HealthLeaders Media

Is Bigger Healthcare Better?

Philip Betbeze, for HealthLeaders Media , April 13, 2012

Lots of mergers are going around in healthcare today. Whether you're the big system looking to add a piece you don't have or you're the small community or government-owned hospital that doesn't see a way to compete in the accountable care world, the prevailing opinion is that big is better.

But it's not necessarily so. While size and scale can be an effective buffer, there's no substitute for running a business well, given the new rules of the playing field in healthcare. Big systems with lots of capital can make big mistakes. Their strategies to cope with healthcare reform can fail as easily, if not quite as quickly, as those of smaller hospitals.

Whenever something in healthcare becomes so ingrained that the wisdom of pursuing it seems obvious, that seems to be the time to reconsider.

Remember PHOs?

Remember physician practice acquisition in the 90's? Remember when PHOs were all the rage? What about when hospitals scrambled to start or acquire health plans? For some, those decisions worked out well. For others... not so much.

When these strategies failed to pan out as anticipated, millions were wasted, and ultimately many of those structures were either dismantled or divested. It seems that much of the fear and rush to judgment that drove those spending sprees is back, as the business model changes to force hospitals, health systems, and physician practices to adopt technology, and as importantly, to take on risk.

I've been thinking about these ideas for a while now with the idea that there are no universal solutions. You know this intuitively, but sometimes the rush to make a move in the face of change overwhelms intuition and logic.

Each facility is different, and each one will reach sustainability its own way. Just don't go into any strategic planning session with your mind closed. If you don't think your facility has the size, the scale, or the capital to stay competitive in today's rapidly changing reimbursement environment, you might be right.

But there's just as good a chance you're not fully exploring all your options. Funny, but that's a nuanced opinion that it seems not a lot of folks share these days.

When I ran into Joe Lupica, chairman of Denver-based Newpoint Healthcare Advisors, it seemed I had found a kindred spirit. That was strange, given Lupica's background as an investment banker and M&A specialist at Kidder-Peabody and then Goldman Sachs. But you won't hear him singing the siren song of the merger—at least not before considering the many other options out there.

Beware of Experts Touting More Scale

At its heart, this scramble for assets has its roots in the steepening risk profile hospitals and health systems are being asked to take on. As we were talking, Lupica pulled out a couple of old official statements from bond issues he's worked on for hospitals or health systems in the past. The fun part begins when you start reading bondholder risks attached to the issue.

"It says, in part, that the hospital is very dependent on government programs, which means there's high risk because of budget cuts, which will reduce the amount of revenue," Lupica says. "That was 1992, and was written about what is now a very successful system. So the risks are always there. The alphabet soup changes."

Lupica decries the "experts" who "run around the country, saying—

and they may actually believe this—that the days of the county or freestanding hospital are over, that everyone needs more scale, that it's all about how big you are, that healthcare reform is tough and risks are huge," he says.

"But let's think about that. Business has to thrive in risk; that's what drives business. Just saying there's risk is a tautology."

Lupica warns chief executives and board members to be wary of such advice.

"When you carry a business card that says 'we do mergers,' you have a duty to be very careful with your words."

Here's where I pushed back a bit. Size and scale, at least to a certain extent, seem to limit organizations' ability to participate in pilot projects with payers and certainly with CMS, in participating in some of the more innovative, reimbursement regimes that require providers to take on risk. If you can't do them on a small scale, your opportunity for institutional learning is greatly reduced. Lupica's not buying it.

"I try to take a neutral approach by talking about confidence," he says, of being called in to consult about a facility's strategic direction. "Never before have community hospitals, especially in rural areas, had a greater opportunity to apply the benefits of technology to integrate, coordinate, and provide better unified care, without passing the deed around the table."

He may be right about that, but in some ways, it's easier to do a merger than do the hard work of staying independent. Certainly, the prospect of soldiering along on your own doesn't get the news headlines, he admits.

"What doesn't make the news is the dedicated CEO and team coming up with an affiliation with a local university to operate a stroke program, for example, or other strategic alliances that allow you to stay independent. To a hammer, everything looks like a nail," he quips.

"Lots of Ways to Bring in Capital"

But many of these organizations are capital-starved, I argue. How are they going to pay for the new EMR system, the extra labor necessary to manage patients? How will they make a smooth transition from fee-for-service reimbursement to value-based? How will they not get frozen out of employers' narrowing networks without a big corporate parent to rely on?

"There are lots of ways to bring in capital—even private equity capital," he says.

In his work with county and city-owned hospitals, he says he's seen too many local politicians be marginalized in discussions about the facility's future.

"A lot of times, what happens is you have somebody saying [that]these politicians are not experts in healthcare," he says. "That may be true, but they have sat through meetings talking about resolving disputes among developers and working with neighbors. They are experts in democracy, and they have been elected and this is a fundamental issue that requires the people's voice."

For some, he concedes, selling may be the right choice, but it should be the last one.

"Don't focus on surviving, focus on thriving. Keep reaching for excellence in quality and look for creative ways to accomplish that instead of using the blunt instrument of the merger," he says. "Not everything takes money. Some things take brains."

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