

The Effect of Vertical Integration on Operational Performance: Evaluating Physician Employment in Hospitals

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Abstract : This study investigated whether vertical integration of hospitals and physicians is associated with better care for patients with cardiac conditions. A dramatic change in the U.S. hospital industry is the integration of hospital and physicians through hospital acquisition of physician practices. Yet, there is little evidence regarding whether this form of vertical integration leads to better operational performance of hospitals. The study was conducted as an observational investigation based on a pooled, cross-sectional database. The study sample comprised over hospitals in the State of California. The time frame for the study was 2010 to 2012. The key performance measure was hospitals' degree of compliance with performance criteria set out by the federal government for managing patients with cardiac conditions. These criteria relate to the types of clinical tests and medications that hospitals should follow for cardiac patients but hospital compliance requires the cooperation of a hospital's physicians. Data for this measure was obtained from a federal website that presents performance scores for U.S. hospitals. The key independent variable was the percentage of cardiologists that a hospital employs (versus cardiologists who are affiliated but not employed by the hospital). Data for this measure was obtained from the State of California which requires hospitals to report financial and operation data each year including numbers of employed physicians. Other characteristics of hospitals (e.g., information technology for cardiac care, volume of cardiac patients) were also evaluated as possible complements or substitutes for physician employment by hospitals. Additional sources of data included the American Hospital Association and the U.S. Census. Empirical models were estimated with generalized estimating equations (GEE). Findings suggest that physician employment is positively associated with better hospital performance for cardiac care. However, findings also suggest that information technology is a substitute for physician employment.

Keywords : physician employment, hospitals, vertical integration, cardiac care

Conference Title : ICHCFHEHP 2017 : International Conference on Health Care Reform, Health Economics and Health Policy

Conference Location : Berlin, Germany

Conference Dates : May 21-22, 2017