



Highlights of [GAO-06-520](#), a report to the Chairman, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

There has been much debate about specialty hospitals—short-term acute care hospitals with physician owners or investors that primarily treat patients who have specific medical conditions or need surgical procedures—and the competitive effects they may have on general hospitals.

Advocates of specialty hospitals contend that competition from these physician-owned facilities can prompt general hospitals to implement efficiency, quality, and amenity improvements, thus favorably affecting the overall health care delivery system. Critics of specialty hospitals are concerned that general hospitals may respond to such competition by making changes that do not necessarily increase efficiency or benefit patients or communities, for example, by adding services already available in the community. The appropriateness of physicians' financial interests in specialty hospitals has also been questioned.

GAO was asked to provide information on the competitive response of general hospitals to specialty hospitals. GAO surveyed approximately 600 general hospitals in markets with and without specialty hospitals to provide information on the extent to which these two groups of general hospitals reported implementing operational and clinical service changes to remain competitive. GAO received responses from 401 general hospitals.

www.gao.gov/cgi-bin/getrpt?GAO-06-520.

To view the full product, including the scope and methodology, click on the link above. For more information, contact A. Bruce Steinwald at (202) 512-7101 or steinwalda@gao.gov.

GENERAL HOSPITALS

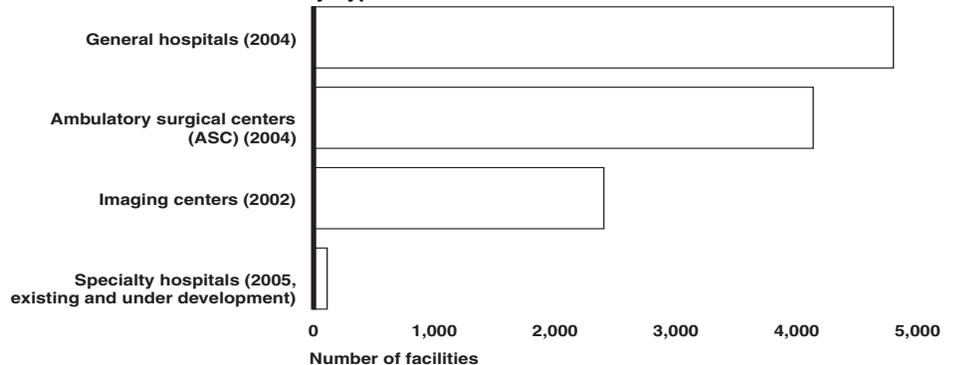
Operational and Clinical Changes Largely Unaffected by Presence of Competing Specialty Hospitals

What GAO Found

Nearly all general hospitals responding to GAO's survey reported making operational and clinical service changes to remain competitive in what they viewed as increasingly competitive healthcare markets; however, there was little evidence to suggest that general hospitals made substantially more or fewer changes or different types of changes if some of their competition came from a specialty hospital. While the majority of survey respondents indicated that competition from other general hospitals had increased, a larger proportion of respondents—91 percent of urban general hospitals and 74 percent of rural general hospitals—reported increases in competition from limited service facilities, a category that includes approximately 100 specialty hospitals across the nation and thousands of ambulatory surgical centers and imaging centers. To enhance their ability to compete, general hospitals reported making an average of 22 operational changes, such as introducing a formal process for evaluating efforts to improve quality and reduce costs, and 8 clinical service changes, such as adding or expanding cardiology services, from 2000 through 2005. Although specialty hospital advocates have hypothesized that the entrance of a specialty hospital into a market encourages the area's existing general hospitals to adopt changes that make them more efficient and better able to compete, the survey responses largely did not support this view. There were no substantial differences in the average number of operational and clinical service changes made by general hospitals in markets with and without specialty hospitals and, for the vast majority of the potential changes included on GAO's survey, there was no statistical difference between the two groups of hospitals in terms of the specific changes they reported implementing.

GAO received comments on a draft of this report from the Centers for Medicare & Medicaid Services (CMS). In its comments, CMS stated that GAO's study, by providing quantitative data on the market effect of specialty hospitals, was extremely helpful.

Number of Medical Facilities by Type



Sources: American Hospital Association, GAO, and Medicare Payment Advisory Commission.

Note: Data include the most recently available count for each type of medical facility. Count of ASCs includes only those facilities that are Medicare certified.