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What Does For-Profit Ownership Imply for Hospital Management Sciences?

For-profit hospitals are getting an ever-increasing share of the healthcare market. Since they do not structurally outperform other ownership types, questions arise on the desirability of this trend. For-profit strategies, such as consolidation, segmentalisation, and turnaround management, will affect the future hospital landscape and may disrupt current one-size-fits-all hospitals.

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key points

- For-profit hospital penetration has been rising for many years.
- From a societal perspective, for-profit hospitals do not outperform other ownership types.
- For-profit hospital companies follow specific strategies: consolidation, segmentalisation, and turnaround management.
- In assessing for-profit hospital care, we should also assess the necessity of such strategies.

For-Profit Hospitals Increase Across the Globe

Over the past decades, many countries saw a substantial increase in for-profit hospital ownership (Palley 2023). In the U.S. and Germany, the two biggest hospital markets, the number of beds under for-profit ownership is now nearly twenty percent. In the U.S., these numbers were no more than a few percentage points in the mid-sixties, just before the start of the Medicare programme; the situation in Germany was the same until the late eighties (Jeurissen et al. 2021). Investors see hospital care as an attractive and stable growth market for many years to come with high cash flows. Politically, the trend of increasing investor-owned hospitals is controversial. Proponents of for-profit ownership point out that such companies are more efficient than public and non-profit hospitals. They bring competition and innovation, which is needed to help healthcare systems stay sustainable. Critical voices point to possible adverse effects on the quality of care, access to care, and suspicions of cream skimming by for-profit hospital chains. For-profit healthcare flags political antagonism like a few other themes in the area of the welfare state in healthcare. The growth of for-profit hospital ownership seems to imply that these types have essential advantages. What does social science tell us about this?

From a Societal Perspective, For-Profit Hospitals Do Not Outperform Other Types

Many studies were conducted to determine if for-profit hospitals perform better than other ownership types. Typically, the answer is “no” (Kruse et al. 2018). However,

commercial awareness and performance may differ substantially between physician-owned, smaller for-profit providers, smaller chains, listed companies, and private

equity-owned hospitals (Kruse and Jeurissen 2020). A recent BMJ review found no consistent beneficial impacts of private-equity ownership in healthcare and associations with harmful effects on costs and, sometimes, quality of care. The empirical studies included in this review were all from the U.S., but on average, for-profit hospitals scored better than for-profit nursing homes and other provider types (Borsa et al. 2023). These outcomes may be explained by the fact that for-profit hospitals that rely on fee-for-service payments increase margins by treating more patients; nursing homes rely on fixed per diem rates and typically increase margins by saving on the services in such a timeframe (Jeurissen 2010).

Frank Sloan, a longtime scholar on the issue and who has published many studies from the U.S. that tend to be somewhat favourable on for-profit hospital ownership, recently concluded that the observed differences between for-profit and non-profit hospitals are mostly "a little deal". Sloan rightly points out that for-profit providers respond more to external financial incentives (Sloan and Valdmanis 2023). This implies that governments may capitalise on this flexibility, but only if they can design the right external incentives. Of course, it may also be the other way around. In that case, regulatory capture and looking for the edge of regulations are real risks. Nobel prize laureate Kenneth Arrow (1963) pointed out that non-profit ownership may be a sign of trustworthiness and rational governance in cases of information asymmetry. Indeed, in those days, for-profit hospital ownership hit an all-time low, and scholars tried to explain why non-profits were on the rise (Pauly and Redisch 1973).

Overall, the evidence on the performance of for-profit hospitals versus other ownership types is inconclusive and difficult to interpret. For-profits may operate with a somewhat lower cost base but hold higher margins and thus charge more to payers. Healthcare outcome data are sparse and hard to compare. Still, if for-profits perform slightly better in pockets of healthcare delivery, this is probably easily balanced by these providers' typically treating an average lowercase mix. Access is more dependent on the inclusion or exclusion of for-profit hospitals in the mandated healthcare system. For-profit hospitals usually are included in insurance-based healthcare systems such as Germany, the U.S., or Switzerland. Still, they may be excluded or must comply with strict regulations in certain NHS-type healthcare systems, including the U.K., Canada, and the Nordic countries. Paradoxically, it is through exclusion from the broader healthcare system that for-profit hospitals add to unequal access since, in those cases, they cater to a more prosperous clientele, and the 'worse' the performance of regular care (long waiting times, appearance), the more robust the demand for private care (Jeurissen 2010).

> A significant advantage of for-profit hospital ownership is their capability for effective turnaround management

For-Profit Hospitals and Management Sciences

Hospital managers and leaders can learn from the experience of for-profit hospitals by studying their strategies for broader lessons. Here, I will shortly present five major strategies that are applied by big for-profit hospital chains: 1) consolidation, 2) shared back-office, 3) turnaround management of the acquired providers, 4) segmentalisation of services, and 5) tapping the financial markets when opportunities appear.

For-profit hospitals have access to the financial markets. Although such commercial equity capital is expensive and typically exceeds the capital costs of public loans or non-profit endowments, they may give for-profit providers significant advantages when business chances appear. Risk-bearing equity capital gave well-run for-profit companies the financial ammunition to become big consolidators. Only a few companies dominate a strongly consolidated submarket in almost all countries where for-profit hospitals hold a substantial share. For example, the U.S. for-profit hospital market is dominated by HCA (185 hospitals) and the German market by

Helios (90 hospitals). Both also own many more locations for elective surgery, outpatient care, and less intensive treatments. Such numbers exceed the typical non-profit and local public hospital chains by far. The bigger for-profit chains have strong national positions, much negotiating power over payers, and may dominate certain local and regional markets. When national opportunities to consolidate are getting dry, they may expand to other countries. Helios is also active in Spain with 60 hospitals. Ramsay has gotten outside its home country of Australia and is now involved in France, the U.K., and the Nordic countries, as well as in certain developing Asian economies. Since healthcare systems may vary a lot between countries, this comes with the difficult task of managing and complying with such regulations.

A significant advantage of for-profit hospital ownership is their capability for effective turnaround management. If struggling providers are acquired and reformed, it may improve the performance of the total pool of hospitals. In contrast to the broader economy, where more prominent companies chase attractive smaller companies with considerable growth potential, such as in the life sciences sector, in hospital care, the underperforming providers seem the most attractive acquisition candidates. Such providers are 1) cheap, and their (public) owners may be glad to be able to sell them, sometimes with a dowry (this happened in the east of Germany after reunification); and 2) easy turnaround management strategies such as optimal reimbursement and merging back-offices can quickly improve hospital bottom lines. Consolidation also correlates to efficiencies of scale, and this is what all for-profit hospital systems try to accomplish through shared back-office functions, such as billing, marketing, etc., and bulk purchasing of medical goods and equipment.

Capital costs (return-on-equity) typically are higher for for-profits, who thus need and seek bigger margins than the other ownership types. Besides, most payers do not have adequate cost-based reimbursement mechanisms, and (massive) cross-subsidies between different hospital services are the norm. This then contributes towards a segmentalisation towards the more profitable services by for-profit providers. Specialisation also acts as a strategy to increase efficiencies of scope. For-profit hospitals typically are more specialised and cater to smaller locations than their public or non-profit counterparts (Jeurissen 2010). The latter is also illustrated by the fact that for-profit hospital systems are underrepresented in running academic medical centres and tertiary care hospitals that are very complex and difficult to manage and thus carry high administrative costs.

> For-profit hospitals are more specialised and cater to smaller locations than their public or non-profit counterparts

Here, governance becomes very complicated, and virtual positive margins compete with other (loss-making) goals such as research, education, delivering uncompensated care, etc. For-profit hospitals, like other ownership types, face the same challenges in aligning their interests with those of the medical profession. However, they have additional financial instruments to do so, for example, by letting them share in the companies' profits.

Do For-Profit Hospital Management Strategies Improve Future Healthcare?

For-profit hospitals seek different strategies versus public- or non-profit providers. They tap the financial markets to consolidate to create additional powers to negotiate with third-party payers and improve efficiencies of scale. They lean towards the more attractive segments of the markets, which also improve efficiencies of scope, and they have more instruments to align the interest of the physicians with the goal of the company. Because research indicates that at this moment in time, the societal performance of for-profit hospitals does not seem to exceed those of other provider types, the critical question is if the management strategies of for-profit companies may help to accomplish future necessary healthcare transformations. Otherwise, stimulating further for-profit growth seems not to make too much sense.

Most scholarly evidence does not support a strong case for for-profit hospital ownership. However, for-profits are more responsive to external financial incentives, which also creates possibilities if

professional regulators can counteract opportunistic behaviour or rent-seeking. Turnaround management of struggling providers is clearly in the public interest.

It is also an open question whether current one-size-fits-all hospitals with large inpatient wards will be the backbone of future healthcare like before. Technological innovations create evermore possibilities for outpatient treatments, and communication technologies facilitate digital health. Segmentalisation of the one-size-fits-all hospital may represent opportunistic profit-seeking and show us new and efficient models of care and delivery that fit better to those trends (Duran and Wright 2020). On the other hand, for-profit hospital providers now clearly do not provide the cost minimalisation that many health systems are looking for. And they may lean towards rent-seeking if the complex health systems and regulations let them. A level playing field between public and non-profit providers may imply taxing them more and returning those resources to the health system.

Conflict of Interest

None. ■

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