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## ANALYSING THE MERGER OF MERCY WEST & SEATTLE GRACE HOSPITAL IN THE SHOW: GREY'S ANATOMY

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### ABSTRACT

The structure followed by 'Seattle Grace' and 'Mercy West' hospitals is a typical  $A+B=C$  i.e., a merger, to create the 'Seattle Grace Mercy West Hospital'. The Seattle Grace Mercy West transaction falls within the ambit of inorganic growth. Rather than attempting to resolve its financial and operational difficulties exclusively through internal measures, Seattle Grace combined with another established hospital like Mercy West. This allows both of the hospitals to obtain resources and capabilities with synergy, rather than developing them independently. The decision arose when Chief Webber (Chief of Surgery at Seattle Grace Hospital) was admitted to Mercy West Hospital. He saw Mercy West run amok, with a severe lack of funds. Knowing the reality of Seattle Grace as well, he decided to take the leap and jump into a merger to save both hospitals from their downfall. Chief Webber only proposed the consolidation after observing the operational and financial turmoil at Mercy West firsthand. His objective was likely to introduce a fresh influx of medical talent, which was a strategic final attempt to revitalize the institution and secure his leadership, yet the initiative ultimately necessitated significant personnel reductions across both entities to mitigate the burden of redundant expenditures and salaries.

**Keywords:** Merger, Hospital, Grey's Anatomy, Leadership, Revenue Growth.

**Negotiation of the Merger:**

Throughout the merger, Seattle Grace had the upper hand. This can be evidenced from the fact that the final merger went through in the four walls of Seattle Grace, and the Mercy West residents had to shift to the Seattle building. Chief Webber continued to maintain his position, thereby cementing the fact that Seattle Grace did have the upper hand in negotiations.

**The underlying reasons for the merger included:**

1. Seattle Grace and Mercy West hospitals were in a deep-rooted financial struggle. The best way to address the difficulties was to combine with another hospital to strengthen its financial pool. This could also be due to the 2008-2009 financial crisis that shook the USA to the core, having repercussions all throughout the world. (Again, this can be evidenced from the fact that the merger was announced in 2009.)
2. Instead of having a single infrastructure, the merger could combine infrastructure, medical departments, doctors, and admin teams, thereby increasing its patient pool.
3. By combining two hospitals, costs would be substantially lower. Using economies of scale, the larger Seattle Grace Mercy West can distribute its fixed costs over a longer period of time, thereby consolidating its administrative functions, infrastructure, and operations<sup>1</sup>.
4. The combined hospital could have major scaling and capacity. Moreover, the risk sharing-opportunity after a merger is tremendous. The financial risk created by Seattle Grace may be more manageable within a larger combined organisation. By pooling resources, the merged hospital may have greater capacity to absorb financial and operational pressures.
5. The combined merger would reduce competition in a stiff environment. Chief Webber had concerns in Season 5 where Seattle Grace ranked 8 out of all hospitals in the US. Mercy West was ranked higher. However, due to circumstances to the derogation of each hospital, by merging, would add capabilities and positives to re-inforce their

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<sup>1</sup> Adam Hayes, *Why Do Companies Merge or Acquire Other Companies?*, Investopedia, <https://www.investopedia.com/ask/answers/why-do-companies-merge-or-acquire-other-companies/>.

number as a top ranking hospital in the US.

### **Post Merger Outcome:**

1. The merger produced a complete organisational change, where the new refocusing aligned with a broader understanding of structure, processes, and leadership objectives<sup>2</sup>.
2. The merger increased the pool of doctors, surgeons, and administrative staff. It brought together new residents like Avery, April Kepner, Reed, to name a few of the notably talked-about doctors in the series.
3. The merger was able to attract a higher number of patients, thereby increasing its medical reach, and earning in profits. This in turn, killed the competition of rival hospitals, ensuring that Seattle Grace Mercy West would retain the number 1 status (an upgrade from the ranking of 12 allotted to it in Season 5, where it lost its elite status as number 2). Here, Seattle also acquired the 'Level 1 Trauma Centre Status' from Mercy West, allowing a new influx of patients with deep traumas to seek treatment. Mercy West gained brand recognition via Seattle Grace's elite Residents such as Derek Shepherd (Neuro Surgeon) and Mark Sloan (Plastic Surgeon).
4. An added benefit of a merger between two companies (in this case hospitals), would be tax deduction, which is an implicit benefit rather than an explicit one.

### **Post-Merger Complexities:**

The series also goes on to show the complexities that occur after a merger takes place. Due to a high volume of employees, most of the staff fear for their jobs, overworking and over-exhausting themselves. Moreover, even the employees of the previous two entities are wary of each other. It becomes increasingly difficult for them to trust each other, owing to the looming threat of them losing their jobs. There is a huge cultural and operational gap between how the hospitals operate. An illustration of the same is that: In Seattle Grace, any resident can look into any patient entering the Emergency Room (hereinafter referred to as the **E.R**). Whereas, in Mercy West, each resident is allotted a specific zone in the E.R., and works on cases coming

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<sup>2</sup> *Mergers and Acquisitions*, LexisNexis, <https://www.lexisnexis.com/en-gb/glossary/mergers-acquisitions>.

only within that zone, to avoid conflicts.

This goes to show how complex a merger actually is post the paper-work is satisfied. It brings together two groups of professionals with their own working relationships, organisational cultures, hierarchies and expectations. Without proper briefings and team building, it all falls flat and creates tension, which defeats the entire purpose of merging to create efficiency and synergy.

### **Post Merger Control**

The Post Merger control vested primarily with Seattle Grace. Since Chief Webber orchestrated the merger and gave it effect, he continued to be the Chief for the merged entity as well. The Board of Directors was also re-organized to include members from both sides.

Moreover, the Unified management remained the same, where Seattle Grace Mercy West Hospital, operated under a common management structure (mainly Seattle Grace centric) rather than two independent hospital administrations.

The merged entity further operated under a common management structure rather than two independent hospital administrations. This can be evidenced from the fact that the departments were integrated such as: Medical departments, resources and personnel from both hospitals came under the control of the merged organisation. New residents, attendants, and nurses came into the picture, to work alongside their Seattle Grace peers. This demonstrates how the focus moved from Seattle Grace and Mercy West separately towards the interests of the merged hospital.

The governance and control question is particularly significant, because the merger affects more than the financial interests of the organisation. In a hospital, decisions are taken daily for the welfare of the patients. It is a matter of life and death. Therefore, effective leadership must balance financial objectives with operational and professional considerations.

The conflicts that followed the merger demonstrate the consequences of inadequate integration. Where employees are uncertain about their future roles or perceive competition between the two previously independent organisations, resistance and reduced morale may result. For instance, a patient was killed after no surgeon in the hospital took accountability, constantly tossing her charts from one resident to another, in an attempt to snag better cases.

This case brought forward the negative ramifications<sup>3</sup> that occur when a merger occurs, *inter alia.*,

1. The merger created duplication of roles, which in turn, resulted in layoffs and intense competition among doctors and staff for limited positions.
2. Seattle Grace and Mercy West had polar opposite organisational cultures, leading to rivalry, hatred and difficulty in integrating employees.
3. Uncertainty regarding employment and departmental positions created anxiety and negatively affected workplace morale.
4. The integration of two hospitals initially created confusion. This was with regard to leadership, reporting structures, and responsibilities.
5. The merger affected not only employees and management but also patients, who could potentially experience disruption in the delivery of healthcare services. This, in turn, could turn fatal.
6. The merger was slow and ill planned to the extent that, because the blue scrubs of Seattle Grace were on back order, the Mercy West residents continued to wear their orange scrubs, which further bridged their divide and hatred for each other.

#### **The mechanisms for financing the merger:**

1. Debt financing: Seattle Grace Hospital, being the financially stronger party, could potentially raise loans or debt facilities from one or more banks to finance the transaction. However, this solution might not be feasible given Seattle Grace's distress, which can be evidenced by the cuts made throughout the seasons. Hence, there could be a chance that the excessive debt would increase the financial burden of the merged entity.
2. Equity financing: The newly merged hospital could issue a fresh batch of shares to the board or shareholders of the existing hospitals in exchange for their interests. This

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<sup>3</sup> *Mergers and Acquisitions*, LexisNexis, <https://www.lexisnexis.com/en-gb/glossary/mergers-acquisitions>.

would reduce the need to gain immediate cash financing consideration, but would also dilute the ownership pool of the newly merged hospital significantly.

3. Cash consideration: Another way to finance the merger could be by utilising the existing cash reserves of the hospitals jointly. However, this might not be feasible because of the nature of operations and the need to have some amount of cash handy for exigencies. The positive of this mechanism is that it would provide a straightforward exit for the shareholders of the target entity without diluting its equity.
4. Combination of debt and equity: A better way to diversify risk would be to combine cash, debt, and equity. This would distribute the financial risk rather than only relying on one source of funding in case of any exigency. The best way would be to allocate % to each type of funding basis the risk allocation and balance sheet analysis of the merged entity.
5. Asset backed financing involving the sale of certain assets: Given the hospital's financial difficulties, non core assets (like obsolete machines, to name a few) could potentially be sold or used to raise funds, with the proceeds contributing towards the restructuring and merger costs.

In hindsight, the most realistic analysis would be a combination of debt financing and equity or capital contribution. Since Seattle Grace was financially distressed, it is unlikely to be able to fund a major transaction entirely from internal cash. Owing to the brand value of Seattle Grace, it is highly likely to secure a debt structure from a major bank like JP Morgan, Citibank, or even Bank of America.

#### **Analysis of the stakeholder v. shareholder impact of the merger:**

Throughout the merger between the hospitals, the issue of tension between commercial objectives and stakeholder welfare looms the entire time. This stems from the fact that the transaction involves hospitals that work in healthcare rather than an ordinary business merging solely to increase profits. A tussle may arise when the underlying reason of the merger of improving financial performance, does not align with the interests of stakeholders whose interests do not align with profit maximization.

The Board of both hospitals will prioritize financial survival through cost cutting and resource

consolidation. However, the biggest stakeholders being affected throughout the merger would be the doctors and their patients. Doctors may value professional autonomy, continuity of medical practice and preservation of departmental authority. Patients, however, represent a unique stakeholder group because they depend upon the hospital for essential healthcare services and expect continuity, accessibility and quality of treatment. The transition of medical facilities from one place to another would inevitably affect the patients of each of the hospitals as well.

Therefore, an important question is raised: *‘Can a hospital merger be justified solely on commercial grounds when patient welfare and public health are also affected?’* Unlike ordinary corporate mergers, healthcare transactions require a balance between financial efficiency and imperative social responsibility. Moreover, the success of a hospital merger can never be ethically evaluated solely on profits, but on its impact on employees, medical professionals and, most importantly, patients. This stems from the Hippocratic Oath, which is the cornerstone of medicine. One must always strive to better the healthcare of the world at large. Therefore, this demonstrates the relevance of the stakeholder approach to mergers, where the decision making must account for the interests of all parties affected by the transaction rather than focusing exclusively on shareholders or the board of directors running the hospitals.

### **Due diligence:**

Before merging, the hospitals would have had to assess not only their financial position but also their existing liabilities, employment arrangements, regulatory compliance, licences, and pending litigation. Since hospitals deal directly with patients, the potential liabilities attached to patient care and medical negligence would also be particularly important.

Further, the merger involved a significant amount of human capital, making employment contracts, existing staff obligations and organisational structure important areas of due diligence. The parties would also need to examine their physical assets, equipment, real estate, insurance arrangements and other operational resources to determine how these could be consolidated after the merger.

Most importantly, the merger shows that due diligence cannot be limited to financial and legal risks. The cultural differences between Seattle Grace and Mercy West and the resulting conflict between doctors and staff, demonstrate the importance of assessing organisational culture and

human capital. Therefore, the problems following the merger highlight how overlooking non financial risks during due diligence can make the post merger integration significantly much more difficult.

### **The Law it would have applied in India would be:**

If the Seattle Grace Mercy West merger were to be undertaken in India, it would primarily be governed by the Companies Act, 2013, i.e., sections 230 to 232<sup>4</sup>, which deal with schemes of compromise, arrangement, merger and amalgamation.

After the approval of the merger by the Board of Directors, it would then have to follow the prescribed procedure and obtain necessary approvals, including the sanction by the National Company Law Tribunal (hereinafter referred to as 'NCLT'). Therefore, a formal restructuring process would occur between the two hospitals.

Moreover, The Competition Act, 2002<sup>5</sup>, would also be relevant since the merger involves two hospitals operating in the same sector of healthcare. If the prescribed thresholds were met, the transaction could constitute a combination under Section 5. After which, Section 6 would become relevant in assessing whether the merger is likely to cause an appreciable adverse effect on competition. The Competition Commission of India (hereinafter referred to as 'CCI') could therefore examine whether the merger substantially reduces competition, increases market power or adversely affects patient choice. This is particularly relevant to the Seattle Grace Mercy West transaction because the financial benefits of combining the hospitals would have to be balanced against the possibility of reduced competition in the healthcare market, which is a difficult sector in itself due to its inherent nature of operations.

If the hospitals were to be listed companies (much like Apollo Hospital in India), the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011<sup>6</sup> (also known as 'SA/ST Regulations') could also become relevant where the merger in picture involved an acquisition of voting rights or a change in control of the management. The focus would therefore not only be on ownership but also on who ultimately exercises control over the merged entity.

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<sup>4</sup> Companies Act, 2013, §§ 230–232 (India).

<sup>5</sup> Competition Act, 2002, §§ 5–6 (India).

<sup>6</sup> Securities & Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011, Gazette of India, §§ 3–4.

Moreover, the merger would have implications under employment laws (Code on Wages<sup>7</sup>, Social Security<sup>8</sup>, to name a few), particularly where the integration results in changes in employment conditions or lay-offs. Since the entities are hospitals, applicable healthcare regulations would also have to be complied with. Therefore, from an Indian perspective, a holistic analysis of all laws will be looked into by firms consulting each hospital before the merger by analysing every piece of law applicable.

### **Was the merger actually a merger of equals?**

One interesting way to analyse the transaction is to question whether it was truly a merger between two equal entities, or whether it was effectively a financially distressed organisation being absorbed into a stronger structure. Seattle Grace was facing serious financial difficulties, which weakened its bargaining position, however due to other factors such as brand value, and larger operational space, it emerged at the top. Therefore, although the transaction is described as a merger, the underlying commercial dynamics were not necessarily those of two equally positioned entities. This raises an important issue of bargaining power in mergers. A financially disadvantageous entity may agree to terms that it would not have accepted in ordinary circumstances because its alternative may be financially unsustainable.

A merger is normally justified on the basis that the combined entity will be worth more than the two entities operating separately. However, in the Seattle Grace Mercy West case, the merger can be viewed not merely as a growth transaction but as a value preservation and corporate restructuring mechanism. This distinction is important because the success of the merger should not be measured only by whether it created additional value, but also by whether it prevented the loss of existing value.

Moreover, on paper, combining two hospitals appears efficient as: infrastructure can be shared, duplicated functions can be eliminated and resources can be pooled. However, the merger also created significant integration costs, particularly through employee resistance, cultural conflict and competition between doctors. Therefore, the expected synergy is not automatically equal to the actual benefit of the merger, which can only really be measured at a much later stage. The transaction demonstrates that synergies exist only if the organisation can successfully

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<sup>7</sup> Code on Wages, 2019 (India).

<sup>8</sup> Code on Social Security, 2020 (India).

integrate the two businesses<sup>9</sup>.

Further, the healthcare context makes the transaction particularly interesting. In an ordinary M&A transaction, reducing duplication and cutting costs would generally be viewed as positive indicators of efficiency. In a hospital, however, the same mechanisms can have consequences for patient care which may decline. Eliminating departments or reducing staff may improve financial efficiency but could simultaneously reduce patient choice and accessibility of healthcare. The merger therefore creates a tension between economic efficiency and social value, making healthcare M&A fundamentally different from a conventional corporate merger. Hence, layoffs and letting go of infrastructure works in a negative way, thereby negating the genesis of the merger.

### **Conclusion:**

The Seattle Grace Mercy West merger demonstrates that a merger cannot simply be analysed merely as a way to expand operations. Although the merger created a larger organisation and provided an opportunity to reduce Seattle Grace's financial difficulties, it also resulted in significant challenges relating to employee integration, organisational culture, governance and stakeholder interests. Moreover, the transaction raises the ever imposing question of whether the merger was genuinely a growth strategy or a mechanism for preserving a financially distressed organisation from becoming obsolete.

The merger also illustrates that the success of an M&A transaction depends on whether the expected synergies can actually be realised after the transaction. The combination of two organisations may create economies of scale and include a wide array of benefits on paper, but employee differences, cultural differences and merging costs can negate those benefits.

In the case of a hospital, the analysis becomes even more complex because financial stability must be balanced against patient welfare. Thus, the Seattle Grace Mercy West merger demonstrates that a successful M&A transaction is not simply about combining two entities, but it is about creating a unified organisation while balancing financial objectives, corporate control, employees and wider stakeholder interests.

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<sup>9</sup> *Significance of Mergers and Acquisitions*, in *Evaluating Companies for Mergers and Acquisitions* 2014, <https://doi.org/10.1108/S1876-066X20140000030000>.

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