Hospital Joint Ventures and Conflicts of Interest

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Summary
Although Mapletown's community hospital is operating in the black, it carries a substantial debt load and its future in the changing health care environment is uncertain. A physician's proposal to add an expensive high tech service brings to the surface conflicting perspectives about governing board strategies and actions that will best promote the community's welfare.

Andrew Preneur, an influential member of the Mapletown Hospital governing board, started his car and drove out of the hospital's parking garage. "Another 'interesting' board meeting," he mused. "What next?" The evening's primary action had been a presentation by John Stone, a prominent local urologist who was also a hospital board member. Stone had proposed a deal for the hospital that had given Preneur something to think about. Stone wanted the hospital to join with his practice as a full partner in the purchase of a lithotripter, a machine that shatters stones in the bladder, ureter, kidney or gall bladder by the use of high frequency sound waves. The hospital board would have to decide whether to accept Stone's invitation.

The Hospital's High Tech Services
At present, Mapletown Hospital offers lithotripsy, often an elective procedure, once a week and shares a mobile lithotripter unit with two hospitals located in Capital City, fifty miles away. Stone argued that the new machine would offer patients more convenient and reliable service. Lithotripsy procedures currently occur in two locations. The first part
takes place in the hospital's operating room; to complete the procedure, the patient is taken across the hospital to the mobile unit. A new machine would eliminate that trip, enabling the entire procedure to be completed in a single location. In addition, of course, patients and physicians would no longer be forced to follow the once-a-week schedule imposed by the use of a shared mobile unit.

Preneur, a successful businessman, thought about the financial implications of Stone's proposal. Although the hospital was in sound financial condition, it carried substantial debt as the result of recent expansions and modifications to the building. The latest construction had been undertaken to house a cardiovascular surgery unit, a project that proved highly controversial with the Mapletown public. Previously, the closest available cardiovascular surgery service had been in Capital City. Proponents had argued that lives could be saved if patients were spared the fifty-mile trip. Also, Preneur recognized, some people in town had been eager to secure the prestige associated with a service as technologically sophisticated as cardiovascular surgery. "Actually," Preneur reflected, "we heard from some of those same high tech boosters in tonight's discussion."

Critics of the plan to add cardiovascular surgery capability had questioned the wisdom of the hospital's taking on substantial debt at a time when it was implementing a reduction in force across many units. Critics had also argued that patients would be better served if they had open heart surgery at a large multi-service hospital such as the one in Capital City that performed a wide variety of specialized procedures in high volume.

"Anyway," Preneur concluded, "that's all water over the dam. But should the hospital cooperate in this lithotripsy deal Stone is proposing? There is a precedent: the hospital has already embarked on one joint venture with some of the docs."
The Hospital's Joint Venture

Soon after he became a hospital trustee, Prener recalled, the board had approved the hospital's participation in an outpatient* surgery center, forming a partnership with a group of local physicians. The hospital had recognized the need for such a center in the late '80s, when its operating rooms were hopelessly overcrowded, but the board had vetoed the idea for financial reasons -- it was just too soon after the last expansion. In response, some physicians organized themselves and bought land on the outskirts of Mapletown to provide outpatient facilities on their own. Ultimately, the hospital accepted their offer of a 50-50 share in Outlying Medical Center (OMC). The board saw the move as a matter of self-defense.

"If we hadn't done it," Prener reflected, "Outlying would now be siphoning off the patients who can afford to pay, leaving the hospital stuck with all the indigent. In fact, we already know that OMC is providing much less care for the poor than the hospital. Without the OMC partnership, we would have faced a decline in revenues, a reduction in the level and quality of services, and, eventually, we would be out of business. That wouldn't help the poor or anybody else." Prener pulled into his driveway. He had some thinking to do.

A Counteroffer

At breakfast a day later, Prener's attention was riveted by a story on page one of the paper. "Deal With Urologists Attacked," read the headline. After summarizing Stone's proposal to the hospital board, the story went on to quote Dr. Rene L. Riddle, a urologist who was not one of Stone's three partners. "Lithotripsy is an overvalued procedure, and the people who perform it are overpaid," Riddle asserted. "The hospital board should not allow itself to be dragged into another arrangement with physicians who are primarily interested in profit. The board owes it to the community to turn down this ill-advised plan." Riddle argued that physicians who own "ancillary" facilities or services have an inevitable

* "Inpatients" remain in the hospital overnight; "outpatients" do not.
conflict of interest. "The more procedures they order -- necessary or not -- the more money they make. They ought to be thinking of their patients' welfare, not their bottom line as investors," he said.

The story reported a counter-offer by Riddle. He felt so strongly opposed to Stone's proposal, he said, that he would purchase a used lithotripter and give it to the hospital. He wasn't asking for any return on his investment. "Well," Prener thought, "that sounds like an offer we can't refuse."

Prener placed a call to Ed Ministrator, the hospital's CEO. "What do you think, Ed?" he asked. To Prener's surprise, Ministrator was not enraptured by Riddle's proposal. "It's not that simple, Andy," he said. "We can't just plop a unit into the hospital. We would have to do some reconfiguring of our space, and that wouldn't be cheap. On top of that, we'd have to pay to maintain the machine. Besides, suppose Riddle buys the thing. There's no assurance that Stone won't go ahead and buy another one. Mapletown just doesn't need two lithotripters. Stone is in practice with three other urologists -- that's more than half of the urologists in town. Where do you think the four of them would send their patients? We'd be stuck with a machine we weren't using. Where would we get the money to keep it up?"

"I hadn't thought of that," Prener answered.

"Well, what about Riddle's concerns about conflict of interest?" Ministrator responded. "Why don't we ask the rest of the docs what they think? Do you think that information would help the board?"

"I think that's an excellent suggestion," Prener replied. "We could really use their input." Ministrator said he would check with other members of the board's executive committee and, if they endorsed the suggestion, he would poll Mapletown's physicians to determine their preferences for the location of the lithotripter.
Results of the Poll

As Preneur walked into the board meeting the following month, he noticed Stone listening to Ida List. Dr. List, the other physician on the hospital board, was an ob-gyn and a bit of a nonconformist. She seemed to have a lot on her mind, and she was speaking urgently to Dr. Stone. As the directors took their seats, Dr. List sat down beside Preneur. "Andy," she said, "we have to talk." But the chair called the meeting to order before she could continue.

Stone's proposal was the first order of business. Ministrator announced the results of the poll of local physicians. "Of the 186 docs who are approved to admit patients to this hospital," he said, "116 responded to the poll. Of those respondents, 73 say they prefer to locate the lithotripter in the hospital, and 11 said they prefer a 50-50 partnership with Dr. Stone and his partners and putting the unit in a free-standing location." Under her breath, Ida List exclaimed, "Yes!" Ministrator continued, "The rest want to keep both options open, or they prefer some other plan."

Stone and Riddle (the latter present by special invitation) were asked to respond to Ministrator's report on the poll. Stone repeated the arguments he had offered at the last meeting in support of his proposal. "I don't agree that this kind of arrangement is unethical," he concluded. "Everyone has his own idea of ethics, obviously, but I don't see anything wrong with it. Besides, the hospital is already a partner in Outlying, and nobody is raising any questions about that arrangement. We're thinking of the patient's good here. Toledo and Cleveland have lithotripters located in situations like the one we're proposing, and they have done thousands of procedures without a disaster."

Next, Riddle rehearsed his objections to Stone's deal. His final point was the argument that some patients experience heart problems when they undergo lithotripsy. "If Mapleton gets a lithotripter, it should be placed in the hospital, where we are equipped to deal with emergencies," he concluded.
Ida List spoke next. "I think the hospital should take the high ground, both ethically and medically," she asserted. "We shouldn't be refereeing the competition between two groups of urologists. We shouldn't buy into Stone's partnership, and we shouldn't accept Dr. Riddle's offer, either. If Mapletown needs a lithotripter, the hospital should buy it and run it."

Later that evening, Preneur described the meeting to his wife, Sue. "At that point, it just degenerated into a free-for-all, with everyone insisting on their right to have their say. I just don't know what to think. Deciding about the lithotripter is hard enough, but we have to make that decision in the context of the hospital's whole situation. We're facing a lot of hard questions about the hospital's future, and nobody really knows how to jump."

"Do you mean all the worries about 'managed care' and who owns the hospital?" Sue asked. "I'm afraid so," Preneur sighed.

The Hospital's Financial Environment

As Mapletown Hospital's board debated the location of the lithotripter, the hospital was facing a murky future. Mapletown is a city of about 100,000, with a surprising number of professionals for its size. In its area of the state, rural poverty is a real problem, and many people in the hospital's service area cannot afford health insurance.

Mapletown Hospital is the city's only hospital and a not-for-profit institution founded in the early 1900s by a group of civic-minded women. Their organization, initially a federation of women's clubs and associations, actually owned the hospital until the late 1970s, and they still appoint six of the eighteen board members. The county commissioners appoint six, the hospital's medical staff appoints two, and the existing board appoints four members of its own choosing.

For some time, the board has been hearing Ministrator's warnings of threats to the hospital's financial well-being. Broadly speaking, the
problem has two causes. In response to dramatically rising health care costs, government and private payers have attempted to control costs by limiting reimbursements to hospitals and other providers. A decreased revenue flow would create problems for any business. It is particularly problematic for hospitals because historically they have financed care for the medically indigent by cost shifting; that is, patients with the ability to pay were charged a premium that could be used to underwrite services for those who could not pay. In effect, public and private insurers have now capped this system. Prener himself, president of the second-largest employer in town, opened an employee clinic two years ago, offering his workers subsidized managed care in an effort to reduce his company's medical care costs.

Furthermore, a shift has occurred from in-hospital to outpatient care. As a result of an increase in outpatient procedures and drastically abbreviated hospital stays, more and more of the hospital's 297 beds have been empty. This change has led to a decrease in revenues that must be balanced by reductions in the hospital's budget and the provision of other services that will generate income. Although the hospital has been operating in the black, it carries a substantial debt load as the result of recent expansions to the building, such as the addition housing the cardiovascular service, and its long-term economic viability has been in question.

Alternatives for the Hospital's Future

In Prener's view, the hospital has four choices:

1) Continue its independent status. This alternative might be everyone's first choice, but the hospital is vulnerable to competition, especially from Capital City. Hospital chains, there or elsewhere, can profit from economies of scale and offer group contracts to insurers (whether insurance companies or employers) that will save them money. If that care is provided outside Mapletown, the result will be a continuing decline in census and revenues, reductions in the level
and quality of services, and eventually an inability to provide any level of indigent care at Mapletown Hospital.

2) Merge with a group of local physicians, guaranteeing a patient flow from their practices and attempting to establish Mapletown Hospital as the heart of an independent network of health care providers who would be reimbursed by employers and other insurers. The network would strike the best deal it could with regional employers. This strategy would have several outcomes. First, it would guarantee provision of indigent care only if area employers would pay rates that make cost shifting possible, and their willingness to do so cannot be assumed. Second, this alternative would restrict patient choice by covering charges only for providers belonging to the Mapletown network. Patients most affected would be the well-off who tend to go to go Capital City for specialty services even when the same services are offered in Mapletown; they would have to pay for that privilege out of their own pockets. Third, by limiting insured reimbursement to physicians who are in the network, the network alternative would protect Mapletown's physicians, especially specialists, from outside competition. Thus, some critics have described this alternative as guaranteed access to mediocrity. If the hospital adopted this strategy, the argument for investing in the lithotripter would be strengthened, as the availability of a local lithotripter would increase the service options in Mapletown itself.

3) Merge with another hospital or group of hospitals. If Mapletown Hospital were to join a larger network of nonprofit hospitals, local control of the hospital would be compromised. Mapletown employers could contract
with a regional entity; some patients would go to Capital City for services that they now receive in Mapletown. This alternative is clearly less attractive for the specialist physicians in Mapletown; a merger might risk the viability of their practices. Moreover, many Mapletown residents want their health care provided locally; the problems of getting time off from work or providing child care in order to travel to Capital City outweigh the advantages of its medical resources. In a merged system a lithotripter -- let alone two -- would be a white elephant. A lively prospect of merger makes the investment problematical at best.

4) Finally, the hospital could be sold to a profit-making corporation, with many of the same effects as in (3). The prospect of this possibility has aroused many Mapletown citizens, who have expressed keen anxiety about its implications for patient care. A group of critics has begun meeting together, and the local paper has reported their concerns about "bottom-line medicine." They have published numerous letters to the editor stressing the need to provide care for the medically indigent and arguing that if the hospital is run as a business, its primary concern inevitably will shift from patients' welfare to stockholders' profits. Quality will fall victim to a search for efficiency.

Making a Decision

In his office the next morning, Preneur was still mentally rehearsing the hospital's possible courses of action and their implications for the purchase of the lithotripter. Concerned that the board had never talked about these alternatives in systematic fashion, he decided to phone Ed Ministrator to suggest that the discussions be undertaken over the next several months. Just then his secretary announced an incoming call -- Dr.
Ida List. "Andy," she said, "I just ran into Stone at the hospital. He’s giving the board a deadline: we have to vote his proposal up or down at the next meeting."

"Oh, that's just great!" Preneur replied ironically.

Questions for Discussion
1. Identify the interested parties or "stakeholders" in this situation. Should any factors other than the interests of these parties be taken into account? Which of their interests or other factors is most relevant? Least relevant?

2. Several members of the board may have conflicts of interest in this case. Who? How serious are those conflicts?

3. Is this board the appropriate group to decide whether to join Dr. Stone as a part owner of the lithotripter? Why? If not, who should make the decision? Should the board be restructured or replaced?

4. What could the board have done to prepare itself for this decision?

5. How important is it for Mapletown Hospital to continue to exist as an independent entity? If it must give up its independence, what is its best course of action?

6. How should Preneur vote?
Bibliography


Argues that the shortcomings of American health care may be partly due to decision-making influenced by profitability, with financial implications of treatment weighing against physicians' and hospitals' social and ethical responsibilities. Brief but clear description in chapter 1 of the profound changes wracking the health care system, transforming it "from a community service to a major economic sector." Physician entrepreneurship described in detail in chapter 8.


From perspective of U.S. senator casting a vote, a teaching case that reviews arguments for and against a hypothetical bill to withdraw nonprofit hospitals' tax-exempt status. Also takes into account constituents' views, media reaction, and hospital lobbying.


Searching examination of physicians' conflicts of interest that points to profession's failure at self-regulation and the multiple inducements to physicians to assign a lower priority to the patient's interest. Suggests a variety of approaches to the problem, including governmental regulation, tax policy and peer review. In chapter 3 explores the variety of profit-making arrangements in which physicians may participate.

Explores significance of trends in health care for the law. Contrasts doctors' fiduciary role and ethical codes with law holding them accountable only in some situations. Suggests that new conceptions of health care, emphasizing the community rather than the individual patient, coupled with impact of large health care organizations, may weaken physicians' loyalty to patients.


In chapter 1 presents three moral criteria for evaluating trustee actions, including faithfulness to mission, contribution to the common good of the larger society, and conformance to the society's conception of justice. Stipulates that board actions must be arrived at fairly. Includes short case study of hospital's decision to close specialized trauma center and begin offering hospice services.