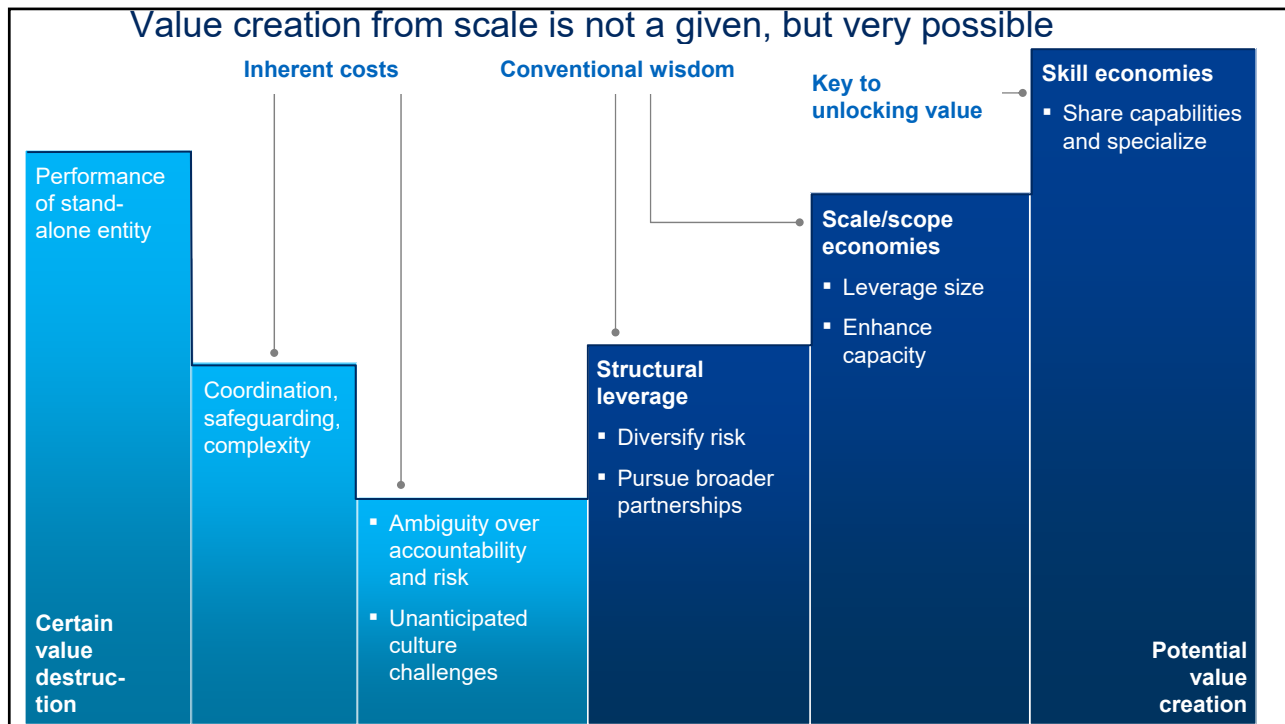McKinsey&Company

Transforming Catholic Health Care Through Strategic Clarity

SAUMYA SUTARIA, M.D.
February 2019

M&A is an increasing trend across the healthcare industry

- Forces driving M&A
  - Transformation of the insurance industry
  - Affordability
  - Regulation

- Provider M&A has a mixed track record
  - Confusing business drivers with mission
  - Inability to capture synergies
  - Pursuing same strategies, at a bigger size

- Role of governance is to navigate these issues

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Value creation from scale is not a given, but very possible

Inherent costs

Conventional wisdom

Key to unlocking value

Skill economies
- Share capabilities and specialize

Performance of stand-alone entity

Coordination, safeguarding, complexity

Scale/scope economies
- Leverage size
- Enhance capacity

Structural leverage
- Diversify risk
- Pursue broader partnerships

- Ambiguity over accountability and risk
- Unanticipated culture challenges

Certain value destruc-tion

Potential value creation

The benefit to the mission with scale can be substantial

- Substantial benefits to expect as a result of an integration
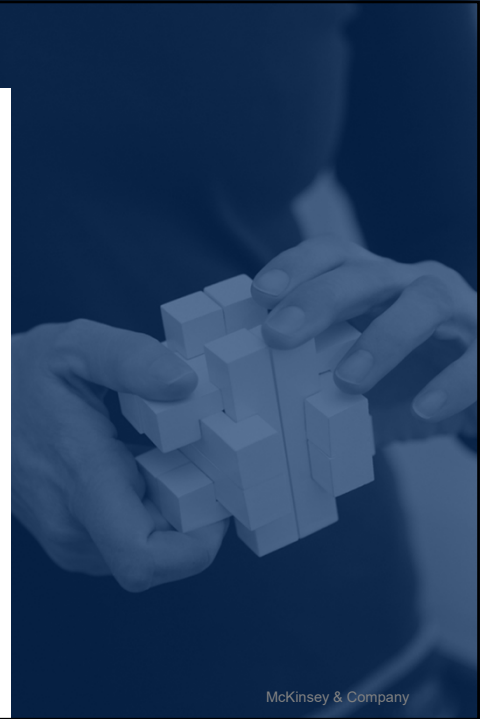
Scale

Skill

Expansion

Talent

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## Inevitable challenges for governance to tackle

- Opportunities are endless, but challenges exist

- Common challenges
  - (A) Getting bigger
  - (B) Getting better
  - (C) Growing leaders

- Role of governance strengthened by challenges
  - — Remember the gift of opportunity
  - — Embrace the challenges
  - — Help address them

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(A) Getting bigger: Why is bigger more complex?

- Complexity between having one child vs. twins or quadruplets

- To combine two orgs, core tenets require consideration:
  - — Strategy
  - — Business model
  - — Operating model
  - — Culture

- Differences in current orgs will make combining difficult:
  - — Functions
  - — Vendors
  - — Structure
  - — Roles
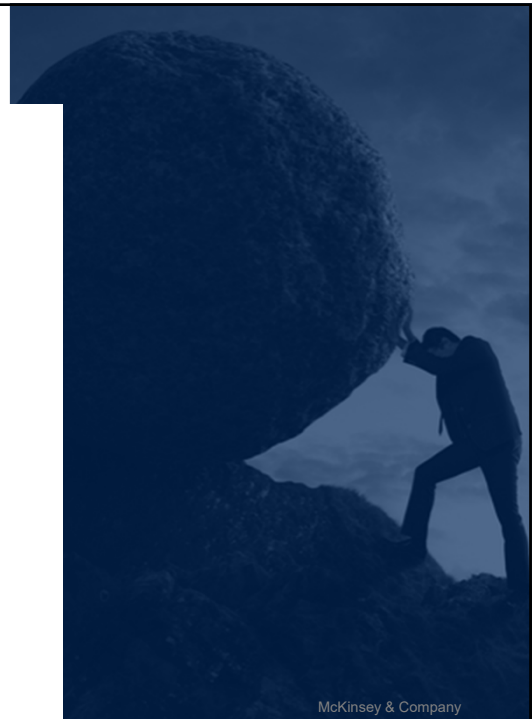
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B **Getting better: Why does getting better require so much energy?**

- Defining strategic focus of mission is essential
  - To better understand immediate priorities
  - To reach more patients
  - To provide better care
- Topics will be less clear and require attention
  - Chosen assets and core capabilities
  - Investment strategy
  - Future business functions
- External environment
  - Less than friendly
  - Rapidly shifting

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C **Growing leaders: Focus more on intrinsics and less on experience**

- Challenges and opportunities will exist regarding leadership and talent development

- Challenges
  - Senior leadership evolution
    - Changing scope
    - Adaptable leadership style
    - Significant pressures

- Opportunities
  - Talent attraction and selection
  - Talent development

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Key Governance authorities required to be effective

- Governance requirements
  - Rigorous structure
  - Clear direction
  - Agile decision-making
- Governance bodies
- **1** Management team
  - Operational decisions and policies
  - Board communication and education
  - Issue escalation
- **2** The Board
  - Vision
  - Strategy and investments
  - Major policies and decisions
  - Performance

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1 The management team: Their role and path to success

Mgmt. team priorities ❯❯ **Approach for mgmt. to be successful**

- **Aspire**

- **Assess**

- **Architect**

- **Act**

- **Advance**

- Make the integration effort meaningful
- Role model desired mindsets and behavior
- Build a strong and committed top team
- Relentlessly pursue impact

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2 The Board: Path to success

To operationalize the Board successfully, need to resolve:

A Composition

B Accountability and requirements

C Innovation

D Authority

E Sub-committees

F Operational management

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2A The Board: Determining it's composition

- Establish trust between Board members
  - Release prior affiliation
  - Mission and culture is inherent

- Focus on capabilities needed in members
  - Healthcare industry
  - Customer and partner
  - Clinical
  - Finance
  - Tenures
  - Scale

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2B The Board: Defining what it's accountable for

- Board expectations
  - Increased time commitment
  - Adjustment of how time is spent
    - Strategy
    - Integration targets
    - Operating results
    - Board committees
    - Issue escalation
    - Capital decisions
  - Emphasized capability building

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2C The Board: Innovating and adapting to the digital age

- Adapting to digital age is key
- To do this:
  - Be thoughtful about the insights and digital skills needed
  - Don't guess
  - Consolidate and continually rationalize technology investments
  - Ensure checks and balances
  - Commit to using digital tools
  - Formalize a Digital Director

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Remember the gifts of opportunity…

- Advance your mission
  - Broaden support to patients
  - Increase reach to the community
  - Reduce number of hospital visits
  - Assist more families
- Create an inspiring organization
  - Develop agile organization
  - Build technological capability
  - Enable employees to have impact

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