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Broadening Focus: Spillovers, Complementarities and Specialization in the Hospital Industry

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Abstract

The long-standing argument that focused operations outperform others stands in contrast to claims about the benefits of broader operational scope. The performance benefits of focus are typically attributed to reduced complexity, lower uncertainty, and the development of specialized expertise, while the benefits of greater breadth are linked to the economies of scope achieved by sharing common resources, such as advertising or production capacity, across activities. Within the literature on corporate strategy, this tension between focus and breadth is reconciled by the concept of related diversification (i.e., a firm with multiple operating units, each specializing in distinct but related activities). We consider whether there are similar benefits to related diversification within an operating unit and examine the mechanism that generates these benefits. Using the empirical context of cardiovascular care within hospitals, we first examine the relationship between a hospital's level of specialization in cardiovascular care and the quality of its clinical performance on cardiovascular patients. We find that, on average, focus has a positive effect on quality performance. We then distinguish between positive spillovers and complementarities to examine the following: (1) the extent to which a hospital's specialization in areas related to cardiovascular care directly impacts performance on cardiovascular patients (positive spillovers) and (2) whether the marginal benefit of a hospital's focus in cardiovascular care depends on the degree to which the hospital "co-specializes" in related areas (complementarities). In our setting, we find evidence of such complementarities in specialization.

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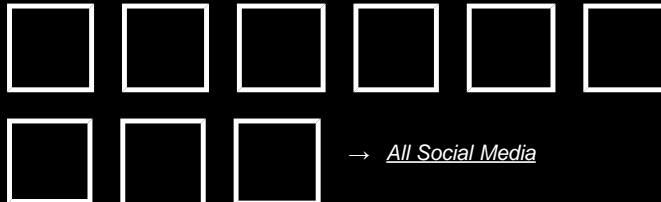
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