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Integration of hospitals, services is more complex than consolidation

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As hospitals continue to feel pressure to join or create systems and networks, the nagging concern among industry experts and the trustees, managers and physician leaders of health care organizations is whether systems can or will deliver on the promises that spurred their formation. Systems possess, at least on paper, the power to effect significant change and achieve the benefits that justify their formation. Despite this enormous potential, it is striking how little they have accomplished given the turmoil they have generated. Undoubtedly, fulfilling the promises of "systemness" demands a multi-dimensional approach that defies any simple solution. But one of the more obvious pitfalls is how organizations attempt to achieve the synergies promised by system formation.

New systems look for economies of scale

New systems have ample reasons to look for economies in operations. In addition to the business rationale, some new systems have explicit arrangements with antitrust agencies to achieve significant cost savings in the first few years of their existence. Many systems, anxious to satisfy these imperatives and demonstrate savings, make a leap in logic at this point and seek to consolidate services wherever possible.

During the initial stage of a system's development, successes are often achieved by consolidating "back office" services, such as administrative services, purchasing and insurance coverage. Thus emboldened, system executives look for further gains through consolidation. With the passage of time, financial and sometimes regulatory pressures to achieve cost savings increase, and consolidation becomes a system mantra.

Maturing systems look at next set of opportunities

There is an increasing number of hospitals that are in desperate situations where consolidation must be the

exclusive or at least a primary strategy. However, for the majority of systems that have been in existence for three to five years and are maturing to another level, the next set of strategic opportunities is a mix of initiatives:

- Continued consolidation in governance, administrative, and corporate infrastructure functions
- Integration of clinical programs, operations, and regional network development, ranging from loosely affiliated or contractual relationships with some limited degree of connectedness to highly integrated organizations that may feature common ownership, management, and financial goals and incentives, as well as patient care delivery that is coordinated throughout the full continuum of care.

As system executives plan their future strategies, they should be aware that an overemphasis on consolidation can unleash turmoil in organizations with long-lasting repercussions. For example, all or a segment of the medical staff might oppose system development because they perceive consolidation as the primary strategy for clinical programs. While consolidation might be the strategy of choice for selected components of the system during its initial development, the system will face serious difficulties if this strategy is perceived by the medical staff to be applied to clinical programs. This perception is typically based on the physicians' fear that consolidation will have a negative impact on their practices and incomes. This political reaction may force modification or retraction of the system's strategies and could lead to a wholesale reevaluation of the system's development efforts and/or a vote of "no confidence" in management.

Consolidation is principally cost containment

What has become clear is that there is much confusion about the differences between consolidation and integration. Consolidation is principally a cost-containment strategy, and thus is often viewed as a negative

INTEGRATED DELIVERY NETWORKS

concept by physicians and other health care professionals. Consolidation typically applies to ancillary, support and corporate functions for the purpose of eliminating unnecessary duplication, but it may also apply to redundant clinical services.

Integration is a more positive concept. Although it may achieve economies of scale, this is not its sole purpose. Integration is used to tap the synergies inherent in the greater mass and complementary expertise and capabilities of multiple system members. Integration typically applies to clinical programs and regional network development (either as a managed care contracting or specialty-specific relationship building strategy). It frequently focuses on building joint programs in markets to better satisfy community needs, physician practice objectives, and system strategy and growth initiatives. Because integration (particularly clinical) can be politically sensitive with the medical staff, physician-driven initiatives are often the most successful. And although the ultimate form of integration is consolidation, this by no means is the only form it can take.

Early integration is more successful

Integration is a powerful system development strategy. Evolving systems deplete most consolidation opportunities in their first years of development.

Systems that pursue integration as a business strategy early in their development are more likely to be successful over the long term. For organizations planning an integration strategy to further their development, the following components must be considered in the system's design:

- **Integration of governance.** When organizations form their corporate board, they may leave the historical board structures of affiliated hospitals in place. Systems must consider establishing a single board at the acute care level and develop overlapping relationships between the corporate/system board and the redesigned acute care board as well as other continuum of care boards.
- **Integration of organizational structures.** Many systems initially form an organizational structure that is attractive to gain board approval to create the system. Typically, the organizational design focuses on creating the corporate office. Systems must consider integrating the hospital organizational structures at some level (e.g., creating product lines, creating a common chief operating officer) and developing clear lines of authority and responsi-

Checklist for integrated systems

- **Economies of scale**
- **Consolidation in governance, administrative and corporate infrastructure to contain costs**
- **Integration of clinical programs**
- **Integration of governance**
- **Integration of organizational structures**
- **Integration of cultures**
- **Integration of medical staff organizations and leadership**
- **Development of regional networks.**

- bility between corporate and hospital executives.
- **Integration of cultures.** Integration of cultures can be an amorphous task—synonymous to carrying a bucket of steam. Integrating cultures must be based on a common set of organizational values and management functions, and is highly dependent on leadership development within the organization and leadership's ability to effectively operationalize those corporate values. Successful systems thoughtfully define their values, committee structures, executive and management incentive programs, lines of authority and decision making, and expectations for exemplary leadership.
 - **Integration of medical staff organizations and leadership functions.** Integrating the medical staff organizational and leadership structures (to the extent permissible by virtue of the articles of incorporation and bylaws) provides ample opportunities for physicians to work in concert toward common system goals.
- In addition to creating the position of corporate vice president for medical affairs, there are other meaningful integration strategies, including:
- **Organizing a medical leadership position for education and research**
 - **Establishing unified medical leadership for clinical departments**
 - **Structuring and negotiating medical education affiliation agreements with academic medical centers at the system, rather than the hospital level**
 - **Formulating a common disease management planning and development process for system affiliates.**

Regional network formation is essential

Developing value-based, mutually beneficial relationships with smaller hospitals in the region is an essential strategy for many systems.

These relationships are built and maintained through access to a common infrastructure and organization for managed care contracting, economies of scale resulting from shared administrative and services functions, and access to specialists (e.g., physician outreach, weekend and vacation coverage, participation in physician organizations) and specialty services (e.g., mobile cath lab, MR, etc.).

Developing strategically located ambulatory care centers addresses multiple opportunities, such as expanding capacity when warranted, creating mechanisms for physician partnering, and improving access to the community.

Meaningful integration occurs when multiple system entities collaborate to develop new ambulatory care sites. Integration also occurs when ambulatory care services are developed as an outgrowth of integrated clinical programs (e.g., a community-based cancer center).

While application of consolidation in health care organizations is fairly obvious, integration is a subtler concept.

One board for hospitals keeps them in the system

For example, several hospitals in a system may be identifying best practices for patient care management. By bringing together all of the committees that are working in parallel, the same level of effort can lead to better practices being defined for more areas in less time.

Another example of consolidation and integration is the case of a system that had a board for each hospital. One hospital developed a strategic plan that wasn't consistent with the system's strategies. The system became more integrated when it formed an acute care board for the hospitals with interlocking relationships to the system board. This made it unlikely that an individual hospital would pursue initiatives that were so divergent from the system's direction.

In another example, a system in a large metropolitan area planned to establish five strategically located ambulatory care centers that would include primary care practices and extended hours.

As part of the planning for these centers, the system worked with its private practice physicians to

expand their practices by adding physicians and by moving selected practices' offices to the planned center. The system agreed that it would not place system-employed primary care physicians in the community as long as private practice physicians could respond to community's needs.

Large teaching hospital creates regional network

A large teaching hospital in a metropolitan market created a regional hospital network. The network includes 10 hospitals. Three network participants joined the system through mergers and acquisitions and seven hospitals participated as affiliates. The system's managed care infrastructure for the network includes a care management development and design team, a disease-specific case management program, and network clinical joint ventures.

Integration also benefited two hospitals in a system that were near each other. Each hospital had large, well-developed programs in behavioral health. By bringing behavioral health leadership together in a combined management and program development effort, new services that neither may have had the wherewithal to pursue on their own, joint market development efforts to penetrate new areas, and joint contracting efforts were developed to yield real system benefits.

Integration also can reduce capital and operating costs. For example, significant capital expenditures in information systems are plaguing all health care organizations.

An integrated approach to information systems development by several hospitals in an integrated system should yield better prices for the same products through combined purchasing power.

The cost of some information systems infrastructure elements (hardware, software or specialized staff skills) can also be spread over a larger base of users to reduce cost for all.

Integration is a broad range of relationships

As the examples illustrate, integration refers to a broad range of joint, cooperative relationships among somewhat separate organizations, departments and services. At one end of the range of integrative relationships is physical consolidation (all elements of a service provided in one place) and organizational consolidation (all elements of a service provided under one leader), but these examples are by no means the only options for meaningful and productive integration.

INTEGRATED DELIVERY NETWORKS

Integration a powerful tool for system development

For health care system leaders, integration can be a powerful tool for system development:

- It is a positive concept. It can be used for market growth, revenue enhancement, and quality improvement, in addition to cost reduction.
- It is a flexible concept. It can be used to develop loose relationships that may lead to tighter relationships, particularly in situations where consolidation is not feasible.
- It is a bridge-building concept. It can bring diverse, suspicious, and concerned people with like interests together to form common bonds and learn how to work together constructively. Integration builds "systemness" by creating unified business practices

and consistent image in a relatively natural, unforced manner.

In some cases, especially when immediate cost reduction is imperative, consolidation is warranted and desirable. In a greater number of situations, integration can generate more benefits in the long run.

With system building filling many executives' agendas, integration must be in the forefront of strategic initiatives if systems are to maximize their chances for success in the next few years. ■

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