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CHCF Issue Brief

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# A Partnership of Equals:
## Early Lessons from Mergers of Similarly Sized and Positioned Health Centers

## Introduction

California's Federally Qualified Health Centers (FQHCs) are responding to several important policy changes and reforms aimed at improving health care for the state's diverse communities. These reforms include expanding Medi-Cal coverage to undocumented Californians, initiating and implementing CalAIM (California Advancing and Innovating Medi-Cal), expanding telehealth options, revising Medi-Cal quality standards, and adopting the FQHC Alternative Payment Methodology (APM), among others. FQHCs are being asked to develop new capabilities and to expand existing ones while continuing to struggle with historical limitations around workforce and organizational infrastructure. Well-executed mergers between healthy and stable FQHC partners may offer a path to achieve the organizational infrastructure, scale, and reach required to meet these demands and provide high-quality, culturally responsive care to all patients.

However, it is often thought that mergers of FQHCs are driven by necessity and power imbalance. A perpetually struggling or financially at-risk health center turns to a larger and more stable FQHC partner for acquisition to ensure continuity of services and stability for staff. While historically this may have been true, California is increasingly seeing examples of similarly sized and positioned health centers exploring mergers. Driven by a desire to gain scale and capability, generational leadership transitions, and other factors, these "mergers of equals" present unique opportunities and challenges for partnering FQHCs. While it remains to be seen the extent to which such mergers can deliver on the above promise, recent efforts illustrate some early lessons for other health centers exploring merger.

This issue brief explores the experiences of and reflections upon two recent mergers of similarly sized FQHCs in California in the last two years. Included are case study discussions of the motivations, agreements, and early experiences of each merger effort. Each presented unique lessons and challenges, and also demonstrated some broader reflections and themes that may be applicable to other FQHCs exploring merger opportunities with similarly sized and positioned partners:

- **Scale to deliver value and impact.** Enhanced financial sustainability matters but may not be the main driving force to explore a "merger of equals." Rather, a key value of a merger may be its ability to elevate the stature and capability of organizations to advocate for and drive delivery system change in their communities, as well as to bolster operational infrastructure that better positions merged entities to pursue their goals of transforming care and delivering value.
- **Leveraging service strengths.** Merger presents an opportunity to leverage the service strengths of each partner across a wider set of sites and geographies. This may include spreading specialized capabilities, such as obstetrics, mental health and substance use care, homeless

services, care across the lifespan (e.g., senior services, pediatrics), or other capabilities.

- **Organizational culture.** Compared to a traditional merger where there is a clearly dominant FQHC partner, the merger of similarly sized and positioned FQHCs presents a more complex challenge in aligning operations and developing a shared organizational culture. Assessment, forethought, and aggressive investment in integrating organizational cultures and operations are of foremost importance and present unique challenges when similarly sized and equipped organizations merge.
- **Shared identity.** Crafting a shared organizational identity that reflects the expectations of both organizations in a merger of equals requires similar thoughtfulness during planning. Preserving identity and history is often particularly important to boards of directors, though expectations can vary widely depending on the board. So, understanding expectations and crafting agreements to meet these expectations is important. Organizational identity can be conveyed through multiple avenues, including corporate name, site naming conventions, external communication strategies, and board member continuity and representation, among others.
- **Executive leadership.** The growing wave of FQHC CEO retirements in the next several years presents a natural inflection point and opportunity for organizations to explore mergers. More broadly, though, tenured CEOs may be increasingly willing to step back, explore modified roles, or do both if such actions enable a merger that strengthens organizational impact and capability.
- **Trust and partnership.** Trust, honesty, and communication, particularly between CEOs, represent the essential ingredients to a successful merger decision and transition. This is true for all mergers, but is particularly important when aligning two similarly sized and positioned organizations.

**CHCF resource: *Mergers and Acquisitions: A Practical Guide for Community Health Centers*** provides detailed guidance to health centers interested in merger on systematically exploring, conducting due diligence on, and advancing an affiliation.

- **Facing hard decisions early.** Surfacing key sticking points early, such as identifying the continuing CEO, organizational name and identity, and surviving corporate identity, may pave the way for a successful merger process.
- **Growing capability, not reducing staff.** Many equate merger with staff downsizing or efficiencies. For the below highlighted mergers, as with many other FQHC examples, merger did not mean staff reductions. Given lean FQHC infrastructure (and persistent staff shortages), merger presents more of an opportunity to bolster staffing depth and departmental strength rather than identify cost efficiencies. Merger may include shifts in leadership roles or organizational charts, but staffing reductions are unlikely.

### Methodology

The information presented in these case studies was informed by interviews with the CEOs that participated in the merger explorations and transitions, and was further supported by follow-up information provided by the CEOs and select senior staff. Case study findings were reviewed and approved by interview participants.

## OLE Health and CommuniCare Health Centers

In August 2022 OLE Health and CommuniCare Health Centers announced a plan to merge organizations in the next year. The proposed merger is scheduled

to move forward in 2023 and brings together two similarly sized and financially strong health center organizations.

## Health Center Profiles

The merger will align organizations with a similar number of patients — OLE Health serves just under 29,000 patients and CommuniCare just over 20,000 patients — and similar payer (both 70%+ Medi-Cal) and patient ethnicity characteristics (both 60%+ Latino/x with additional unique ethnic populations). While both health centers provide comprehensive medical, dental, and integrated behavioral health, CommuniCare is well established as an essential specialty mental health and Drug Medi-Cal provider in its county.

## Coming to the Table

Located in adjacent though non-overlapping geographic areas of Northern California, OLE Health and CommuniCare have a long history of collaboration and connection. Both organizations participate actively in a local clinic consortium, and the CEOs have served as resources and sounding boards for one another during similar tenures as executives. Shared one CEO, "We have been trusted colleagues for a few years now and have often called to commiserate." In reflecting on this process, both reinforced the importance of trust and honesty as the central ingredient to success.

Both CommuniCare and OLE Health have maintained a strong financial position through the COVID-19 pandemic and largely recovered from declines in patient visits in 2020. So what brought them together to explore merger? The CEO partners highlighted three key factors that motivated a serious merger exploration:

- **Executive team turnover.** Both organizations recounted a frustrating cycle of executive senior staff turnover in key positions such as chief financial officer (CFO) or chief operating officer (COO) during the last several years, which disrupted progress and created a familiar process of shedding more ambitious initiatives to maintain basic operations. As one CEO said, "It isn't just economies of scale, it is about economies of talent. . . . Do we have the necessary talent to address the more system-level issues?"
- **Sense of stagnating impact.** Second, both partners described a sense of stagnating or declining ability of their health centers to actualize transformative change in their systems, leverage Medi-Cal reform opportunities, or assert meaningful community leadership and influence at their size and scale. One partner shared how this "highlighted for us the limitations of our systems and the fact that we are all in our little silos working on the same things. . . . How do we leverage talent so we can really up our game?" Notably, both health centers also lack significant opportunities to grow through traditional patient or geographic growth. Coming together represented an opportunity to strengthen financial stability, elevate organizational capabilities, and expand local influence.
- **A leadership transition opportunity.** The issue of who continues as the CEO of a merged health center organization can derail a merger before it starts. Though both tenured CEOs, one is closer to retirement and expressed a willingness right up front to step back in a merged organization. That paved the way to move forward quickly.

## Merger Agreements

Once the two partners broached the subject and moved past the continuing CEO question, the process moved quickly. They began by articulating a few key agreements right at the start, including (1) this is a merger of equals, (2) all employees will be retained through the merger (though roles may change), and (3) the OLE Health CEO will serve as the CEO for the merged organization.

After introducing the possibility to board leadership, staff developed an analysis of how a merger would be better for patients, communities, employees, and the business entity. An exploratory committee with board and executive team members was formed, which reviewed the analysis and recommended to the full board to proceed with the merger.

The merger ultimately included several agreements, including the maintenance of OLE Health as the surviving corporation due to its higher prospective payment system rates, the presence of a well-established foundation, and the continuity of its CEO; development of a new organizational name and brand with nods to the identity and history of both organizations; appointment of the OLE Health CEO as CEO of a merged organization, with the CommuniCare CEO continuing in a strategic advisor role; appointment of the CommuniCare board chair to serve as the merged entity board chair to provide balance and equity to the CEO decision; agreement on a merged board of directors that retains membership from each organization and includes proportional representation from each of the counties to be served by the merged organization; and retention of all employees under a merged and revised organizational chart.

## Early Lessons Learned

Since securing board approval in August 2022, the two organizations have moved quickly to prepare for a mid-2023 merger. The CEO partners highlighted some early reflections and shared some key strategies to successfully move the merger forward.

- **Culture, culture, culture.** Building an aligned organizational culture and connection is a central focus as they move toward merger. The partners have engaged an external coach, hired new staff, and developed a wide range of activities to address cultural integration. Among these activities are monthly full-day team-building sessions and frequent staff communication. As one partner shared, "the culture piece is huge."

**CHCF resource:** ***A Hands-On Guide to Cultural Integration in Community Health Partnerships and Alliances*** provides community health organizations specific tools, exercises, and actionable insights to define, discuss, and navigate culture in a new partnership.

- **Balancing a merged leadership team.** The partners express particular sensitivity to the transitions for a combined leadership team where all staff will continue but roles may change. To build trust and address anxieties, the teams meet together often, CEOs communicate about the merger regularly, and both have prioritized individual communication with team members. This includes building comfort with the continuing CEO and ensuring that both CEOs are reinforcing the same messages.
- **CEO alignment and communication.** The partner CEOs speak frequently and prioritize alignment in their communication to staff. "Everything starts with the two of us. We are the nucleus of this entire thing, and if we are not in complete alignment it can be problematic. . . . We have been very careful in coordinating. I won't reach out to her team without coordinating with her." They have prioritized effective communication and have coordinated closely on what and when to communicate to staff.
- **Operational alignment.** Looking forward, the partners anticipate a two- to three-year process to align operations that broadly spans three phases: integration, standardization, and optimization. Initial alignment is expected to focus on administrative and back-office operations such as payroll, human resources, and IT systems, among others, while a second step will address more complex arenas, such as clinical care approaches. That said, the partners acknowledge that this has been an iterative process that will evolve.

- **Board engagement.** Following merger approval, the joint board exploratory committee has transitioned into a merger steering committee to address transition issues such as new bylaws, merged entity name, and communication and guidance on rollout steps and timing.

# Venice Family Clinic and South Bay Family Health Care

In February 2021, Venice Family Clinic and South Bay Family Health Care announced plans to merge the two health centers under the Venice Family Clinic corporate umbrella to serve close to 40,000 patients across the Westside and South Bay regions of Los Angeles extending from Venice Beach to Torrance. The merger united two financially healthy and moderately sized health center organizations into an aligned organization.

## Health Center Profiles

Before the merger, Venice Family Clinic (VFC) served 27,000 patients across 12 locations, while South Bay Family Health Care (SBFHC) cared for 17,000 patients across five sites. While relatively similar in total patient count, important organizational distinctions existed. Absolute patient count masked some important differences in organizational size and scope.

While both organizations delivered comprehensive primary care services with some level of dental and integrated behavioral health, VFC additionally maintained significant homeless and social service programs resulting in a notably larger organizational budget, staff and infrastructure. In addition, VFC operated a longstanding parallel private foundation that contributed to organizational sustainability. SBFHC, in contrast, operated with a small and efficient administrative structure that included a small executive team and a lean clinical leadership structure.

Importantly, the organizations served adjacent service areas running north-south along western Los Angeles County, with existing and planned VFC sites extending from Venice to Inglewood and the SBFHC service area running north-south from Inglewood to Torrance.

## Coming to the Table

Rooted in a longtime relationship between the two CEOs and a history of collaboration between the organizations, merger discussions were seeded largely because of the planned retirement of the SBFHC CEO. In early 2020 the two organizations formalized their merger exploration by establishing a joint board of directors' exploratory committee that met regularly. Formal exploration continued despite the emergence of the COVID-19 pandemic and was approved by both boards in February 2021. In addition to both organizations maintaining positive financial health and expressing confidence in future financial projections, the partners ultimately pointed to the following reasons as rationale for pursuing a merger:

- **Mission alignment and organizational trust.** Strong executive relationships and a history of formal and informal collaboration between the organizations reinforced both a sense of trust and familiarity, as well as a sense of close alignment in organizational missions, values, and culture within the two organizations.
- **Service area alignment and complimentary service strengths.** Connecting two health centers with adjacent service areas extending from Malibu to Torrance, with overlap in Inglewood and Hawthorne, presented the opportunity to both expand services to new locations and to deepen comprehensive services in existing locations in order to form a contiguous region encompassing 50 zip codes and 660,000 residents with low incomes. This expansion allowed for opportunities to extend VFC homeless and integrated behavioral health services to SBFHC regions and facilities, as well as to extend successful SBFHC services, such as group prenatal services (Centering Pregnancy).

- **Organizational stature, visibility, and capabilities.** While merger would likely bolster operational infrastructure, partners saw even more value in the opportunity to elevate their collective organizational visibility, impact of advocacy on behalf of underserved communities, and fundraising and program capability within a significantly larger geographic area.

## Merger Agreements

Ultimately, the merger structure largely reflected an absorption of SBFHC into the VFC corporate and management structures. VFC remained as the surviving corporation, and the VFC CEO became the CEO of the merged entity as the SBFHC CEO retired. Similarly, the merged organization retained the VFC name and brand for the expanded organization. In terms of governance, VFC made several board seats available for transition by SBFHC board members, who were also offered the opportunity to join the parallel foundation board.

SBFHC site managers and supervisors have largely retained their roles. At the same time, the VFC executive team structure remained the same following the merger, primarily due to the small size of the SBFHC executive team. Interested SBFHC team members continued in leadership roles within VFC.

## Early Lessons Learned

The first year following the merger has presented early success and lessons learned. Those highlighted by continuing leadership are noted below. Embedded in many of these comments is a broader reflection that the merger partners would have benefited from an earlier and deeper assessment of and plan to align operations, structure, facilities, and equipment:

- **Comprehensive service promise.** One goal of the merger was to create health center sites that offer a comprehensive set of services across the geographic service area. The merger has presented some early program and funding opportunities for VFC in historic SBFHC service areas, including new funding from local hospital systems and foundations for homeless health care services, as well as expanded mental health and substance use services at SBFHC sites.
- **Technology integration.** Elevating and aligning technical equipment, systems, and practices, including phone systems, has proved a heavy lift for the newly merged organization. Looking back, leadership recommended that others considering a merger would benefit from assessing organizational systems, practices, and transition plans much earlier.
- **Clinic operations and culture integration.** As a small and lean organization, SBFHC developed efficient but decentralized clinic operations that often varied by clinic and were uniquely suited to individual providers. The more standardized approach to operations under VFC can provide more infrastructure but also a sense of lost autonomy among providers and site leaders. As the organization moves forward, attention is being paid to both operational alignment and cultural integration of SBFHC staff and leaders into VFC.
- **Clinical and site leadership structure.** While the organizations maintained fairly similar clinic site administrative and operational leadership structures, they relied on vastly different site clinical leadership approaches. Now the organization is adapting the clinical leadership structure to reflect a systemwide approach.
- **Physical site parity.** Last, the organization has recognized some significant differences in the age and appearance of VFC and SBFHC clinic sites. Related both to its commitment to providing a positive service experience and sensitivity to the perception of a two-tiered system, the organization is systematically assessing and upgrading facilities.

## Conclusion

California's Medi-Cal program and related expectations for the safety-net health care delivery system are undergoing significant transformation. As a result, so too are demands on the Federally Qualified Health Centers (FQHCs) that provide much of the needed care in California's diverse communities. Medi-Cal reforms ranging from CalAIM to enhanced quality standards to new opportunities to utilize telehealth to the FQHC Alternative Payment Methodology ultimately seek to increase the capacity of Medi-Cal and its providers to deliver high-quality, culturally responsive care to those who need it.

In the face of reform opportunities and increased expectations, some health centers are exploring merger as a vehicle to meet these demands and to transform organizational capability, influence, and impact. A merger of equals may pose distinctive considerations related to organizational culture, identity, or executive leadership continuity, but may also present unique promise to elevate the future impact and influence of FQHCs.

## About the Author

This issue brief was prepared by Rafael A. Gomez, MPP, founder and owner of El Cambio Consulting. Over the last 10 years, Rafael has provided strategic guidance, analysis, and management consulting to a wide range of safety-net health care organizations in California, including community health centers, regional and statewide consortia, Medi-Cal managed care plans, county public health and delivery systems, social service providers, and health-related foundations. This includes strategic planning, market analysis and growth planning, service and program development, community planning processes, merger exploration, and other strategic guidance. Before consulting, he served as an FQHC executive director, health plan administrator, and foundation program officer, among other roles.

## About the Foundation

The California Health Care Foundation (CHCF) is an independent, nonprofit philanthropy that works to improve the health care system so that all Californians have the care they need. We focus especially on making sure the system works for Californians with low incomes and for communities who have traditionally faced the greatest barriers to care. We partner with leaders across the health care safety net to ensure they have the data and resources to make care more just and to drive improvement in a complex system.

CHCF informs policymakers and industry leaders, invests in ideas and innovations, and connects with changemakers to create a more responsive, patient-centered health care system.