

Technology and know-how in M&A targets

If you are in the hospital business, you might want to seriously consider buying another hospital, according to a study by Núria Mas and Giovanni Valentini.

September 15, 2014

Competition for patients and insurers can be fierce among U.S. hospitals, which strive to provide a wide range of medical offerings. But how can hospitals best acquire complex new technologies and the specialized knowledge to use them?

Instead of purchasing new technology, strategic M&A seems to be the answer. In their [article](#) for the journal *Industrial and Corporate Change*, IESE's [Núria Mas](#) and co-author Giovanni Valentini suggest that technology is a key factor in choosing a merger target.

In a study of 222 merger and acquisition (M&A) events in the United States' health care industry from 1985 to 2000, the authors found that buyer hospitals frequently chose to acquire partners with different technological offerings. This was especially pronounced when the new technology was considered especially complex, as the purchasing hospital stood to gain not only technology but also the knowledge behind it.

When choosing a potential target, hospitals also look to their targets' current knowledge assets, including their patents and proprietary technologies. What's more, acquiring hospitals also stand to gain access to tacit knowledge that is key for absorbing and using the technologies that the target brings to the merger.

The appeal of low overlap

One hospital might have the latest technology for radiography services. Another might offer open-heart surgery, possessing not only the technology for the procedure but also the expertise in the form of human capital. The result of their merger could offer both.

Benefits to the merged hospitals may include increased market appeal, lower R&D costs and increased bargaining power with insurers. The authors are quick to point out that further research is needed to assess the welfare effects of concentrating multiple technologies in a single hospital chain.

M&A, technology and know-how

When considering technology to select a target hospital to buy, some points stood out:

- Hospital technology is wide-ranging. It includes equipment (such as CT scanners and magnetic resonance imaging), procedures (such as angioplasty and open-heart surgery) as well as a very important know-how component.
- The results of this study confirm that technology is a fundamental driver of the U.S. hospital consolidation process.
- For hospitals, mergers could be seen as diversifying their range of offerings to patients and insurers.
- Hospitals prefer targets that hold a different set of technologies from their own, especially when those technologies are complex and involve some know-how that is difficult to replicate.
- Hospitals pursue acquisitions to obtain not only new technologies but also complementary knowledge. Specialized knowledge and organizational routines were equally or more valued than new technology in M&A deals. Specialized knowledge was easier to acquire via merger than it was via purchase. That said, not all types of knowledge were transferrable between hospitals.
- Complexity matters. Possessing a more complex technology appeared to make a hospital more desirable as an acquisition target. This knowledge spans multiple specialists and practitioners, and it might be difficult to replicate, especially if the technologies are complex.

One-stop shopping

In the United States, hospitals have sought to offer a wide array of services to attract patients and insurers. One reason is that search costs may be reduced for both patients and insurers with a one-stop shop concept. Furthermore, U.S. insurers are increasingly interested in offering "managed care" and limiting consumers' choices to hospitals within a certain network.

As more hospitals aimed to become one-stop shops, M&A activity picked up in the U.S. health care field. Throughout the 1980s and 1990s, the question in the industry changed from "Shall we merge?" to "Whom shall we merge with?"

At the same time, technology used in hospitals was becoming increasingly complex and highly demanding, challenging health care executives to keep up. "Technology is a neglected, yet fundamental, driver of effective health care industry consolidation," Mas and Valentini assert.

The findings "could generalize to similar industries in which complex technologies have crucial impacts on competition," the authors also state.

www.iese.edu/insight