The health system M&A playbook

How leaders are leveraging strategic transactions and partnerships for operating model success

Introduction

Health system executives are under mounting pressure to evolve not just the size and structure of their enterprises, but the very way care is delivered, financed, and managed. Diminishing margins, workforce instability, care decentralization, evolving regulatory conditions, and payer-provider convergence are reshaping how leaders think about M&A, demanding a reimagination of the traditional operating model.

Rather than viewing operating model transformation as a distinct endeavor, health systems must consider acquisitions, divestitures, and partnerships as deliberate moves to pivot toward new models of operation. Stressed assets in healthcare should not be seen merely as liabilities; instead, they can become proving grounds for innovation, operating discipline, and community reengagement. Turnaround strategies should complement and often precede other structural changes such as partnerships or divestitures, reinforcing their relevance within the broader strategic toolkit.

In this context, strategic moves are about more than the fundamentals. Rather, they're an important lever leaders can use to advance their operating model, whether that be through capability enablement, cost structure redesign, service reconfiguration, and increased agility. Whether a system is acquiring assets to scale its clinical enterprise, divesting to shed complexity, partnering to innovate, or repositioning a stressed asset, each decision must be assessed for how it contributes to a more integrated, performance-oriented operating model.

Drawing on insights from recent hospital merger and acquisition (M&A) activity and the Guidehouse/American Hospital Association report, "**Thriving in the New Healthcare Economy: How Hospitals and Health Systems Can Pivot Their Operating Models for Sustainability**," this playbook provides a perspective on how and when health systems should acquire, divest, or partner in ways that shift toward more modern, adaptive operating models. It also outlines specific conditions that indicate when each approach is strategically sound and provides actionable steps for C-suite leaders.

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The current state: M&A off to a cautious start, partnerships on the rise

As of early 2025, hospital M&A activity has hit its lowest level in over a decade. Most deals involve financially stressed assets, with several large national health systems reducing their acute care footprints. The average size of selling organizations has sharply declined as many health systems have turned to strategic partnerships to advance their organizations and manage costs. Despite improving margins, hesitation in M&A transactions persists due to market volatility and economic, political, and regulatory uncertainty. However, market analysts still predict a rebound in health system M&A activity in 2025, aligning with initial forecasts. Seventy-five percent of finance executives expect to create scale through M&A or according to a Guidehouse analysis of a Healthcare Financial Management Association (HFMA) survey.

Health systems are exercising greater caution and strategic selectivity, prioritizing operational realignment, partnership-driven innovation, and internal transformation over traditional consolidation. This shift indicates a move from growth by expansion to growth by redefinition.

As such, leaders are seeking out transactional partners that can help them achieve their operating model goals, including streamlining services, enhancing cross-continuum integration, embedding data and technology within operations, and realigning incentives for a value-based future.

So, what does this mean for the health system C-suite? We break it down for leaders who are looking to **acquire**, **divest**, or **partner** to grow.

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Acquire

When strategic value outweighs risk

Acquisitions are no longer about size for its own sake. They now serve as a mechanism for accelerating operating model shifts, whether by scaling integrated delivery, acquiring new capabilities, or consolidating duplicative infrastructure. Successful acquirers view acquisitions through a disciplined, value-focused lens and align transaction strategy with operating model goals such as care standardization, digital enablement, and cost-to-serve optimization.

Conditions that make acquisitions attractive:

- **Stressed assets in strategic markets where operational alignment is possible:** These assets offer a pathway to expand access while embedding system-wide practices in governance, clinical workflows, and supply chain efficiency.
- **Acquisition of assets that bring differentiated service lines or capabilities:** These can be integrated to bolster a system's care model, such as expanding behavioral health, home-based care, or complex specialty services that support population health.
- **Market consolidation to support scale-driven transformation:** Gaining leverage in value-based payment models and shared service infrastructures can reduce variability and accelerate a unified operating approach.

C-suite actions:

- **Consider how an acquisition will influence your operating model:** Go beyond financial and market metrics. Leaders must reorient evaluations around integration capacity, value realization timelines, and operational efficiencies to assess how new assets will align with digital infrastructure, talent models, and clinical operating standards.
- **Use acquisitions to scale proven models:** When an existing operating model, such as a centralized ambulatory platform or hospital-at-home offering, has shown success, acquisitions can be the mechanism to deploy it more broadly.
- **Accelerate post-merger integration to realize operating efficiencies and value creation:** Treat the integration and transformation phases as a deliberate operating model redesign process, not just administrative consolidation.

KEY TAKEAWAY
Acquisitions are not just about expanding size but about enhancing strategic value and advancing your operating model goals.

Divest

When footprint dilution hampers focus

Divestitures are increasingly being used to streamline the operating model, eliminate low-value complexity, and reallocate resources toward more strategic, performance-oriented functions. Rather than being reactive or solely financially motivated, divesting assets can be a proactive step in evolving how a health system functions, competes, and delivers value. Shedding non-core or underperforming assets can enhance focus, unlock capital, and enable more purposeful investment elsewhere.

Conditions that make divestitures attractive:

- **Misaligned or underperforming assets that complicate standardization:** When outlier facilities operate under different systems or processes, they become obstacles to unified performance management, operational cohesion, and brand identity.
- **Markets or services that dilute enterprise focus:** Divestiture can support tighter alignment of the operating model around high-value regions, service lines, or population segments.
- **Assets that cannot be transformed without disproportionate investment:** In some cases, transformation is not economically feasible—divesting allows the system to focus its innovation capital elsewhere.
- **Dilutive impact on operational or brand performance:** Facilities that consistently underperform or misalign with the system's strategic identity may erode broader system credibility and efficiency.

C-suite actions:

- **Conduct operating model stress tests on your asset portfolios:** Identify which assets are barriers to operating consistency or technology integration and use that to inform divestiture decisions.
- **Design divestitures with operational transition in mind:** Create a handoff plan that maintains care continuity and reflects the system's values, especially when divesting safety-net facilities.
- **Reinvest divestiture proceeds into operating model enablers:** Use freed-up capital to build scalable digital platforms, talent development infrastructure, or modern care models like virtual or hybrid delivery.
- **Develop exit plans that preserve community health infrastructure:** Strategic divestiture does not mean abandonment. Coordination with mission-aligned acquirers or local partners can preserve public trust.

KEY TAKEAWAY

Divestitures are not just about reducing size but about enhancing strategic focus and operational effectiveness.

Partner

When mutual advantage outweighs ownership

Partnerships are increasingly central to health system strategy—not simply to share resources, but to accelerate the pivot to new operating models in a capital-constrained, talent-challenged, and digitally evolving landscape. Unlike traditional M&A, partnerships enable flexibility, modularity, and speed.

These relationships now take many forms—from co-developing clinical facilities and service lines as a joint venture or "NewCo," to managing a partner hospital's operations, to integrating and extending proprietary technologies with community or regional providers. Each of these models serves as a tool to redesign how health systems organize care delivery, deploy talent, manage costs, and engage patients.

Conditions that make partnerships attractive:

- **Market or regulatory barriers to acquisition:** Heightened scrutiny and complex approval processes have made full M&A transactions more burdensome than ever.
- **Operational management arrangements with external hospitals or systems:** Managing a partner's hospital, function, or service line can enable shared efficiencies and operating model alignment without asset transfer.
- **Technology extensions to affiliate or independent providers:** Offering EHR and population health platforms, telehealth tools, or revenue cycle capabilities to smaller providers can create network-wide standardization and scale.
- **Co-development of new care models with industry or vendor partners:** Collaborating with technology firms, digital health startups, or device companies can fast-track adoption of AI, automation, remote monitoring, or precision care infrastructure.
- **Capacity-sharing arrangements across clinical services:** In regions with constrained specialty access or rising demand, partnerships can allow shared workforce models, virtual subspecialty services, or centralized command centers.
- **Shared goals in high-capital endeavors:** Pediatric, behavioral health, or rural health investments are ideal for joint ventures, as they balance capital risk and mission alignment.

C-suite actions:

- **Map partnership types to specific operating model gaps:** Determine whether you need clinical capacity, digital infrastructure, workflow redesign, or patient engagement tools—and then identify partners with proven strengths in those areas.
- **Define partnership archetypes and governance models:** Not all partnerships are created equal. Leaders must clarify whether the model is contractual (e.g., service line collaboration), structural (e.g., co-owned entity), or aspirational (e.g., innovation alliance).
- **Establish joint KPIs and outcome metrics:** Success in partnerships hinges on aligned goals and shared accountability. Governance should track metrics across both organizations.
- **Facilitate interoperability and governance alignment:** When extending technology or operations to partners, health systems must develop clear data-sharing protocols, performance metrics, and escalation mechanisms to maintain consistency and quality.
- **Build commercial and ecosystem fluency:** Partnering effectively with technology vendors or managing third-party facilities requires business development, vendor management, and operating acumen not traditionally found in many health systems—invest in this capability.

KEY TAKEAWAY

Partnerships are not just about sharing resources but about driving innovation and operational excellence.

Strategy in service of a new operating model

In the emerging healthcare economy, the true north is not growth, scale, or even revenue. While each remains important, the ultimate goal is operating model transformation that advances strategic focus, fiscal resilience, and patient value. Acquisition, divestiture, and partnership options must all be evaluated not just on financial or market terms, but on how effectively they help the system pivot toward a future-state model: one that is data-enabled, performance-managed, patient-centric, and operationally agile.

These strategic options are not standalone choices—they are interlocking pathways to build the next-generation health system. Executives must evolve from builders of empires to curators of purpose-driven, integrated portfolios. When executed thoughtfully, every strategic decision on what, when, and how to acquire, divest, or partner becomes a step toward a more agile, sustainable, and differentiated operating model.

Considering M&A options for a stressed asset?
Read our supplement to this playbook,
"From transaction to turnaround."

About Guidehouse

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