

## **Pulling the Pieces Together: Consolidation and Integration in Health Care Systems**

### **Recent Changes in Service Line Centralization and Consolidation**

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Over the last ten years, the hospital industry has become increasingly consolidated through the formation of multi-hospital health systems and networks and the legal merger of institutions under a single license. Despite extensive structural consolidation and relationship development, service line integration within structurally aligned hospital organizations has lagged behind. Namely, the extent of service integration that exists as we look across the hospital industry is much lower than we would expect given the extent of structural consolidation that has taken place. In certain communities, however, we are beginning to see more efforts to centralize and consolidate service lines given new market imperatives. These trends and what is driving them are discussed below.

#### **Changes on the Horizon**

There are a number of reasons why health systems are rethinking service structure across their affiliated hospitals given current market imperatives and demands. Previously, the primary market imperative facing hospital systems was the growth of managed care but this factor dissipated in the late 1990s. New forces are present, though, that are shaping hospital system strategies in several markets. Two key ones appear to be: (1) the need to be more efficient in how space is organized to improve hospital throughput and meet growing health services demand; and (2) the recent development of specialty hospitals and other specialized facilities in certain hospital markets.

In relation to the first, many hospital systems nationwide are engaged in renovation and new construction to replace aging hospital facilities, to create amenities that patients desire (especially private rooms), and to restructure capacity so that new clinical and information technology can be utilized. In some markets, hospital systems are also expanding capacity in response to increased demand for health services. The availability of low-cost financing given historically low interest rates has facilitated hospital actions to undertake major capital projects.

As hospital systems have become involved in issues of facility design, a number of them are taking up the challenge of rethinking how to arrange services across their affiliated hospitals. In particular, is there a more efficient and sensible way to deliver services? In some markets, systems are building new facilities in a central location to house specific services, such as cardiac care or oncology services. Their plans are to move these services out of several system hospitals to the central facility. These actions will in turn free up space in existing system hospitals to allow further restructuring of services and capacity. For the most part, systems involved in these actions have the objective of better utilizing their available space and creating more efficient patient throughput.

It is interesting that the efficiencies systems are hoping to achieve through these efforts are not tied to traditional motives of creating cost efficiencies due to constrained reimbursements. More so, these efforts are a response to hospital capacity constraints. Systems are rebuilding their hospitals with an eye on improving the flow of patient care within a facility and facilitate quicker discharge to the community. In essence, this increases a system's effective capacity because delays in care are reduced, which in turn frees up space to provide care to additional patients. Although the centralization of services in one location presents some challenges because it can create inconvenience for patients and their families, the belief is that improved patient throughput will allow patients to return home more quickly after definitive hospital care is provided.

A second force in the environment that is causing hospital systems to rethink service structure is the threat of specialty facility development. There was a wave of specialty hospital development in the late 1990s and early 2000s, which has slowed given the recent Center for Medicare and Medicaid Services moratorium. However, currently there are about 100 specialty hospitals nationwide and an additional group of around 40 that obtained CMS approval to move forward (General Accounting Office 2003; Center for Medicare and Medicaid Services 2005). One response of hospital systems in markets where specialty hospitals have developed, or have threatened to enter, is the creation or expansion of system-sponsored centers of excellence.

These system-developed facilities provide a means for centralizing certain hospital service lines in one place. Additionally, in some markets, health systems are thinking about how they can emulate the features of specialty hospitals within their centers of excellence. This is in response to growing evidence that patients and their families like the amenities and atmosphere of specialty hospitals, especially the feeling of intimacy of a smaller facility and the presence of specialized staff.

Overall, recent actions in selected hospital markets suggest that health systems are seeing advantages in rethinking service structure across their affiliated hospitals. This makes sense given current market imperatives and opportunities, especially the need to identify ways to better utilize available hospital space, provide patients with the amenities they desire, and respond to the competitive threat of specialty facility development. One hopes that future actions to reorganize services will be informed by what we have learned in the past. There is an extensive literature that exists in relation to hospital efforts to clinically consolidate services, including the obstacles to that action and factors that facilitated progress. It is important to learn from the past so that prior mistakes are not repeated. Further, it is vitally important that new market imperatives be explained to key stakeholders and their importance reinforced through continuing strategic communication. These imperatives are quite different from those of the past and some stakeholders might not recognize their impact on a system's long-term viability.