

merger

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Merge between nonprofit and for-profit facilities

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According to the IRS, Nonprofit hospitals or not-for-profit (NFP) hospitals qualify to provide charity healthcare services to society. The hospitals don't pay property tax, sales tax, or state income tax. The nonprofit hospitals' operations are majorly from donations from some religious organizations, and the hospitals' operations must be based on religious values (Álvarez-González et al., 2017). On the other hand, For-profit hospitals are investor-owned. They focus on making profits meant for the stakeholders. For-profit hospitals are known to serve people in the lower-income population. These hospitals allocate more resources that are used for advertising and marketing their services. According to Dr. David Himmelstein (a professor of public health and health policy), for-profit hospitals waste much of their resources that they would use to purchase medical equipment and train medical practitioners to improve the quality of healthcare. He argues that marketing and advertisements are wasteful programs leaving patients with little or no choice to seek medication, considering that most for-profit hospitals are located in areas with few healthcare options (Álvarez-González et al., 2017). However, the healthcare industry is experiencing great pressure when it comes to service delivery. This is forcing the nonprofit hospitals to look for options to ensure the provision of quality healthcare services. These options include merges with for-profit hospitals, converting to for-profit hospitals, or joint ventures with the for-profit health facilities. This paper will be analyzing a proposed joint venture between two hospitals, focusing on whether a nonprofit hospital should convert or create a joint venture with a for-profit hospital.

Differences between nonprofit hospitals and for-profit hospitals

The main feature differentiating the not-for-profit hospitals from for-profit hospitals is that the former are charitable and have no stakeholders who own the facilities. On the other hand, for-profit hospitals are owned by stakeholders and aim at gaining profits. Nonprofit organizations are exempt from tax policies. They are not expected to pay any tax since they never operate to earn profits. They have to give any additional capital to the surrounding community (Álvarez-González et al., 2017). They maintain a charitable purpose focusing on the communities, especially those with fewer poverty rates, fewer uninsured patients, and higher-income earners. They are known to provide more uncompensated healthcare services. They are affiliated with certain religious denominations. They depend on charitable contributions given by non-governmental organizations, state and federal governments. Moreover, they might have some sources of funds that can help meet their expenses.

The Internal Revenue Service (IRS), which is the body responsible for passing income tax exemptions, exempts nonprofit hospitals from paying income taxes, considering that these hospitals do not run to generate profits. The IRS exempts such hospitals after they have proven that they will exclusively provide charity healthcare services. Therefore, the facilities can receive donors to fund their operations. The donations are never taxed since they are charitable contributions.

The nonprofit hospitals are expected to maintain 501(c) (3) status to qualify for tax exemption. This is what makes the hospital charitable and not-for-profit, meaning it can't, by all means, organize ways to earn profits. The not-for-profit hospitals need to file annual returns, highly dependent on their gross receipts and total assets (Fischer, Vadapalli & Coulton, 2017). There are some activities that the administrators of the nonprofit's hospitals can engage in can jeopardize their exemptions. Some of these issues include; administrators' engagement in

political campaigns of candidates with interests for local or federal positions, engaging in operations that violate the exempt purpose, and operating to benefit private interests.

Additionally, if the administrators are involved in activities violating the fundamental public policy and failing to file necessary annual reports can also jeopardize the exemptions (Fischer, Vadapalli & Coulton, 2017). All nonprofit hospitals must adhere to and maintain the 501(c)(3) status to continue enjoying the federal law's exemptions.

Shifting to corporate structure

For-profit hospitals' structures comprise of stakeholders. They are run and managed by a board of directors. This board of directors is accountable and answerable to the stakeholder when issues arise. The board also takes up the responsibility of appointing top administrative persons to oversee all facility activities. With such an organization, the facilities aim to earn maximum profits. However, the not-for-profit hospitals are managed by a board with committed leadership that aims to achieve the hospital's charitable mission. Unlike for-profit hospitals, nonprofit hospitals do not have stakeholders. The management isn't accountable to any stakeholder, but if, by any chance, the nonprofit hospitals choose to change to for-profit hospitals, major adjustments are made (Searing & Tinkelman, 2020). They are expected to change their structures by having investors or stakeholders and coming up with structures aiming to earn profits.

Outright mergers versus corporate alliance or joint venture

In the healthcare sector, the earliest mergers were between two or more for-profit hospitals. However, after years, changes have been experienced where there were merges between for-profit and nonprofit hospitals. The mergers are challenging due to the difference in the structures in these two organizations. It means that there must be changes in their horizontal

and vertical structures to ensure that they operate without problems. Both hospitals' management is expected to identify reasons for the merger (Erlangga et al., 2019). They should consider the fact that mergers sometimes create a monopoly overruling the area. This can lead to overcharging patients who do not have any other alternative. In other cases, such monopolies are known to attain an economy of scale. Hospitals merge to improve the quality of healthcare services. This is evident with the number of patients visiting the facilities and the improved number of surgeries due to the merge's improved healthcare quality.

There is are complete or partial mergers. In such cases, a nonprofit hospital may completely convert to a for-profit hospital. The nonprofit hospital is expected to change its entire operations and structure, which can be a complex procedure. It might be required to sell the assets since they don't belong to any particular person. On the other hand, there are joint ventures established between for-profit and not-for-profit hospitals. This process includes a for-profit hospital joining one or more not-for-profit hospitals (Erlangga et al., 2019). They join to form a for-profit healthcare facility with joint ownership. They establish an organized control system, which means that the profits gained are to be shared equally.

Assessment of payments and finances

The reimbursement patterns the mergers use entirely depend on the percentage of revenues a healthcare facility acquires when patients receive their healthcare services. This is also known as the payer mix. The reimbursement pattern depends on the merged facilities' patients' base (Searing & Tinkelman, 2020). The main aim of the for-profit facility is to gain profit. The facility will only offer services that raise profits and do not provide services that pay low. Additionally, the for-profit facilities are established in locations with a possible good mix.

The payer mix is a major control variable vital for this analysis. It greatly impacts how efficient the facilities decide to merge (Erlangga et al., 2019). For example, in most instances, Medicaid reimbursements payments are usually lower compared to Medicare. In this case, healthcare facilities relying on Medicaid are likely to have limited revenues. Such a facility will merge with another facility to maximize the profits earning.

Not-for-profit hospitals usually have a poor payer mix compared to for-profit healthcare facilities. The nonprofit health facilities serving a large population of patients without medical insurance are known to have the poorest payer mix. This makes these facilities strain when providing services since they struggle to manage their operations, which renders the provision of sub-standard healthcare services to patients. These strains motivate the facilities to merge with for-profit ones to foster the services they provide. On the contrary, the for-profit hospitals completely take charge of the revenue collected. The for-profit hospitals ensure that the revenue collected meets their expectations (Elrod & Fortenberry, 2017). They have measures helping them to identify leading issues to any decline in the profits expected. The control of finances by the for-profit facilities makes them better financial positions than the nonprofit hospitals. This motivates the nonprofit hospitals to choose to merge or change their structures into for-profit hospitals. It is also evident that for-profit hospitals have better healthcare services compared to charitable ones.

The decision from the analysis

From this discussion, it is clear that for-profit hospitals have the best services and financial base. This enables them to purchase more advanced and sophisticated medical equipment and can employ highly experienced medical practitioners. The nonprofit hospitals

being charitable are seen to provide low-quality services due to financial strains. When the two hospitals merge, it increases the healthcare facility's capacity by increasing its customer base and earning profit. The merger acts to the advantage of stakeholders by adding their investment and revenue collection increases. Nevertheless, a joint venture doesn't give a total hospital control of its operations. This means that a hospital needs to convert or change its operations from a nonprofit hospital to a for-profit hospital to enjoy full control of revenue earning and management.

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Appendix 1**Merger risk analysis**

particulars	Dec' 31st 2019	Dec' 31st 2019	Jan' 31 2020
	A (nonprofit facility)	B (for-profit facility)	merger entity A &B
Total Assets	\$14,500	\$15,000	\$19,500
number of patients	300,000	450,000	750,000
income generation	non	\$800,000	\$13,333,300

merger

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