Estimate of the Situation

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Speed Kills!

Why Bigger isn't always Better.

"We can't solve problems by using the same kind of thinking we used when we created them."- Albert Einstein

In America, we like big things. We like big ideas, big shows, and big games. In fact, "Think Big" could well be our national slogan. "Too big to fail" has become a mantra in banking circles.

The perceived advantages of economies of scale have permeated business education curricula since the days of Adam Smith. Upper management has been conditioned to gravitate toward increasing the size of the enterprise as a solution for nearly everything.

It is a target-rich environment. The Affordable Care Act spawned a blizzard of acquisitions, mergers, consolidations and closures as small hospitals, fearful of insolvency, seek out larger suitors in the hope of protecting their communities' access to local health care. For their part, larger hospitals and systems are doing what they've always done: taking advantage of perceived opportunities to capture new markets. Large systems are acquiring smaller systems and employing physicians. Smaller systems are acquiring stand-alone hospitals and physician practices.

Here's the Thing…

The late Peter Drucker, the *dean emeritus* of management consultants, reportedly described American hospitals as "the most complicated social organizations ever designed by man." It's a great description—except that hospital organizations weren't ever really "designed". They evolved, slowly, over a long period of time—and that's a big part of the problem.

The modern hospital can trace its roots back to medieval times when monasteries provided care to the sick and dying. It developed gradually along administrative and bureaucratic lines. Propelled along by

wars and technological development, medical knowledge advanced and the profession of nursing developed an array of specialized ancillary technical and professional services.

Adam Smith was born at the dawn of the Industrial Revolution. The factories employed top-down and generally autocratic management. Smith's concept of economies of scale made great sense in single-purpose factories staffed with largely-uneducated laborers using steam powered machines in manufacturing and textile production. The organizational template for almost all of today's corporate and governmental structures originated during Smith's time (and earlier) in a relatively static operating environment which differs radically from what we see today. There are many reasons to take that into account when considering organizational options in today's health care world, particularly in the "stand alone" or "join a system" discussion.

1. Economies of scale certainly "work" in industrial manufacturing, production and other environments that can repeat steps more or less automatically. Not so much in operations that provide highly specialized services in an era of rapid change to a diverse population of patients with widely varying physiologies, illnesses or injuries, ages and histories. Materials Management might be an example of hospital function for which economy of scale concepts "work"—except when it develops that not all surgeons can agree on something as simple as a standardized surgical glove, even in the same hospital.
2. The same issues affect the power of "standard processes" as improvement tools in health care. In operations that require repetitive mechanical operations that don't directly "touch" the patient, standard processes are great. When interpreting results for a specific patient, variation is not only to be expected, it is desirable. People are not widgets.
3. Response times today are critical in any service delivery profession that requires feedback. This means:
    a. Feedback loops must exist in all critical outcome areas (cost, quality, physician and patient satisfaction, employee relations and community image).
    b. Feedback loops must be short, fast and as direct as possible for both service providers and top managers. Every link in the feedback loop will filter out information from the ultimate recipient. The more links in the chain, the more feedback information is degraded.
    c. Service providers must have a high degree of autonomy and be accountable for responding appropriately at every level. In the past, technology did not permit rapid response and central control by a few key executives was considered essential. Today's information technology generates so much information from so many organizational levels that the "end user" (decision maker) can and must be located at the lowest point in the organization consistent with competence, capability, responsibility and accountability. Institutions that attempt to maintain control from the top will be overwhelmed by the pace of change and the sheer volume of events requiring decisions. That business model is no longer sustainable.
    d. The larger and more bureaucratic the organization, the more resources it must consume in its own maintenance. In a hospital, each management layer increases organizational maintenance resource consumption exponentially. Resources consumed in organizational maintenance are not available to do the hospital's work. Well-managed and properly equipped human-sized hospitals will almost always outperform *directly competing* mega

organizations in the critical outcome areas of cost, clinical and service quality, physician and patient satisfaction, employee relations, and community image.

e. Within any multi-hospital system, when a conflict arises between the priorities of a system component or the system itself, the system's priorities will always prevail.

f. In a time of rapid economic, social, and technological change, it is self-evidently important to avoid mal-investment in expensive and rapidly obsolescing plant and equipment.

These thoughts are provided only for your consideration. Your mileage may vary, as they say.

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