

# Competition among hospitals for hmo business



**ASSIGN  
BUSTER**

## Summary: Competition among Hospitals for HMO Business Research

Questions, Theoretical Framework, and Variables The study of the effect of price and non-price attributes to the share of HMO business among hospitals based on an empirical analysis of Florida acute hospitals covering the period from 1992 to 1997 centered on finding answers to two questions: (1) In the competition among hospitals for HMO business, what is the relative importance of price versus non-price attributes and (2) Do patterns of competition among hospitals for HMO business appear to differ depending on market characteristics The theoretical framework used by the authors states that a hospital's share of HMO business in its market is a function of a combination of several price and non-price attributes, and that hospitals that offer lower prices to HMOs have a competitive advantage. The study attempted to add to the literature that contradicts Porter's theory that firms rarely achieve competitive advantage by applying both price and differentiation strategies.

To measure the market share of hospitals, the dependent variables are (1) HMO revenue and (2) HMO admissions. The independent variables are: an index of relative hospital prices for HMO business in each market (price); high tech-capability; teaching status (teaching or non-teaching); ownership status (non-profit, for-profit, or public); and location. To provide answer to the second research question, that is, to account for the effect of the structure of the hospital market on market share, three variables were added: no. of hospitals in the market, no. of HMOs in the market, and the HMO penetration rate.

### Key Findings:

For both price and non-price attributes, the regression test pointed to an

<https://assignbuster.com/competition-among-hospitals-for-hmo-business/>

effect on market share variables. Hospitals with lower prices had a bigger share of HMO business. The more high-tech a hospital was, the greater the share in the HMO business. Teaching hospitals were more preferred by HMOs than non-teaching ones. On the effect of ownership: on average, nonprofit and public hospitals had less market share than for-profit ones. Location: hospitals located relatively farther from the market center had less market share. Among the competitive attributes, high-tech capability had the largest effect on market share, followed by price and location. As to the effect of market structure on market share, all were statistically significant: the number of hospitals was associated with lower hospital-level market share; the number of HMO plans was associated with lower market share and; the HMO penetration rate was associated with higher hospital-level market share.

Further tests whether patterns of competition among hospitals for HMO business vary in relation to market structure revealed that the more HMO plans, the less effect of the competitive attributes on the share of HMO business for hospitals, whether based on revenue or admissions. On analysis of the hospitals with more than 30% of market share based on revenues, these hospitals were found to have relatively lower prices, greater high-tech capability and a closer geographic proximity to the market centroid.

However among the rest of the hospitals apart from the market leaders, the study revealed that those with relatively lower prices typically had less rather than high-tech capability, and are relatively farther than closer to the market centroid. Thus, market leaders successfully combined price and non-price attributes in a strategy that was different from the rest.

The authors claim that the study is among the first to investigate whether

<https://assignbuster.com/competition-among-hospitals-for-hmo-business/>

and to what degree hospitals compete for HMO business on the basis of price and non-price strategies. The study proves that hospitals appear to compete for HMO business on the basis of both price and non-price attributes. It also supported the theory that firms can compete successfully by combining cost leadership and differentiation strategies.