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The study, "Patient admission patterns and acquisitions of 'feeder' hospitals," appeared in the Winter 2007 issue of the *Journal of Economics & Management Strategy*. The authors are Sayaka Nakamura, Ph.D., Baker Institute, Rice University; Cory Capps, Ph.D., Bates White LLC; and David Dranove, Ph.D., Kellogg School of Management, Northwestern University.



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## HEALTH POLICY research

James A. Baker III Institute for Public Policy-Baylor College of Medicine  
Joint Program in Health Policy Research

### Are patient admission patterns influenced by hospital acquisitions?

"Yes, in some cases," says Sayaka Nakamura, Sid Richardson Scholar in Health Economics at the Baker Institute. "Roughly 30 percent of the acquisitions involving the purchase of a community hospital by a large, tertiary care hospital lead to a significant increase in referrals. Moreover, the referrals are concentrated among patients undergoing more profitable procedures and with more generous insurance."

Nakamura and her colleagues analyzed data from 26 hospital acquisitions in Florida and New York that occurred between the mid-1990s and the early 2000s, and for which pre- and post-acquisition data were available. They examined hospital records for all patients who received coronary artery bypass graft surgery (CABG), percutaneous transluminal coronary angioplasty (PTCA), or who were admitted for a set of medical conditions which are more commonly treated in tertiary care hospitals. In five out of 13 cases where admissions for CABG and PTCA were examined, acquirers increased their share of patients from the target hospital's service area. In two cases, simulations suggest that the acquisition increased profits for the acquiring hospital by roughly \$500,000. In seven out of 15 cases where a select set of tertiary treatments were examined, acquisition also led to an increase in patient referrals from the target hospital's market.

"During the 1990s, hospitals consolidated at an unprecedented pace," says Nakamura. "We don't know whether the prime motivation for acquisitions was an attempt to improve productive efficiency, to improve quality at the hospital being acquired, or to increase patient referrals to the acquiring hospital. Our analysis suggests that a significant portion of tertiary hospitals acquired

community hospitals in order to increase patient referrals. These sophisticated acquirers also experienced greater referrals of CABG and PTCA patients, which yield higher profit margins, as well as Medicare and privately insured patients, which provide more generous insurance payments."

The increase in referrals could improve social welfare if acquisition improves patient outcomes or leads to savings through economies of scale. However, researchers have been unable to identify evidence of either of these two factors after hospital consolidation. "The evidence of selective referrals raises potential concerns," says Nakamura. "The fact that some acquiring hospitals can increase profits through selective referrals implies that others will suffer losses. Hospitals with a worsening payer mix may have to reduce staffing and make other choices that threaten quality. They may also feel obliged to find their own targets for acquisition, leading to market consolidation that limits patients' choices for advanced hospital care."

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