

JEFFERSON GENERAL HOSPITAL

MERGERS,
ACQUISITIONS,
AND AGENCY



MARK MILLER, chief executive officer (CEO) of Jefferson General Hospital, has some tough decisions to make in the future. Jefferson General is a stand-alone, not-for-profit hospital that has a long and proud tradition of serving the community in which it operates. It was founded in the midst of the great depression as Jefferson County Hospital and remained under public control for over 50 years. Then, in 1986, after years of losses, the county decided that it could no longer afford to operate the hospital, and it subsequently converted the hospital from a public to a private entity. At that time, Mark was brought in as the CEO. After a shaky start, he was able to turn the hospital into a moneymaker. Still, he was very aware of the hospital's roots, and he made sure that the hospital continued its original mission of providing healthcare services to the needy, regardless of their ability to pay.

Jefferson General is the smallest of the three hospitals that serve Jefferson and surrounding counties; the other two are St. Vincent's Hospital and Northwest Regional Medical Center. St. Vincent's has religious roots, but it is now operated as a not-for-profit, nonsectarian hospital. Northwest Regional is owned and operated by a large for-profit chain. The combined capacity of the three hospitals is over 950 beds, but none of the three operates above 60 percent occupancy. Furthermore, managed care is starting to take hold locally, and hospital utilization trends indicate that the service area will need only 600 beds as utilization rates are squeezed down.

The most logical solution to the county's changing healthcare market conditions is a merger between two of the three hospitals, and Jefferson General is the hospital most likely to be acquired. Mark has been approached by the CEOs of both St. Vincent's and Northwest Regional concerning his interest in a merger. Although it was too early to speculate on the exact terms that might result if a merger takes place, past mergers in the region provide some insights into what might happen to Mark should a merger occur.

If the hospital were acquired by St. Vincent's, Mark would probably continue as CEO of the hospital, at about the same compensation as he currently receives. However, he would lose much of his autonomy and authority because he would now have to report to the system CEO, who most likely would be the current CEO of St. Vincent's. If the hospital were acquired by Northwest Regional, Mark would probably relocate to a CEO position at some other not-for-profit hospital because the for-profit chain usually brings in its own management team when it makes an acquisition. But Mark would not go away empty handed. He would probably receive a large "golden parachute" as a result of his job loss, which might include lucrative stock options, a lump sum payment, and a consulting contract. The aggregate amount of such payments could easily be worth many times his current annual salary.

~~Although the ultimate decision regarding the fate of Jefferson~~
General rests in the hands of its board of trustees, the members of the board were chosen more on the basis of their community ties than on their business acumen.