

Private equity-acquired hospitals focus on increasing provision of technology-intensive, profitable services

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As a growing number of hospitals face unprecedented financial challenges due to the COVID-19 pandemic, there is concern that they

might become acquisition targets by private equity firms. New research from Duke University and Rice University's Baker Institute for Public Policy indicates privately-acquired hospitals are significantly more likely to offer services that maximize profit and cut those that don't.

Few [empirical studies](#) have assessed how the managerial practices and corporate restructurings instituted by private [equity](#) firms enhance the value of target hospitals and help deliver strong returns to limited partner investors. The research team of Marcelo Cerullo, Kelly Yang, James Roberts and Ryan McDevitt of Duke and Anaeze Offodile, a fellow in domestic health policy at the Baker Institute, used a difference-in-differences investigative approach and found a pattern of changes in [patient care](#) after hospitals are acquired by private equity firms.

"Private equity investments in [health care](#) have drawn some controversy because of concerns that limited partners' desire for high annualized returns on their investment and the abbreviated time horizon of private equity ownership (three to seven years) may drive a prioritization of profits over optimizing health care access, quality and spending—that is, 'profit over patients,'" the authors wrote.

The team's findings suggest hospitals acquired by private equity firms are no more likely to provide "unprofitable" services—such as adult day care, birthing rooms, and labor and delivery—than their nonacquired counterparts.

"The strategic choices made by hospitals to maximize returns can manifest in decisions on pricing, the mix of products and services offered and staffing levels," the authors wrote. "Because private equity firms are rarely long-term holders of corporate assets, their intent is to make acquisitions more attractive to potential buyers or public shareholders to complete a successful 'exit.'"

Consequently, the researchers found that investments in robotic surgery, digital mammography, freestanding or satellite emergency departments, adult cardiac surgery and adult interventional cardiac catheterization—all categorized as profitable—increased at hospitals after they were acquired by private equity firms. Meanwhile, delivery of unprofitable services decreased.

"Private equity-acquired hospitals adopt technology in response to a profit incentive and pivot toward [service](#) lines and contractual arrangements that are rewarded by payers," the authors wrote. "Not only do private equity-acquired hospitals add profitable services faster, but also the changes they make to [hospital](#) operations may have broad implications for policymakers seeking to mitigate the potentially negative impacts of service-line disruptions and hospital market concentration."

The authors explain that hospitals expand or pare down profitable services not only in response to the pressure to make profits, but also to competition from other hospitals offering high-margin services in the same market.

For instance, the strategic shift away from emergency services that are integrated with hospitals and health systems may ultimately affect patients' access to care in their area. Removing crucial but less-profitable services at one facility may force other facilities in the same area to expand those services.

"Therefore, regulation that mitigates this 'spillover' must address population-level metrics of health, not just outcomes specific to acquired hospitals," they wrote.

The changes these firms make to hospital operations may have broad implications, the authors argue, adding that policymakers may want to

explore using regulatory powers to ensure equitable access and delivery of care in the face of hospital acquisitions by private equity firms.

The paper, "Private Equity Acquisition and Responsiveness to Service-Line Profitability at Short-Term Acute Care Hospitals" is published in *Health Affairs*.

More information: Marcelo Cerullo et al, Private Equity Acquisition And Responsiveness To Service-Line Profitability At Short-Term Acute Care Hospitals, *Health Affairs* (2021). [DOI: 10.1377/hlthaff.2021.00541](https://doi.org/10.1377/hlthaff.2021.00541)

Provided by Rice University

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