

Struggling For-Profit Hospitals Sink Further After Sale to Not-for-Profit Owners

– An Examination of Hospitals sold by HCA-The Healthcare Corporation

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Abstract

The objective of the research is to address two very crucial questions in regards to for-profit hospital operations. First, the claim that for-profit hospitals sell-off operationally inefficient, unprofitable, socially responsible hospitals was examined. Next, the contention that for-profit hospitals are run on a more efficient, profitable basis with less social responsibility, is explored. In short, the purpose of this research is to understand the implications of hospitals being operated on a for-profit basis.

Understanding the impact of for-profit ownership status is of tremendous significance to the U.S. healthcare system today. Not-for-profit hospitals represent an extremely influential component of the nation's health care service infrastructure -- 40% of medical expenditures are still incurred in traditional hospital settings despite the current trend towards outpatient services. In addition, there is tremendous potential for conversion to for-profit, 86% of all U.S. hospitals are not-for-profit. From an economic standpoint, for-profit hospital corporations must sustain their stock prices and allow for dividend payments to shareholders. This may require efficiency increase through large-scale purchasing, transformation of comprehensive care hospitals into outpatient centers, management finesse and various cutting-edge operational philosophies.

Myriad studies do suggest for-profit hospitals enjoy greater profitability (Sear 1991; Herzlinger and Krasker 1987; Pattison and Katz 1983; Watt et al. 1986; Chang and Tuckman 1988; Valona and Sloan 1988; Ren et al. 1986 and Vogel, Langland-Orban and Gapenski 1993). Relative to efficiency, wages of for-profit hospitals are found to be lower on a per patient basis (Watt et al. 1986; Herzlinger and Krasker 1987 and Sear 1991 Watt et al. 1986). Finally, many studies suggest for profit hospitals behave in a less socially responsible manner than not-for-profit hospitals (Gray 1991; Schlesinger et al. 1987; McCue 1996).

To evaluate for-profit hospital operations, a group of hospitals being sold by for-profit owners is compared to other hospitals of similar size and geographic region – “group hospitals”. Their ownership status is being changed *from* for-profit *to* not-for-profit. Specifically, twenty-two for-profit hospitals are sold to not-for-profit consortiums for \$1.2 billion in November 1998 (Pallarito 1998, 22

Results suggest that the 22 hospitals sold by HCA-The Healthcare Company are less profitable and run less efficiently than other hospitals of similar size and location. It seems that while HCA-The Healthcare Company is trimming itself down in response to financial problems, the company clearly chose to rid themselves of its non-performing members. While this may seem obvious, it is actually an interesting finding. The opposite could have been the case if the company is so desperate for cash that it had to sell 22 “star” hospitals simply to raise cash to continue operations. It suggests tremendous business acumen on the part of the for-profit hospital chain to raise \$1.2 billion through the sale of a group of marginal hospitals.

Not-for-profit consortiums, the buyers, are obviously aware of the dire situation of many of these hospitals. Yet in many cases they paid tidy sums for these hospitals, acquisition prices shown in Table II range from \$253,000 per bed to a surprising \$1.2 million per bed. This could be a situation similar to that of HCA-The Healthcare Company’s earliest acquisitions of not-for-profits. Organizations agree to pay significant sums for failing hospitals, knowing that any hospital is worth something and hoping they could pull off a quick turn-around (Phillips 1999).

However, results suggest the opposite occurred. Not-for-profit consortiums are not only unable to increase profitability in the short-term, they are powerless to stop the downward spiral that many of these institutions are in. Instead of improving, results suggest the initially struggling hospitals actually deteriorated further in the first year after acquisition. Comparisons are made between for-profit and not-for-profit results using the Wilcoxon Matched-Pairs Sign Rank Test. Individual hospital’s pre-acquisition for-profit results are compared to post-acquisition results. Both are expressed as a percentage of their own referent group data because two different time periods are being compared. Results suggest a significant decline in profitability and no significant change in operational efficiency or social responsibility. While these results must be interpreted with the qualification that they are in the short-term, it could be expected that a turn-around effort would at least result in maintaining the status quo which has already been identified as below average.

In conclusion, the contention that for-profit hospitals run more efficient and profitable hospitals is supported by the results of this research. For-profit hospitals sold only those hospitals that were non-performers and operated the institutions on a more profitable basis than their not-for-profit counterparts. Furthermore, the results of this study portray HCA – The Healthcare Co., as a shrewd corporate player. The savvy, for-profit hospital giant is successful in negotiating a deal netting 1.2 billion in cash while avoiding potential recognition of future losses by divesting themselves of these institutions.