University Hospitals for Sale

Faculty opposition killed the sale of Harvard's McLean Hospital to a for-profit corporation, but a partnership remains a possibility

The McLean Hospital, one of the principal teaching hospitals of Harvard Medical School, sits on an elegant 240-acre campus in the town of Belmont, Massachusetts, just outside Boston. A psychiatric hospital with the look of a small New England college, McLean was founded in 1811 as a sister institution to the Massachusetts General Hospital (MGH), with which it shares a board of trustees. (The MGH Corporation owns both hospitals.) Over the years, hundreds of Harvard psychiatrists have trained at McLean which ranks as one of the nation's leading centers for psychiatric teaching and research. For well over a century and a half, Harvard and McLean have shared the ties that bind.

And so it came as no small surprise last summer when the trustees announced one day that they had plans to sell McLean outright to the Hospital Corporation of America (HCA), a young and very wealthy enterprise that owns some 350 for-profit hospitals now and is continuing to expand. Although no one else knew it, the trustees and top brass of HCA had been negotiating for months. The plan was to strike a deal that would be sound for McLean while also (and most important) providing some $50 million or so extra that the trustees could use for the renovation of Mass General, which is badly in need of physical repair.

The announcement about the negotiations was made on Monday, 1 August, as Harvard's psychiatrists were readying for vacation. It came out of the blue and left everyone stunned. One McLean scientist heard the news on the radio. "It made me think that we were being sold like chattel," he says. According to a senior hospital official, "People started asking, 'Who in hell do the trustees think they are?' " The implication that they were treating McLean as an asset that could be sold to benefit Mass General compounded a sense of outrage. And, although legally Harvard does not own McLean, the long and close affiliation made people ask with astonishment whether Harvard really could ever be "for sale."

Opposition to the sale of McLean to a for-profit corporation mounted quickly throughout Harvard Medical School and its affiliated teaching hospitals. Arguments were raised, on the basis of deeply held values, that the sale of McLean, after nearly 175 years of public and private support, amounted to a violation of the public trust. A dread that the sale would lead to an inappropriate, even unethical, concern for profit was pervasive among opponents. There was also a feeling that if Harvard sold out, other institutions would be unable to resist corporate takeover. As Harvard goes, so goes the nation.

By November, the MGH/McLean trustees and Harvard administrators who favored the sale recognized the full strength of the opposition and terminated negotiations with HCA for an outright sale. But neither the broad issues of hospital economics that lie behind the trustees' move nor the question of the future of a union between McLean and HCA have yet been settled. If anything, the question of the sale of university hospitals to the country's big for-profit hospital chains is just beginning to open up. One Harvard physician described the McLean confrontation saying, "Harvard meets Godzilla." It is not clear who won the first round but there is every indication that in the future, at Harvard and elsewhere, deals will be struck.

Francis H. Burr

Seeking "innovative" financing solutions that preserve academic values.

During the past several years, a number of forces have come together to affect the economics of the hospital business in important ways. Limits to Medicare and Medicaid reimbursement, stemming from the government's interest in controlling hospital costs, are one factor. Limits to hospital charges, set by state rate-setting bodies, are another. Labor costs, as well as the acquisition and maintenance of high-technology equipment, are driving hospitals' expenses up. And, a matter of particular concern to the country's oldest academic medical centers, the need for capital to renovate or replace aging hospital facilities is hitting hardest just as the opportunities for getting money for these capital improvements are dwindling. Federal funds in this area have all but vanished and innovative approaches are in demand.

At the present time, the University of Louisville's teaching hospital is operated by Humana Inc., a large Louisville-based for-profit hospital corporation. George Washington University is talking with American Medical International, another of the large for-profits, about the sale of its hospital. Medical school dean Ronald Kaufman reports that they have applied for private foundation funding of a study of the pros and cons from the point of view of everything from quality of patient care to tax and legal considerations. The study, he says, will be conducted in a "fish bowl."

According to Charles N. Martin of Hospital Corporation of America, HCA currently is engaged in discussions with six "prestigious"—but unnamed—academic hospitals, in addition to its continuing talks with the MGH/McLean trustees about finding some acceptable way to form a partnership with McLean short of an outright sale. A long-term lease or other form of joint venture might still work out, sources report.

The trustees of Mass General, along with several Harvard university officials, believe still that they were well on the way to forging an acceptable deal with HCA—one that recognized the corporation's needs while also protecting the hospital. In a telephone interview, Francis H. Burr, chairman of the board of trustees of the Massachusetts General Hospital Corporation, said he does not think that faculty opposition was valid.

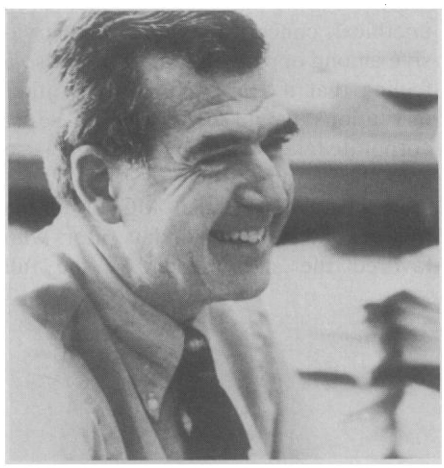
"The reaction against this was highly emotional," Burr said, and was based in part on a simple view of HCA as a "big evil corporation" run from Nashville where it has headquarters. "The distinction between joining forces with a for-profit or a non-profit is not right. You have to get over that," he said, "and think about the long-term needs of the hospitals and then figure how to meet them without sacrificing important ideals." Burr acknowledges that the way in which the trustees handled the announcement of the HCA negotiations was a large part of the problem, but he also thinks the episode may inadvertently have had a beneficial "shock value" in bringing the real issues of future fiscal viability to the fore. He has appointed a committee with representatives from McLean, MGH, and Harvard to discuss where to go from here. "Maintenance of the status quo is not acceptable," he says.

(The challenge facing academic hospitals that want to enter into a relationship with the for-profit hospital sector are not entirely unlike that which faces universities that are forming partnerships with industry in the area of biotechnology.)

The capital needs of McLean Hospital are put at $35 million, while it is estimated that an excess of $200 million in capital will be necessary to renovate, rebuild, and expand the Massachusetts General. It was early last year that Donald MacNaughton, chairman of the board of HCA, approached Burr and the other MGH trustees about a sale. At first, Burr recalls, "I said it wouldn't fly, but gradually I came to think that it would work. The issue is control. I kept saying that McLean and Harvard would have to control things and HCA kept agreeing to my demands."

Late in March, psychiatrist Francis deMarneffe, general director of McLean, was informed of the discussions on a confidential basis. He too had doubts. "I was stunned," he says. "I thought it was a very poor idea." But deMarneffe also came to change his mind. "HCA officials readily understood the elements that are important to maintaining McLean," deMarneffe told *Science*. "I talked to them about teaching and research and the kinds of patient responsibilities we have. Eventually I believed that they really wanted us for what we are." deMarneffe also began to see some of the things HCA had to offer as "very appealing, very stimulating." For instance, in addition to a promise of $35 million for renovation, the hospital corporation guaranteed to fund five full professorships and to put up money for long-term teaching and research programs as part of the deal.

Indeed, HCA had a lot to offer and a lot to gain. According to HCA's Martin, the corporation now owns 25 private psychiatric hospitals and is negotiating to add another dozen or so private, non-university psychiatric hospitals to its chain. HCA envisioned McLean as its lead hospital and a resource for such activities as continuing medical education of its medical staffs through satellite relayed conferences with McLean faculty. With a prestigious Harvard hospital of its own, HCA would be in a good position to benefit from McLean's reflected reputation. For this, HCA was willing to pay a high price. It is possible that a less prestigious institution could not win as many concessions. The key to the whole deal was that Harvard would, in fact, maintain its affiliation with McLean after the sale and, to ensure this, the Harvard medical faculty were brought into the negotiations.



Arnold Relman

"I was very proud of this university."

At the time that the negotiations were first made public on 1 August, Harvard dean Daniel C. Tosteson announced that he had appointed a committee of Harvard physicians, including representatives of McLean and Mass General, to advise him. Tosteson asked the nine-man committee, which was headed by MGH neurologist Joseph B. Martin, to do its work within 2 to 3 months.

On 1 November the Martin committee which, by several accounts had been leaning toward approval, issued its report recommending that the offer from HCA be turned down. The unmistakable basis for the committee's recommendation rested not on the merits of the proposed partnership but on the fact that opposition was so strong. "In the judgment of the Committee, most of the negative reactions are not based on an assessment of the specifics of the proposal and/or of the previous performance of the Hospital Corporation of America," the report says. "Rather, the reactions seem to flow from a set of values strongly held by many members of the faculty. . . . These ethics hold that the operation of hospitals, and particularly teaching hospitals, should not be influenced by the motivation for profit." Later in its report, citing opposition to the sale as a violation of the public trust, the committee said, "The rationale behind this belief was complex and was not always clearly articulated for the Committee. Still, it is a belief shared by many faculty and representatives of the community."

Part of the opposition to the McLean/HCA deal rests with the belief that some things—Harvard, for instance—simply should not be for sale at any price. Arnold Relman, professor of medicine at Harvard and editor of *The New England Journal of Medicine*, was a forceful and articulate opponent. In an interview with *Science*, Relman spelled out his reasons—reasons that would seem to be shared by a majority of his colleagues.

Relman believes that the economic forces that are shaping the health care industry today risk turning medicine into a product rather than a social service. The qualities that make medicine a profession will be lost if patient care is dominated by the profit motive, Relman believes. The sense of voluntarism and what he calls "Robin Hoodism" are also jeopardized by the big for-profits. "Citizens who have supported their community hospitals are not going to donate to HCA," he predicts, and the traditional system of using income from donations and patients who pay to care for the poor will disappear as well. "The for-profits don't give anything away free," he avers.

Relman, who passionately believes that physicians must fight to hold on to the traditional values of their profession, argued that the sale of McLean would have serious repercussions for Harvard and for academic medicine nationally. "It would send a terrible message to medical students and house officers," he says. Furthermore, he and others made the case that no matter what controls HCA ceded to Harvard, the fact is that the hospital corporation would have ultimate control over psychiatry at Harvard because it would have ultimate control over the finances at one of the medical school's larger psychiatric teaching and research centers. But, Relman noted, in the end it was the question of values that prevailed and "all other specific arguments fell away" in the face of strong faculty opposition. "I was very proud of this university," he said.

Another Harvard player whose views contributed to the strength of the opposition was sociologist Paul Starr who recently has written on the "coming of the corporation" as a major influence in the structure of the medical care system in this country.* Starr agrees that no matter what measure of control the trustees could convince HCA to turn over to Harvard, real control rests with the man who controls the money. "The sale," he says, "would have meant the medical school giving up control over psychiatry at McLean."

More broadly, Starr, like Relman, argues that the coming dominance of for-profit corporations in medicine could send the United States back to a two-tier system of medical care. The wealthy and the well-insured and those with "profitable" illnesses would have easy access to the system. The poor would not. "The spectre of the desperately sick being turned away from community hospitals because they cannot pay is already reality," Starr notes, and predicts it will become more common.

With the growth of the medical insurance industry and the advent of Medicare and Medicaid, medicine has become a profitable business in the past 20 years—profitable, that is, for small to medium-size private hospitals that do not have costly teaching programs, research enterprises, and large numbers of poor, often chronically ill patients.

Psychiatric hospitals are particularly attractive to investor-owned companies like HCA. These hospitals need little in the way of expensive medical technology, such as elaborate surgical suites or CAT scanners. Almost invariably, the patients can pay. Even at McLean, with its emphasis on teaching and research, the hospital's charitable debt for patients who cannot pay is only 2.6 percent of total revenues. According to trustee Burr, McLean, which operates in the black, occasionally picks up the bill for patients who exhaust insurance or personal funds before their treatment is complete, but has very few patients who cannot pay anything at all.

Many observers of the for-profit hospital industry, which has grown tremendously during the past decade, believe that when the private chains do negotiate with major (not profitable) teaching hospitals, it is because they are looking for the prestige ownership or affiliation will bring, an observation many corporate officers are willing to confirm. Arguments against hinge on questions of compromised values. The Harvard committee that reviewed the HCA proposal, for instance, went out of its way to say that in recommending against approval, it had nothing personal against the hospital corporation.

Although the issue of a sale of McLean to HCA under terms of the present proposal is dead, Burr has said, the question of how academic hospitals will meet their future fiscal needs is very much alive and demands an "innovative" solution. Even at Harvard the loyal opposition acknowledges that "you can't live on values" and one McLean official privately confided that the plan drawn up by HCA and the trustees certainly was innovative. "One thing the HCA people have is vision," he said. "I never would have even dreamed that you could buy McLean but they dreamed it."

What happens next, at Harvard and elsewhere, is likely to be a period of thinking things through as academic hospitals and for-profit hospital corporations begin in increasing numbers to seek some form of partnership. Burr, who recognizes that, despite the most honorable intentions, the trustees can no longer treat MGH and McLean as "their" hospital, is seeking a solution with greater faculty participation. Regarding McLean itself, there is speculation that it will win a certain measure of independence from Mass General by getting its own board of trustees and that if any HCA connection is made the deal is not likely to include a huge sum of capital for MGH.

But that, of course, says little about the broader issue of finding ways to fund teaching hospitals, which some believe is nothing less than the future of academic medicine.—**Barbara J. Culliton**

*P. Starr, *The Social Transformation of American Medicine* (Basic Books, New York, 1983).

Proposed Terms of Sale

At the time negotiations over the sale of McLean Hospital to Hospital Corporation of America became public, a draft proposal was in hand, although modifications likely would have been made before closure had the deal gone through. Principal elements of the proposal are as follows:

- HCA would purchase McLean from Massachusetts General Hospital (MGH) Corporation for a price to be determined, but in the range of $40 to $60 million. The bulk of these funds would be used for renovations at MGH.
- With the transfer of ownership, HCA would establish for McLean a nine-member board of trustees to be headed by the dean of Harvard Medical School. Only two members of the board would be HCA appointees; the others would be chosen by Harvard and MGH. The board would have overall responsibility for teaching, research, and patient care at McLean, including the appointment of all M.D.'s and Ph.D.'s who would have joint appointments in the medical school. HCA said that this board would have authority over all matters except for the crucial one of final approval of the budget for care of patients.
- HCA would endow five professorships at McLean for a total of $6,250,000.
- HCA would spend approximately $35 million at McLean on renovation and expansion.
- As far as profit-making is concerned, HCA agreed to limit increases in patient charges, to accept no profit for several years and to agree to only a usual profit margin thereafter. Currently, HCA's profit margin is about 4½ percent, which McLean now would have no trouble meeting because the hospital operates in the black.
- HCA agreed to maintain teaching and research funds equal to the present budget, with a formula for annual increases.
- If at some future time HCA was either uninterested in or unable to run McLean according to the terms of the agreement, it would sell the hospital back to the MGH corporation at a favorable price.
- The Harvard committee that reviewed the proposal for the dean felt strongly that, with respect to this last point, the buy-back provision would have to be strengthened in order to make it financially feasible. One thought expressed to *Science* was that all or part of the money from the purchase price be put into a trust fund for McLean rather than into capital improvements at MGH.—**B.J.C.**