

Can Partnerships, Mergers, and Acquisitions Help Failing Hospitals?



Analyst firm, Kaufman Hall, prepared a report for the American Hospital Association (AMA) to determine the benefits of partnerships, mergers, and acquisitions for hospitals. For some hospitals, these transactions are the necessary response to the many pressures hospitals now face. These pressures are:

- Beneficiaries of Medicare or Medicaid are increasing. Since these programs pay below the cost of care, hospitals must scale up to drive down costs and minimise their losses.
- Hospitals must absorb the risk of high-risk, high-acuity patients care.
- Offloading inpatient to out-patient care exposes hospitals to competitors that do not bear the cost of providing acute care.
- The COVID-19 pandemic has doubled (from 25% to 50%) the hospitals that operate with negative margins due to smaller volumes and increased pandemic-related costs.

Kaufman Hall analysed data on 463 transactions between 2015 and 2019. About 20% (92) of the hospital organisations cited financial distress as a key driver in these transactions. One third (31 of 92) of these hospitals declared bankruptcy. Of the 31 bankrupt hospitals, more than 80% “were saved from bankruptcy and remain operational” after these transactions.

Across the 463 transactions, 38% were able to offer new services after the transaction. Of those acquired by academic centres, 46% added new services and improved access to tertiary and quaternary care services. Previous reports indicated that acquired hospitals reduced their operating costs and passed these saving onto their patients. The extra resources provided by larger organisations support consumer-centric strategies and enhance the patient care experience. The merger approach increases the organisation scale, which improves the organisation credit rating ability to access low-cost capital and attract investor interest.

Overall, these transactions can improve care access and affordability. Partnerships, mergers, and acquisitions allow hospitals to have the capital to invest in care delivery, advances, and infrastructure.

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