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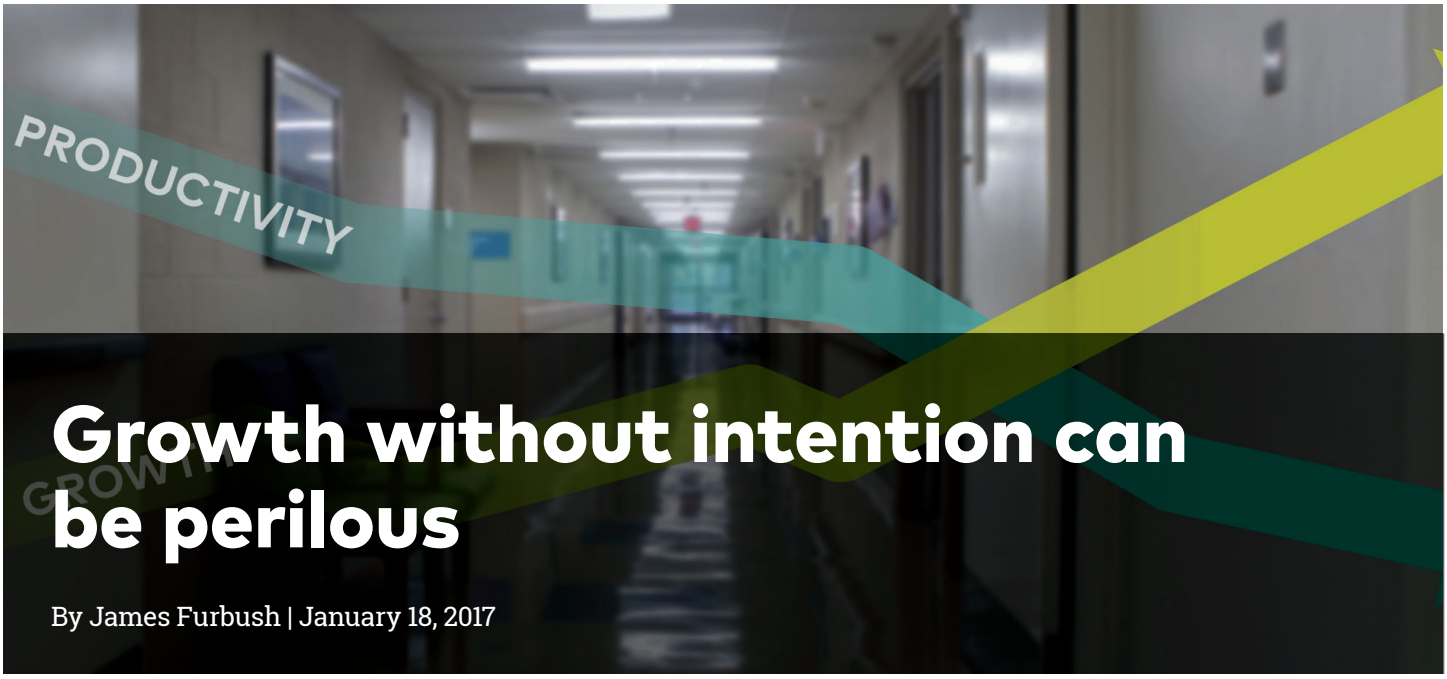


Growth without intention can be perilous

By James Furbush | January 18, 2017

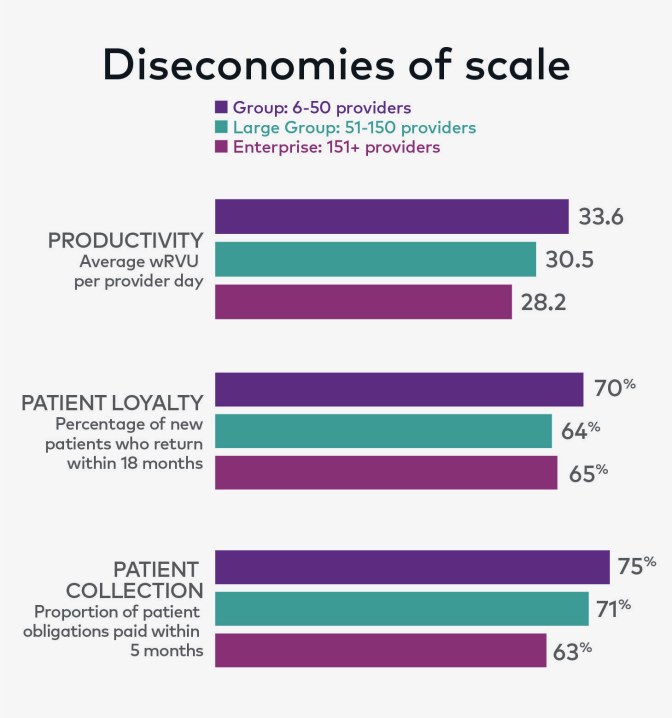
Can big be beautiful? The U.S. healthcare industry is betting on it. It's in the midst of a historic merger wave as organizations chase market power and economies of scale.

From 2010 to 2014, the number of hospital and health system mergers and acquisitions (M&A) transactions almost doubled. A 2016 survey of 84 healthcare CEOs surveyed by Modern Healthcare found that nearly 80 percent of respondents said the rate of consolidation will hold steady or accelerate in the coming years.

But does size actually pay?

Common wisdom among healthcare executives is that size creates value through procurement and pricing power, lower administrative costs, and enhanced coordination. But data from the athenahealth network show clear diseconomies of scale, which may counterbalance many of the economic advantages of size — in areas of provider productivity, patient loyalty, and collections. This analysis casts doubt on whether chasing growth for its own sake is a path to excellence.

Among athenahealth's client base, large enterprises also have a lower same-store growth rate— a strong indication that enterprise growth is often being fueled purely by acquisition without the creation of economic value at the operating unit level.



The findings come from an ongoing project by athenahealth research on high-performing physician networks — an analysis of the financial performance of 99,000 providers practicing in a wide range of locations and specialties across the country.

The data are in line with a host of studies from a variety of industries that question whether "merger frenzies" create value — with academics arguing that acquiring companies are often optimistic about potential revenue and cost synergies and overlook the true drain on productivity from increased size and complexity.

This view can be summed up by investor T. Boone Pickens, who wrote, "It's unusual to find a large corporation that's efficient. I know about economies of scale and all the other advantages that are supposed to come with size. But when you get an inside look, it's easy to see how inefficient big business really is. Most corporate bureaucracies have more people than they have work."

Or, as the management consultant Chris Zook states, "Growth creates complexity. And complexity is the silent killer of growth."

That doesn't mean that all large firms fall into the growth-complexity trap, however. Some healthcare organizations in athenahealth's network buck convention by consistently coming out ahead as they grow. In these exceptional cases, management is committed to a principled growth orientation.

In other words, recognizing that M&A can be a drain on productivity, top performers do not grow for growth's sake. They do so only when new physicians and practices fit into a broader strategy and do not compromise culture or threaten to burden the organization with complexity.

A case in point is Summit Medical Group, a 700-plus provider multispecialty medical group in New Jersey, which has been growing at a steady clip of around 75 to 100 providers a year. Summit's leaders take a highly disciplined approach to acquisitions — and walk away from any practice that does not fit culturally, no matter how attractive the potential revenue growth.

These lessons did not come easily. "We grew very quickly and hurt ourselves," Summit's chief of operations Karen Graham says. "We weren't getting the quality of staff we wanted at the rate we were growing, so we changed the recruitment process."

Summit has developed an expertise in post-merger integration: They have a "template for growth"— a defined due diligence process for evaluating potential acquisitions and an onboarding team that helps get these groups up to speed after they join the organization. Onboarding teams spend two to three weeks onsite after a new practice joins Summit, then generally take six to twelve months helping practices ramp up to speed.

"The biggest challenge is maintaining a small group feel, and so we make it a priority to maintain a connection between leadership and the distributed practices and among the physicians themselves even as they grow," says Graham.

Warnings of the risks of chasing scale are likely not news for many healthcare executives — many of whom remember the disastrous "physician-practice management" wave of consolidation in the 1990s. Yet too often executives still fall for the siren song of inorganic growth without truly recognizing the challenges that the strategy presents.

athenahealth's research presents another stark warning about reckless growth strategies. But it also suggests that the size can be a winning strategy — as long as growth is either organic or acquirers remain very picky when looking for the right target. And then have a detailed plan for integrating their new partner after the champagne corks go flying.

James Furbush is managing editor for athenaInsight.

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