

Physician-owned hospitals: Are they the boogeyman?

July 22, 2008

By **Anne Zieger**

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Editor's Corner:

Folks, before you hit that "compose e-mail" button, let me say that nobody needs to give me a lesson on the problems that can arise when physicians operate or own a substantial part of a hospital. In particular, I'm convinced that it's important to keep an eye on the issue of physician self-referral, given the myriad of problems that occur when anyone, physician or otherwise, has an incentive to put making money over patient interest.



Anne Zieger

That being said, I thought you might be interested in a recent column by Molly Sandvig, JD, the executive director of trade group Physician Hospitals of America. (OK, I can hear the hospital execs in the audience saying "Boo! Hiss!" Calm down, guys...) In her recent [piece](#), for financial publication *Inside ARM*, Sandvig offers a few observations and stats that are worth reviewing:

- * Health system investment in physician practices, with the assumption that the practices will refer to systems' hospitals, is a form of self-referral
- * Physician hospitals generate a net community benefit almost 8 times higher than non-profit hospitals, averaging 7.23 percent as opposed to .87 percent for non-profit hospitals
- * Physician-owned hospitals are more agile because they're smaller, and higher quality because they're run by clinicians
- * Despite popular perceptions, utilization and costs don't rise just because a physician hospital appears in a market

Of course, one can raise many questions in response to her arguments--though in all honesty, I think she may have a point when it comes to vertical integration by health systems. For one thing, maybe one physician hospital doesn't move the needle on utilization, but what happens when several enter a market or even dominate it? What evidence is there that physician hospitals offer higher quality? How does she define "net community benefit"? Can she really suggest with a straight face that specialty hospitals' CEOs focused on high-margin elective procedures are propping their doors open to accept uninsured folks? And so on.

What questions would you ask Ms. Sandvig, readers? And do you agree with any of her arguments?

I'd love to hear from you. Please feel free to [write to me](#) and let me know what you think. - Anne

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By Anonymous | Posted 3:02pm | July 23, 2008

Regarding self-referral by physicians, Sandoval is wrong:

1. Many hospitals employ physicians and incur significant losses doing so. The spinoff contribution margin is used to fund hospital operations and does not flow back into physicians pockets. The analogy does not hold.
2. Absent any standard for qualifies as "community benefit" some hospitals claim capital expenses on building as community benefit. In spirit, community benefit is supposed to be charity care. How much true charity do these hospitals provide?
3. Agile, perhaps. Better quality? Prove it. According to the Commonwealth Fund, the US is now dead last among industrialized nations for quality.
4. The relationship between physician self-referral and utilization is not a "popular perception" it is an ironclad, irrefutable fact confirmed repeatedly in multiple studies over decades. Dr. Mitchell's most recent study (July, Medical Care) merely corroborates what has been proven ad nauseum.

Physician ownership of ASC's, imaging centers and specialty hospitals, often in partnership with device manufacturers results in undeniable increases in utilization, much of it inappropriate and unnecessary. It is a totally transparent manifestation of physician greed and soils the noble heritage of our profession. It is ironic, that the most highly compensated among us, (orthopods, neurosurgeons and cardiovascular surgeons) who are already earning millions from their practices need even more. They are lining their pockets at taxpayer expense while pushing the nation ever deeper into debt. This too shall pass and one day our profession will be purged of those who have forgotten the Oath.

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By Addie | Posted 4:56pm | July 23, 2008

The "anonymous" post has no credibility at all because, unlike Ms. Sandvig, the writer is not willing to sign it and let you know his/her bias (I don't have any personal stake). There are quality issues in all types of hospitals, though specialty hospitals generally score higher. But only the big corporate hospitals are threatened by the growth of specialty hospitals that provide patient choice (and threaten their local monopolies). Their effort to deny physicians the right to own hospitals is un-American. If you have a college degree in that, you're not allowed to own a business? You can't own a business you are actually qualified to run? "Anonymous" must be someone connected to an existing hospital who feels threatened by the entry into the free market of competition. Any of your readers who do not understand that competition drives prices down and quality up should return to school for a quick refresher course in basic middle school economics.

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