

Hospitals swallowing independent practices found to lead to higher costs, worse patient health outcomes

August 31 2023



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It's been adopted more regularly across U.S. health care systems—vertical integration is when physicians work directly for

hospitals rather than independent practices. The intention is to have positive outcomes for patients, but new research forthcoming in *Management Science* finds that vertical integration is leading to higher costs and worse health outcomes, thanks to improperly aligned financial incentives.

The study, "The Impact of Vertical Integration on Physician Behavior and Health care Delivery: Evidence from Gastroenterology Practices," looks at data of Medicare patients treated by gastroenterologists, a specialty with a recent increase in vertical integration.

"We find that physicians significantly alter care processes after they vertically integrate, and that patients' post-procedure complications increase substantially," says Soroush Saghaian of Harvard University. "We provide evidence that the financial incentive structure of the integrated practices is the main reason for the changes in physician behavior since it discourages the integrated practices from allocating expensive resources to relatively unprofitable procedures."

Saghaian, alongside fellow co-authors Lina Song of University College London, Joseph Newhouse, John Hsu and Mary Beth Landrum (all of Harvard University), found that although integration improves operational efficiency measured by [physicians'](#) throughput, it negatively affects patient care quality and overall spending.

The researchers say that integration increased the number of patients a physician was able to treat and elevated reimbursement per procedure. For example, integrated doctors were reimbursed about \$127 more per colonoscopy procedure than independent doctors, or about 48% more.

"We recommend policymakers correct the incentive system currently in place by paying more for services. This additional expense would result in improvements to both patient well-being and the volume of patients

cared for, and therefore would provide notable savings in the long term," says Saghafian, an associate professor of public policy in the Harvard Kennedy School.

These findings prove that integrated practices don't necessarily achieve superior patient outcomes.

"There should be measures to monitor post-integration behavior and quality, and align with post-integration incentives. Given how fast vertical [integration](#) is happening, it's important for lawmakers to take quick, logical action now."

More information: Soroush Saghafian et al, The Impact of Vertical Integration on Physician Behavior and Healthcare Delivery: Evidence from Gastroenterology Practices, *Management Science* (2023). [DOI: 10.1287/mnsc.2023.4886](https://doi.org/10.1287/mnsc.2023.4886)

Provided by Institute for Operations Research and the Management Sciences

Citation: Hospitals swallowing independent practices found to lead to higher costs, worse patient health outcomes (2023, August 31) retrieved 11 May 2024 from <https://medicalxpress.com/news/2023-08-hospitals-swallowing-independent-higher-worse.html>

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