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# Strategic Hospital Alliances: Impact On Financial Performance

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## ABSTRACT:

Acute care hospitals have increasingly been forming local strategic hospital alliances (SHAs), which consume considerable resources in forming and may affect the competitiveness of provider markets. This research shows that SHAs and market factors, which have been perceived to be threats to hospitals, are related to hospitals' financial performance. Among the findings are that SHA members have higher net revenues but that they are not more effective at cost control. Nor do the higher net revenues result in high cash flow. However, increasing SHA penetration in a market is related to lower net revenues per case. In addition, the penetration of private health maintenance organizations in markets is associated with lower revenues and expenses.

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## NOTES

1.

We found no evidence of significant multicollinearity from evaluation of simple correlations among the variables and the COLLINOINT option of SAS.

[Google Scholar](#)

2.

Duffy S.Q., Friedman B., "Hospitals with Chronic Financial Losses: What Came Next?" *Health Affairs* ( Summer 1993 ): 151 - 163 ;

[Crossref](#) | [PubMed](#) | [Google Scholar](#)

Kane N.M., "Hospital Reported Profits, a Misleading Measure of Financial Health," *journal of American HealthPolicy* ( July/August 1991 ): 27 - 35 ; and

[Google Scholar](#)

McCue M.J., "System and Bed Size Influence on Financial Structure," *Health Services Management Research* 4, no. 3 ( 1991 ): 206 - 215 .

[Google Scholar](#)

3.

The nonnormality of the distributions of the dependent variables contributed to significant heteroskedasticity. Therefore, we deleted a small number of clear outliers. The deleted observations number ten for net revenues, twenty-five for expenses, and fifty-two for cash flows. We also used natural logarithmic transformations of net patient revenue per adjusted discharge and expense per adjusted discharge. Finally, we used weighted least squares estimation for the cash flow equations.

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For further discussion of procedures, see R.H. Miller et al., *Health Care System DataSource*, 1st ed. ( Washington : National Institute for Health Care Management, 1996).

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