addition to the internet, referrals from my thesis advisor, as well as, from physicians were also used as a basis for selection. To ensure the quality of information provided, participants were from different areas on the East Coast of the United States. The research sample reflects physician practices that have either participated in a merger or acquisition with another physician practice or with a hospital. Table 1 presents a profile of the participants in this study.

**Interview Protocol**

Interviews took place over a one month time frame and were recorded, and later transcribed, for further analysis. While the length of interviews weren’t specifically timed, they
all ranged between 15 and 30 minutes. To ensure that the information of each physician and their practice is kept confidential, no identifying information about the physicians or their practices will be disclosed. As for the recordings, which were taken during the interviews, they were destroyed after analysis was conducted.

**Interview Process**

Interviews will be conducted either in person or via telephone. Regardless of the communication method used to conduct the interview, the process in which the interviews were conducted remained the same. First, the interview protocol was read to the participants to ensure their permission for recording the interview was permissible. Once permission was received, the recording was started and the interview began. The participants were asked questions regarding their experiences within the specific M&A they participated in. Once the information was gathered, participants were thanked for their time and information. The participants were also advised that their insights will be sent back to them in order to ensure that their insights were captured properly.

**Interview Questions**

While all participants were asked a standardized set of questions, which were developed prior to interviews, each participant was able to expand on any question asked. These questions opened necessary groundwork for self-disclosure, which was used to understand how the respondents understood the M&As and the specific attributes that went along with them. The interview questions were purposely asked as semi-structured, open-ended questions that resulted in probing and further questioning into the expansion. Participants were asked 12-14 questions in a discussion-like manner. Participants provided detailed information regarding their merger or
acquisition experience, as well as, the influence which regulation had within the process. A sample of the questions asked to participants can be seen in Appendix A. As demonstrated in Appendix A, the questions are specifically posed in a way which would enable the most amount of information to be collected from participants.

Although the questions leaded the participants to discuss this information, the questions did not explicitly ask the intended outcome of the questions. This strategy was used in order to eliminate any possible leading of the participants. First, questions were asked to further understand the reasons and expectations of the M&A. Next, questions regarding the communication process were asked in order to identify the preparation process. After communication was discussed, organizational culture was discussed to better understand changes and challenges of M&As. Finally questions about performance within M&As were discussed to illustrate the effects on different groups involved in a M&A.

Data Analysis

The interviews have provided an understanding of the process of mergers and acquisitions within SMEs in the health care industry. In addition the data gathered demonstrated the driving reasons for M&As in the health care industry, due to regulation. When analyzing the data collected, any specific themes that are present will be identified in order to develop an understanding of the information. A comparative analysis of participants’ experiences within M&As will be conducted to establish the common areas driving M&As in this industry. In addition to this analysis, the information provided by participants will be used to determine if issues regarding M&As in SMEs can be compared to those of larger M&As, as earlier discussed in the literature review.
Findings

Within the health care industry, physicians' practices have many choices when deciding the type of merger or acquisition to participate in. The most popular M&As within the health care industry occur when practices merge with another practice or when a physicians practice becomes employed (or acquired) by a hospital. Each physician participant has taken part or is currently involved with a merger or acquisition within these specific areas. All of the physicians' practices would be considered SMEs, with an average of about 20 patients seen per day. There are different reasons in which these practices decided to participate in M&As. As Dr. B explains, the practice was employed by the hospital to try and control the outcomes of the health care system. There is a level of uncertainty which physicians experience within this industry, which Dr. A says, is why these M&As continue to take place. In addition to physicians participating in M&As with hospitals or other physicians, some physicians use other strategies of M&As as an attempt to differentiate themselves and survive in this industry. Whether the physicians use hospitals, other physicians, or specialty health care to merge with, Dr. C explains there is a need for physicians to set themselves apart from others in order to get ahead.

These M&As are continuing to take place in the health care industry primarily due to the increase in costs. Many of the physicians explained that this increase in cost is due to the fact that costs to continue operating an office are rising and the reimbursement from insurance companies and the government continue to decrease. This is resulting in a decrease in the ability for physicians to survive independently. Dr. E discussed the fact that the practice had to shut down due to insufficient funds. Dr. E then explained that the only way which the practice was able to survive was to be acquired by a hospital. In addition Dr. A, explains that his practice was acquired by a hospital due to the fees that are continuing to rise. This doctor explains that his
practice continues to work more and more and see more and more patients without an increase in financial outcomes or additional benefits. Thus it can be said that the fees and regulations are causing practices to work harder to even remain above water. Dr. C’s insights demonstrated that the practice on average saw around 3000 patients a month and was just making ends meet. The increase in costs on operating a practice could potentially be from the regulations but it is important to mention that there is also economic situations in todays’ society that could be contributing to this problem in the physicians’ practices. By merging with hospitals the practices are able to use additional resources to make ends meet and potentially make profit. This is only one of the benefits that are obtained through M&As in this industry.

Another benefit that the participants emphasized for participating in M&As is the fact that hospitals can provide additional departments within their practices to help to enhance the efficiency of the practice. Many of the participants which were acquired by hospitals discussed that they were able to access the hospitals HR department. Dr. B explains that there was an added benefit of this department, which would allow the him to see more patients instead of constantly dealing with employees and the issues which accompany them. Dr. A also explains that there is the added assistance of having the hospital handle the billing, which allows the physicians to have more time to see patients. However Dr. A also makes the point that the assistance with billing is only beneficial if the billing is done correctly. If it is not done correctly then both the hospital and the physician will suffer. It’s clear that having the assistance of a hospital can be beneficial for practices. However, the hospitals also are benefiting from the physicians practices. Dr. C explains that the hospitals acquire these smaller physicians groups in order to, basically, have access to their patients. The hospitals use the access of these patients to be the primary hospital that those patients will go to if any major surgery is needed. Thus, the
hospital is making their money more so on the larger surgeries and not necessarily the small practices.

Additionally, another benefit that was consistent among many of the participants was the fact that hospitals have access to more capital to provide greater technologies to the practice, which on their own would not be able to have. The participants all explained that one particular regulation which is a factor that immensely pushes many physicians to merge is the HITECH act. This act governmentally mandates that physicians practices and hospitals alike, implement Electronic Health Records (EHR). These systems aim to centralize health care records, however according to Dr. D, the systems aren’t necessarily doing that and instead are just costing physicians additional money. Dr. A made the point that there are incentives for those who implemented the EHR by a specified date but, there are also penalties to those that have not implemented the system. As a number of the participants explained, the cost for the EHR system is enormously expensive. This fact in its self is sometimes the reason some practices wish to merge. Dr. C describes how the increase in this regulation has caused the practice to have an increase in overhead for the practice. This means that it is even harder for Dr. C to make ends meet given the increase in costs, and will force the practice to take a hit in their financial outcome. The cost to implement the EHR systems is a colossal expense for a physician practice to incur on its own. Thus, hospitals are using this expense as an incentive for physicians merge. Dr. E explains that the hospital covered half the cost of the systems and saved the practice a large amount of money. In some cases, as Dr. B explained, the hospital will pay for the entire cost of implementing the system. Dr. B also explained that the practice purposely waited until it was a part of the hospital before implementing the system at all. This demonstrates how large of an
investment the system is and how much of an incentive it is for physicians to merge with hospitals to lessen this cost.

Once the participant physicians decided to participate in M&As, the decision was discussed with their employees very early within the process. As explained by Dr. D, there is a natural reaction from employees to be skittish when change is happening within the workplace. Employees are reluctant to accept the change at first because they don’t exactly know how the change will affect them or the organization as a whole. The fact that the communication process between physicians and their employees occurred at an early stage in the M&A process indicates that communication with employees is key. Dr. A told his employees about the M&A and the benefits which would accompany the change however, the employees still had a negative reaction. This negative reaction of employees seems to be very common within each of the practices. However, this reaction may have just cause. Dr. D explains that after being acquired by the hospital, only some of this physicians employees, prior to the acquisition, continued to work in the practice. This was due to hospital rules and qualifications that some of the employees did were not able to meet.

The last similarity between participants who were in M&As with hospitals was the fact that the hospitals culture tended to be used. Dr. F explains that the practice uses the procedures which the hospital has in place and isn’t given as must room to use their old procedures on a daily basis. Dr. A explained how the practice had more of a relaxed culture before the acquisition. For example the physicians could finish their work early and take the rest of the day off. But now, the employees in the company are forced to clock in and have to stay for a specific amount of time in order to receive their benefits and pay. Although this is not a severe issue for the practice, it is a change which could potentially have a negative outcome on the practice.
Another example of a practice taking on the culture of the hospital is the acquisition of Dr. D's practice. Within this practice the culture was more family focused, meaning that the employees' families came first. The practice emphasized the importance of family and allowed employees to take time to be with their family if their work was completed. After the acquisition with the hospital, Dr. D explains that everyone was treated alike and the hospital told the employees in the practice what to do and they did it. There wasn’t necessarily as much independence on the part of the practice.

**Discussion**

The participants in this study shed a small light on an issue that has been ignored for some time now. Mergers and acquisitions are constantly taking place in multiple industries as a means of survival. The health care industry has the added burden of intense government regulation, which contributes to the amount of M&As which occur. Even within the health care industry, only large M&As, like Aetna and Coventry, are acknowledged. SMEs are excluded from any of the conversations regarding M&As. The discussions regarding M&As do, however, capture the strategies commonly used, as well the challenges faced during this process. The goal of this study was to learn the process of M&As for SMEs and explore the effect regulation plays on the overall success of the process. The final goal was to determine if the strategies and challenges, demonstrated by previous research, could be compared specifically to those of SMEs in the M&A process.

During the interviews with participants, the same questions were asked in order to have a consistent format which could then be compared across all the interviews. After the interviews were conducted, an analysis of the information gathered showed specific areas which were
common throughout each participants experience within M&As. The first area which was common was the fact that M&As are becoming an area which is very popular for physician practices. As demonstrated by Dr. E, some practices even have to shut down due to the increased costs. This brings us to the next area of similarity among the participants. The increase costs are causing the physicians to be unable to independently continue with their practices. One of the specific costs that most private physician practices are unable to afford is the implementation of electronic health records. Thus, participating in a M&A would allow for access to this technology or the funds to implement this technology. This is a driver of M&As within SMEs however, as discussed in the literature review one of the reasons which larger corporations chose to participate in M&As was to acquire technology, products and market access. Therefore it can be established that there is at least one similarity between large M&As and SME M&As. It's fair to say that whatever size the M&A, there is likely to be one organization that has something that the other wants and therefore, becoming a driver of M&As.

An additional theme that was present within the experiences of the participants was the benefit of additional departments which were gained due to a M&A. For instance, Dr. A explained that the HR and billing departments were through the hospital which alleviated this burden from his practice. This benefit would not necessarily be exactly the same as in a large M&A because in large corporations these departments would already exist within each organization. However, the process of implementing one of the departments in the M&A of a large corporation would be similar to the process within the SME, due to the fact that either size M&A will have to adjust to the change in departments. Therefore, even though this issue isn't exactly the same, the strategies which would be used to implement the departments would most likely be similar.
Whether large or small, organizations also participate in M&As for common objectives. More specifically, in large M&As there is a goal of gaining a global presence. While this isn’t exactly the goal of SMEs in M&As there is still a goal of increasing their overall presence, just not necessarily on a global level. For instance the hospitals which are acquiring physicians’ practices are doing so because it will broaden their reach within the health community thus increasing the amount of patients in their hospital. According to the literature reviewed, another expectation set by large corporations in M&As is to strengthen their core business through expansion. This was also found to be true for SMEs as well. The M&As which participants were in demonstrated that many areas of core business were strengthened due to the M&A.

The point should also be made that in both large and small M&As, the ‘people side’ of the process needs to be considered. As Dixon 2005 explained, attending to the people side of M&As will increase chances of success post-merger. A general theme of the M&As in the health care industry was that they all kept their employees informed of the process which was going to take place. The physicians also made it clear to the employees the benefits of the M&A in order to justify the change. Although employees weren’t positive about the change, they eventually were accepting of the new organizational culture. Speaking of organizational culture, it is clear that there are specific strategies which can be used to merge organizational cultures. Within large M&As, the strategies used depend upon the specific goals which both organizations are attempting to achieve however, within SMEs it is evident that assimilation and deculturation are more widely used. Either the physicians practice willingly accepts the new culture or the acquiring organization will force them to. This is one difference between M&As depending on size. Larger M&As are able to explore all the strategies used to confront organizational culture, where SMEs aren’t exactly in that position.
The final similarity which was uncovered between large M&As and SMEs in M&As is the fact that there is a certain amount of uncertainty within M&As no matter what size the M&A is. The ability for organizations to handle the unknown will result in a successful M&A and organization overall. In addition to this uncertainty, the M&As within the health care industry have the added uncertainty of constant changes to government regulation. It is clear that this added burden of regulation has increased the uncertainty which organizations in this industry have to overcome. The process that organizations in M&As is difficult and with health regulations like the HITECH act, the process becomes increasingly difficult.

Similarities are obviously present between large M&As and those of SMEs however, the differences between them must be mentioned as well. Since there is a lack of information about the SME M&A process the differences between SME M&As and large M&As is crucial. Although the communication process with employees during M&As has been mentioned, it is important to emphasize that in SMEs there tends to be more communication with employees at an earlier stage. This doesn’t mean that large M&As are not communicating with their employees but shows that SMEs take their employees into account earlier on. An additional issue that is evident in SMEs in the health care industry is that job satisfaction was a common theme within the practices. Dr. C explained that in addition to the need to differentiate the practice from others in the industry, job satisfaction was crucial. This physician wanted to have a personal relationship with each one of the patients that came to the practice and before the M&A that was not able to happen. There was a lack of personalization prior to the M&A because there was a constant need to see as many patients as possible in order to make ends meet. Therefore, there wasn’t enough time in the day to see every patient and add the level of personalization which would lead to job satisfaction for the physicians. This recognition doesn’t necessarily mean that
there isn’t a need for job satisfaction in large M&A but it is apparent that this is crucial in SMEs, specifically in the health care industry.

As noted in appendix B, table 2.1 and 2.2 demonstrate the reasons in which the participants chose to participate in a M&A. Specifically, table 2.1 illustrates the reasons which were most evident specifically in the healthcare industry M&As which were analyzed. However, table 2.2 uses the information from participants to categorize them into the main reasons for M&As as previously discussed within the literature review. It is evident that within both tables the main reasons for the M&As which participants were involved in are due to the acquisition of technology and increased access. It is interesting to see the similarities in these two tables and how each participant, although from different practices, has quite similar reasons for M&As.

**Limitations**

Although the research conducted represents a sample of physicians, it must be recognized that there are limitations present within the study. One specific limitation present is the time restraint of the project which is an explanation for the amount of data that could be collected. Six participants were used to draw conclusions developed within this analysis. In addition to the time limitation, the locations in which the participants are in can also be a potential limitation. Due to the fact that the participants are all on the East Coast, there is a possibility for a bias due to the location. It should also be mentioned that the information collected from the doctors has the potential for a bias due to the fact that each doctor wasn’t necessarily in the same field of study. Therefore, each doctor’s experiences and views on specific issues could be different. Also the data that was explored was only based on one side of the M&A and therefore could potentially only show half of the overall experience which occurred in the M&A.
Implications for Future Research

This research has opened the door for scholars to continue to examine the M&A process for SMEs. The data collected shows the process of SMEs in the health care industry. While this is an important industry, it is not the only industry which SMEs are participating in M&As. Therefore, to better understand SMEs and their involvement in M&As additional research needs to be conducted in multiple industries. Also it should be stated that within the health care industry only a small amount of participants were examined and additional participants would increase the validity of the data collected. Due to the limitation of only collecting data from one side of the M&A, to better understand the entire process both sides of each M&A could be investigated to obtain a broader picture of the entire process.

Conclusion

The objective of the research conducted was to address the strategies and challenges faced by SMEs within the health care industry during the M&A process. In addition, the drivers and expectations of these M&As were examined in order to compare them to the process which occurs within large M&As. Scholars have researched M&As and have excelled at describing the process within M&As however, there is a lack of information to specifically explain M&As within SMEs. There has been little to no attention devoted to the M&A process for SMEs or the potential challenges that may occur during the process. Scholars have explained that M&As mainly occur for the same reasons however, this is a very broad generalization that needs to be corrected. The research aims to add insight into the specific process of M&As in the SMEs in health care. In addition a more generalized concept of the experiences of SMEs in M&As will be developed. In order to examine the M&As in SMEs in the health care industry, interviews of
physicians, who have taken part in M&As, were conducted. The data collected from these interviews only begins to explore SMEs in M&As however, there has been a plethora of information uncovered by this study. Specifically, this study has shown that SMEs have a similar process to large corporations when it comes to M&As. The organizational culture within any size M&A should be considered in order to have success. The employees are essentially one of the main factors which allows the organization to run properly and therefore is an essential part of any type of change in the organization, especially in M&As. It can also be concluded that some of the main reasons and expectations for M&As are quite similar regardless of the overall size of the M&A. It seems as though the drivers for M&As are similar but the size of those drivers is where the differences appear. For instance, in large M&As there is more of a global scale for expansion where in SMEs the goal of expansion is present however not necessarily on the same scale as the large M&As. This goes to show that some of the strategies within large M&As that are so widely discussed can be used in SME M&As.

However, there are also issues which are more specifically present within SME M&As. There seems to be an increase in the communication between top management and employees during the M&A process. This could potentially be due to the smaller size and more focus which is placed on employees. However, it should be mentioned that the emphasis on communication could potentially be due to the overall scale of the M&A and could be equally emphasized in large M&As but not commonly emphasized as much as in SMEs. The emphasis on job satisfaction seems to also be a driver for SME M&As in the health care industry. This could be due to the industry the M&A is in. The health care industry is an industry were the overall goal is to help people and save lives and therefore, could increase the need for those within the industry to be satisfied with the level of service provided to those they are trying to help.
The final area which is crucial to address based on the study is that of health care regulation. The regulation in this industry continues to change and requires all those within the industry to oblige to new laws and implementations of specific systems. With the increase in uncertainty in the industry, SMEs are almost being forced to participate in M&As to last. One specific regulation which has severely impacted SMEs in is the implementation of Electronic Health Records (EHR). The government has placed regulations that will penalize those who do not implement the technology within a specific time. However, the expense of this technology is hurting SMEs. The increase of regulations and uncertainty continue to be an issue within this industry and play a significant role on SMEs decisions to merge. In conclusion, SME M&As are constantly occurring within multiple industries and the process should be illustrated in order to obtain an understanding of the challenges which are present and the strategies that can be used to overcome them.
Appendix A

Interview Protocol

Thank you for your time today. I am completing my honors thesis at Coastal Carolina University on the topic of mergers and acquisitions in physician practices. I appreciate learning more about your experience of this process. Please note that all information you provide will be kept confidential and no identifying information about you or your practice will be made public. I will share back with you the insights and conclusions that I make based on our discussion to make sure that I have understood your insights correctly. I would like to tape record the conversation to make sure I accurately capture your insights. Upon completion of the recording of the transcripts, the recordings will be destroyed. Do you have any concerns about this process?

- First, please tell me about the name of your company and the company that acquired/merged with yours.
- When did the discussions for the merger/acquisition? When was it concluded?

If you could please answer each of the following questions to the best of your ability.

(Do Not Read/Share the Title Here) Questions that get to the reasons and expectations

- Tell me about how this change to your company came about.
- What was the driving reason for exploring the change?
- When did you first start to think about making this change?

(Do Not Read/Share the Title Here) Questions that get to the preparation process

- Can you describe the communication process that took place with your employees and ownership group before the merge/acquisition?
- How did employees and owners participate in and react to that process?

(Do Not Read/Share the Title Here) Questions that get to the cultural outcomes

- How would you describe the culture of your practice? Currently? Prior to merger?
- Are the cultures similar/different?
- Tell me about the culture of your acquiring firm? Do you see it as very similar to your company’s or very different?
- Did the culture post-merger change? Daily procedures? How?
- Did the merger cause strategic or other initiatives? How?
- If there were changes, do you believe the changes helped or hinder your practice? Both as a whole with the acquirer and as a practice who has been acquired?
- Are there areas that you see clashes among the organization as the merger/acquisition has been implemented? If so, in which areas/activity do you see these clashes occur?

Questions about the performance of the merger/acquisition (Do not read this part out loud)

- Ultimately how has the merger/acquisition affected your company?
  - effects on the owners
  - the employees
  - the systems
  - financial outcomes
Appendix B

Table 1

<table>
<thead>
<tr>
<th>Participant</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr. A</td>
<td>Southeast</td>
</tr>
<tr>
<td>Dr. B</td>
<td>Northeast</td>
</tr>
<tr>
<td>Dr. C</td>
<td>Southeast</td>
</tr>
<tr>
<td>Dr. D</td>
<td>Northeast</td>
</tr>
<tr>
<td>Dr. E</td>
<td>Southeast</td>
</tr>
<tr>
<td>Dr. F</td>
<td>Northeast</td>
</tr>
</tbody>
</table>

Table 2.1

<table>
<thead>
<tr>
<th>Participant</th>
<th>Increased Costs</th>
<th>Regulations</th>
<th>Additional Support</th>
<th>Acquire Technology</th>
<th>Increase Job Satisfaction</th>
<th>Uncertainty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr. A</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Dr. B</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Dr. C</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Dr. D</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Dr. E</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dr. F</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2.2

<table>
<thead>
<tr>
<th>Participant</th>
<th>Acquire Technology</th>
<th>Acquire Market Access</th>
<th>Establish wider brand presence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dr. A</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Dr. B</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Dr. C</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Dr. D</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Dr. E</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Dr. F</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
References


Unknown: Unknown.


47


Ott, Steven J. "Organizational Culture: Concepts, Definitions, and a Typology." The Organizational Culture Perspective Chapter 3 (1989): 49-80. Print


