

6. What problems did Humana's choice of transfer pricing present? Why were the transfer prices of Humana's hospitals set higher than market prices? What recommendation would you have given to Humana?
7. What were the specific reasons physician relationships and incentives caused problems? What structural or incentive plans might have helped resolve these problems?

4. An Orthopedic Group Decides to Construct a Specialty Hospital

The "About Us" web page of OrthoIndy, an orthopedic group practice based in Indianapolis, Indiana, states: "With over 80 physicians providing care to central Indiana residents from more than 10 convenient locations, OrthoIndy provides leading-edge bone, joint, spine, and muscle care."

OrthoIndy has adjusted its practice over time. For years its physicians took patient emergency calls for all hospitals in the area and provided services to all types of patients. As the market became more competitive and the physicians' incomes declined slightly, OrthoIndy decided to reduce calls and cover only key facilities (Methodist Hospitals based in Gary, Indiana, and Indianapolis-based St. Vincent Health) and stopped treating Medicaid patients. This decision upset most of the hospitals in the area, as well as orthopedists who were not affiliated with OrthoIndy. Some of OrthoIndy's partners were concerned about the ethical and political ramifications of the decision, but ultimately all parties agreed with it. Although these choices improved the income and lifestyle of the practicing physicians, they wished to augment their salaries further. The group practice already owned a large, profitable surgical center.

The OrthoIndy group had always been supportive of community activities, especially sports. It served more than 15 teams, including professional football, basketball, and racing teams, as well as high school teams. OrthoIndy's patient commitment is stated on its website (Revolvy 2017):

The physicians and staff at OrthoIndy and IOH are committed to our patients. The following is our commitment to YOU:

At OrthoIndy, our physicians set out to create a patient experience unlike any other in Central Indiana. The result, the Indiana Orthopaedic Hospital [is] one of the highest ranked facilities in the country for patient satisfaction.

Our patients are at the center of everything we do, and their collective experience—both clinically and personally—is the result of every interaction they have with each person in our hospital. And that's why we strive to treat our patients as members of our own family in a like-home environment. At OrthoIndy and IOH, our highly-skilled physicians and staff are committed to our patients' health, safety and the comfort of their individual orthopaedic care.