Health Care Reform Through an M&A Lens

Here's a completely different perspective on the pending passage of a health care reform bill: If the U.S. government were a corporation, the new healthcare "division" would represent a major acquisition. This division would have an operating budget of approximately $100 billion per year and could have as many as six million "customers" to whom it would provide health insurance.

The new healthcare division of course would not be U.S. Inc's first foray into the health or insurance business. It would join the long-established Medicare and Medicaid divisions, the government employees' health plan, the Veteran's Administration hospital system, and other health-related social welfare programs that are funded and administered by U.S. Inc. Together, these health-related businesses already employ tens of thousands of workers spread across the country.

For U.S. Inc., the addition of a new healthcare insurance division follows on the heels of other major acquisitions. For example, U.S. Inc's financial division (a.k.a. The Treasury) entered into a number of joint ventures in the past eighteen months, acquiring controlling interest in mortgage finance companies Fannie Mae and Freddie Mac; and taking major stakes in financial institutions such as Citibank and Bank of America. During this period, U.S. Inc.'s industrial division also made investments in the automobile industry.

When looked at from this perspective, it appears that U.S. Inc. has been on a major acquisition binge which is, of course, a legitimate and common business strategy. What usually follows acquisitions, however, is an integration process — a systematic consolidation of new and existing structures and units. This often leads to significant cost reductions, streamlining of processes, simplification of governance, and a reconfigured business that has more value than just the sum of its parts.

In other words, companies don't just add units without also combining, consolidating, streamlining, and reducing. It's a natural and dynamic process — growing and pruning — and without it, companies would become bloated, complex, ungovernable and costly.
For example in the past week, Johnson & Johnson, a company that has grown through many acquisitions, announced that it was streamlining its structure, reducing layers, and eliminating 12,000 jobs. Merck also completed its acquisition of Schering Plough, which also will lead to the loss of thousands of jobs, as will Pfizer’s acquisition of Wyeth. While nobody is happy with all of these job losses, especially as unemployment climbs above 10%, the pruning that comes with effective integration of companies is ultimately a healthy process. Companies like J&J, Merck, and Pfizer need to shed jobs in order to be not only cost competitive, but also nimble and manageable — and positioned for further growth.

While Congress debates the ultimate shape of health care reform, it might be worthwhile for the Obama administration to begin doing some integration planning. How will the new “healthcare insurance division” be integrated into all of the other existing structures, agencies, programs and offices that already exist? Where are the cost synergies, process efficiencies, and streamlined governance mechanisms? As new programs are added to government, what will be subtracted?

Without this kind of thinking, health care reform in the long term might become a prescription that can’t be fulfilled.

What are your ideas?

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Ron Ashkenas' blog post on Harvard Business Review