



## Public Services International Research Unit (PSIRU)

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# A global review of the expansion of multinational healthcare companies

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Jane Lethbridge

[j.lethbridge@gre.ac.uk](mailto:j.lethbridge@gre.ac.uk)

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**PSIRU, Business School, University of Greenwich, Park Row, London SE10 9LS, U.K.**

Website: [www.psiru.org](http://www.psiru.org) Email: [psiru@psiru.org](mailto:psiru@psiru.org) Tel: +44-(0)208-331-9933 Fax: +44 (0)208-331-8665

**Researchers:** Prof. Stephen Thomas, David Hall (Director), Jane Lethbridge, Emanuele Lobina, Vladimir Popov, Violeta Corral  
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<b>1. MARKET EXPANSION OF HEALTHCARE MULTINATIONAL COMPANIES .....</b>	<b>2</b>
1.1. ASIA.....	2
1.2. AFRICA .....	5
1.3. AMERICAS.....	7
1.4. EUROPE.....	10
<b>2. CONCLUSION .....</b>	<b>14</b>

## A global review of the expansion of multinational healthcare companies

The commercialisation of public healthcare systems is taking place globally. One dimension of healthcare commercialisation is the growing role of multinational healthcare companies. Increasingly, companies view healthcare services as part of a global marketplace, with healthcare provision, high technology healthcare equipment, health insurance and pharmaceuticals as sub-markets. The national and regional contexts, within which multinational companies operate also, influence expansion strategies.

The nature of healthcare as a product also affects the way in which companies expand. A recent conference on the global healthcare industry expressed how the healthcare industry is seen in relation to other industries.

*“Health care industry goods and services differ significantly from those of other industries in one very particular way: the product or output of the industry is not often as tangible or measurable. From a producer’s perspective, and even more so from that of a consumer, health care is an unpredictable industry with a hard-to-define output” (AMEinfo, 2003)*

This has sometimes meant that expansion can be a slow process.

Opportunities for private healthcare company expansion depend on the existence of payment systems. A process of costing and pricing of different elements of healthcare underpin commercialisation. These processes are facilitated by the use of information technology (IT) to provide systems for charging, collecting payments and organising pricing systems. Often the first phase of commercialisation involves the development of these IT systems. Many companies are involved in the process of developing a financial infrastructure for healthcare.

The expansion of the commercial healthcare markets is strongly influenced by changes taking place in public healthcare systems. The goal of several companies is to expand into public sector markets and this is a significant factor in understanding multinational company strategies in Europe. This is often linked to companies perceiving themselves as playing a role in reshaping national healthcare sectors (Lethbridge, 2005). In countries where the public sector is less strong, private healthcare expansion is more dependent on introducing systems of health insurance, which enables high and middle income groups to access private healthcare. Companies are increasingly diversifying into a range of healthcare products and services.

Although healthcare multinational companies are the main players in this process of commercialisation, the World Bank and the International Financial Corporation play an important role in enabling the creation of financial infrastructure and influencing national governments policies towards the use of multiple providers of healthcare. The World Trade Organization and regional trade organisations, such as the European Union, play important roles in encouraging competition necessary for the creation of healthcare markets. National competition commissions are also becoming more influential in mediating potential mergers and acquisitions of healthcare companies.

### 1. Market expansion of healthcare multinational companies

The analysis of the market expansion of healthcare multinational companies will be approached by considering the region in which the home countries of multinational companies are located. This section starts by examining the expansion of three multinational companies in Asia, followed by an analysis of trends in Africa. The Americas and Europe follow, illustrating some of the similarities and differences in healthcare multinational company expansion.

#### 1.1. Asia

One of the aims of health sector reform is to increase the role of private health insurance in the financing of health care. This is supported by the World Bank promotion of a model of basic public services for low income groups and private health insurance for middle income groups. In Asia, there are pressures on publicly funded systems to focus more on the provision of healthcare for low income groups and to allow private sectors insurers and healthcare providers to deliver healthcare to middle income groups (Lethbridge, 2005).

The experience of multinational companies is shaped by the history of healthcare in the region. In Asia, there is a highly competitive private healthcare market with healthcare companies and government hospitals competing for fee-paying patients. International companies entering this regional market, have to be able to respond to a changing market by drawing on their specific experience and expertise to develop products that either private patients can afford to buy through health insurance or that governments will be prepared to purchase.

Health insurance is targeted at middle income groups often portrayed as a “modern” way to pay for health care. The introduction of co-payments for drugs and certain types of treatment in the public sector can also lead people to taking out private health insurance to cover these costs. In other cases, the quality of public health services deteriorates so much that people begin to use private sector providers, eventually funded by health insurance.

Global insurance companies are beginning to enter national Asian markets. Multinational healthcare companies are aware that an adequate system of health insurance is needed if people are to pay for healthcare and enable private healthcare companies to expand their markets.

Another form of international healthcare expansion is through medical tourism, which can be defined as “the provision of ‘cost effective’ private medical care in collaboration with the tourism industry, for patients needing surgical and other forms of specialized treatment (Sen Gupta, 2004). This process is being facilitated by both the corporate sector involved in medical care as well as the tourism industry. Health ministries are also involved. Many governments are promoting health tourism as a way of drawing in foreign exchange. In Asia, India, Malaysia, Singapore and the Philippines are actively promoting medical tourism. Private healthcare providers, for example in India, are lobbying governments for subsidies to enable further development of medical tourism.

In 2002, the IFC in Investing in private health care sees its main role as contributing “to the financial protection against ill health and to strengthening of the middle class” (IFC, 2002). The IFC states that “because of the structure and financing mechanisms of health care systems, (it) cannot directly target the poor but rather gives loans to institutions that work with the lower-middle and middle class groups”.(IFC, 2002)

In Asia, IFC investments are concentrated in high technology and hospital healthcare projects. Two types of Asian companies are partners in these investments: a) specific Asian healthcare companies e.g. Apollo Group of India; 2) conglomerates e.g. Lopez Group, a large diversified conglomerate in the Philippines. A recent loan to the Max Healthcare company in India is for the development of a range of healthcare facilities at primary, secondary and tertiary levels which is unusual in its focus on primary care facilities.

Three companies, Apollo, Parkway Holdings and Columbia Asia Healthcare will now be discussed to illustrate the range of different forms of expansion that are taking place in Asia.

### **Comparison of 2006 revenues for three companies**

Company	Country of origin	Operations	2005-6	2006-7
Apollo	India	Sri Lanka, Bangladesh, Nigeria, Kuwait, Yemen	7691Rs in Mio	9,566 Rs in Mio
Parkway Holdings	Singapore	Malaysia, India, Brunei Darassulam	S\$563,616,000	S\$868,004,000
Columbia Healthcare	Asia Malaysia	Vietnam India, Sri Lanka, Indonesia	n/a	n/a

Sources: Apollo Annual Report (2006); Parkway Holdings Ltd Full year Financial Holding Statement <http://www.parkwayholdings.com/Business/docs/71826260207financialstatement.pdf>  
n/a = not available

## **Apollo**

Apollo Hospitals Enterprise Limited was incorporated as a Public Limited Company in 1979. Apollo owns and manages 41 hospitals and is the largest healthcare provider in Asia. The hospital services are predominantly high technology, tertiary services. It was the first company to develop private corporate healthcare, with the foundation of a hospital in 1987 in Chennai. Large business groups, for example, the Tata Group, had been involved in hospital provision before then, but had set up trusts, which could benefit from charitable status, rather than establish corporate entities. The Apollo group was also the first company to involve non-resident Indian doctors in medical care investments. Governments provided subsidised land and duty free import of medical equipment.

Apollo runs nursing and hospital management colleges, pharmacies, diagnostic clinics, medical transcription services, managed care administration and telemedicine. In 2007, it established a joint health insurance company, with DKB, a European company, which is an example of a company expanding into both health insurance and healthcare provision (Health Insurance News, 2007). Apollo is also developing companies that delivery outsourcing, IT services and project management consultancy. In December 2004 it announced that it was negotiating a contract for medical business process outsourcing with a New York teaching hospital. This will include billing and coding operations and claims processing (Apollo Hospitals, 2007). It is also involved with telemedicine, education and training, home healthcare and hospital project management.

As well as owning hospitals, Apollo also manages hospitals in Nigeria, Kuwait, Yemen, Sri Lanka and Bangladesh. Although the company is involved in delivery of healthcare services internationally, through hospital management, it is increasingly providing healthcare for international patients from Tanzania, the USA, the UAE, Kenya, Oman and neighbouring Asian countries through medical tourism.

## **Parkway Holdings**

Parkway Holdings is a multinational Singapore based company that operates hospitals, healthcare centres and laboratories in Singapore, Malaysia, Indonesia and India. Parkway Holdings sees government services as potential competition and so is trying to position itself towards the market for high income patients. In this sense, Parkway is trying to develop its own niche rather than meeting the needs of the public sector. However, it is also taking advantage of the Singapore government's policy of outsourcing some clinical services.<sup>1</sup>

Parkway has also started to run its own managed care programme, which combines insurance with the provision of care, in a joint venture with Allianz, a large European insurance company. Parkway now has 40,000 members in Singapore and is hoping to expand this programme to Malaysia and Indonesia in the future. It is currently finding out how many members are needed to break even, and is targeting 'high end' patients. Parkway views the expansion of private health insurance and private health services as complementary market processes.<sup>2</sup>

The company is also investing in new hospitals in India and Brunei Darassulam. In India, Parkway Holdings through its unit Gleneagles Development had made a shareholders agreement with Apollo Hospitals Enterprise Ltd from which Apollo had acquired Duncan Industries 50% stake in Duncan Gleneagles hospital in Calcutta, India. The new hospital is seen as the "*central health hub for Bangladesh, Myanmar and Bhutan*" (India Business Insight, 2002).

Parkway Holdings also attempted to expand into the Malaysian market by becoming a shareholder (31.3%) of Malaysian-listed Pantai Holdings in 2005. This was reduced to 28.5% by 31 December 2005. Pantai operates, and has equity stakes in, 7 hospitals in Malaysia (yawning bread, 2006). The Malaysian State investment company, Kazanah Nasional, was also involved in this acquisition. This deal created political tensions in Malaysia because privatised state companies should only include no more than 30% foreign ownership.

The eventual agreement was that Parkway Holdings sold its direct stake in Pantai Holdings Bhd. to Kazanah Nasional, the state-owned investment company. Parkway took a 49% stake in a joint venture company with Khazanah, now owning all Pantai shares. The deal allowed Khazanah to increase its investments in healthcare after it bought a stake in Apollo Hospitals, India's largest private healthcare provider, in 2005. Parkway will continue to manage the Pantai hospitals (Dow Newswires, 2006). This involvement of Parkway Holdings in the Pantai Group illustrates another form of expansion, through the development of joint ventures, with a government investment agency.

## **Columbia Asia Group**

Columbia Asia Group is a healthcare company which was set up as Columbia Pacific Healthcare, as a joint venture between the Chemical Company of Malaysia Berhad and Columbia Pacific Management (CPM), based in Seattle, Washington, USA. It has hospitals in Malaysia, Vietnam and India with plans for expansion into Sri Lanka and Indonesia (Association of Private Hospitals of Malaysia, 2007).

Columbia Asia Sdn Bhd is 30% owned by the Employees Provident Fund Malaysia (EPF), which is a social security organisation set up by the Malaysian government to provide retirement benefits to private sector employees and non-pensionable public service employees. Other shareholders include Columbia Asia Pacific Healthcare and several doctors. It involves non-resident Indian doctors in healthcare investments (Columbia Asia, 2007).

In India, Columbia Asia Partner programme work with leading medical insurers and other managed care administration arrangements. The company also has formal agreements with leading Life Insurance companies and offer pre-insurance medical tests for their clients. These insurance arrangements do not seem to be in place in Malaysia or Vietnam. The company is not active in health tourism, although according to its website, it is interested in exploring opportunities (Columbia Asia, 2007).

**Table 2 : Types of expansion : Asia**

Company	Building hospitals	Acquisitions	Joint ventures	Medical tourism	Health insurance	IT services for health finance
Apollo	YES	YES	YES	YES	YES	YES
Parkway Holdings	-	YES	YES	YES	YES	-
Columbia Asia Group	YES	YES	-	-	YES	-

## 1.2. Africa

In Africa, there are more limited opportunities for private healthcare sector expansion. There has not been the same expansion of middle income groups, necessary for the growth of private healthcare, as found in Asia. However, there are some signs that private sector companies are beginning to be more involved in the creation of health insurance and managed care systems. The role of the International Finance Corporation (IFC) has been more limited than in Asia. IFC loans have been primarily for hospital construction with only one investment in health insurance.

Although there has been an expansion of private healthcare in South Africa, the market has reached saturation point. This has led to South African healthcare companies expanding into the United Kingdom.

**Table 3: Revenues of three healthcare companies: Africa**

Company	Home country	Operations	2005	2006
Life (formerly Afrox)	South Africa	Botswana, UK	US\$ 275m	
Netcare	South Africa	UK	7,353Rm	8,184Rm
AAR Health Services	Kenya	Tanzania, Uganda		

Sources:

Life/Afrox BOC (2005) 6-K SEC filing <http://sec.edgar-online.com/2005/11/17/0001276754-05-000014/Section2.asp>

Netcare (2006) Audited Group Results [http://reports.netcareinvestor.co.za/prelim\\_06/](http://reports.netcareinvestor.co.za/prelim_06/)

### Afrox/ Life Healthcare

Afrox Healthcare (Afhealth) was listed on the JSE in October 1999 after African Oxygen created the largest private health-care group, from its existing health services. Until 2005, Afrox was majority-owned by the global BOC Group. In 2003, Bidco, a broadbased black empowerment consortium made a bid for Afrox Healthcare. Brimstone and Mvelaphanda, both black empowerment groups, together with a countrywide selection of healthcare empowerment groupings owned 75% of Bidco. The remaining share was to be held by Medi-Clinic who, together with holding company Remgro, provided funding support to the offer (Afrox Healthcare, 2003).

However, Netcare, one of the largest healthcare companies in South Africa, challenged the deal on competition grounds and the South Africa Competition tribunal ruled on the case. Netcare's concerns were

focused on the involvement of MediClinic, another healthcare company. Eventually, Mediclinic withdrew from the deal, leaving Bidco as owner of company in January 2005. Bidco agreed to pay all of the R70 million plus costs that were incurred by both Mediclinic and Netcare in the prolonged investigation before the competition authorities (Bonorchis, 2005; Competition Commission, 2005) .

This acquisition by Bidco has created the largest black owned healthcare company in South Africa, now called Life Healthcare. The company delivers a wide range of healthcare services in South Africa. It provides acute care through 62 centres in South Africa and Botswana. Through a public-private partnership, Life healthcare delivers rehabilitation services to district hospital and health services on contract to provincial governments. Life Healthcare is the largest private provider of mental health services in South Africa. Life Healthcare also provides doctors and specialists with IT systems and business support to help with practice management (Life Healthcare, 2008).

Life provides occupational health services to the private sector, mines and prisons. Life Mining healthcare provides health services to the mining sector. Life has also, through a joint venture with Farani Health Solutions been awarded a contract to provide and manage health services at a maximum security prison in Bloemfontein. A new division has been set up to focus on correctional services. The joint venture company has also secured a contract for occupational health services for the Industrial Development Zone in Port Elizabeth (Life Healthcare, 2008)

In a joint venture with Care UK, the Partnership Health Group UK, Life provides services to National Health Service (NHS) patients in the United Kingdom. Life Healthcare provides nurses and management at several intermediate treatment centres, which provide services for the NHS (Life Healthcare, 2008).

### **Netcare**

Netcare is listed on the Johannesburg Securities Exchange and has grown from four hospitals in 1996 to a current total of 62 hospitals. The group also owns and manages Medicross, which runs family medical and dental centres in South Africa. It also runs 43 pharmacies and 36 administered practices (representing a further 114 general practitioners). In addition, Netcare also provides emergency services, pathology services, renal care and travel clinics.

Netcare also holds interests in a training academy for nurses. Netcare was awarded the first Public private partnership (PPP) contract to a consortium consisting of Netcare and black-empowerment company Community Hospital Management (CHM) for Universitas and Pelonomi Hospitals in Bloemfontein. It owns Prometheus Solutions, which provides IT for healthcare management (Netcare, 2007). The Netcare Group employs 16,574 staff.

Netcare International operates in the UK and the Middle East as a healthcare management company. A significant expansion for Netcare, was its entry into the British healthcare market in 2002, becoming a provider of healthcare services to reduce NHS waiting-lists, through the Independent Sector Treatment centre programme, funded by the UK Department of Health. The company is currently fulfilling a five-year contract to perform 44,500 cataract operations for the NHS via mobile services. The Greater Manchester Surgical Centre (GMSC) is a newly built facility attached to the Trafford General Hospital where specialists from Netcare UK perform elective orthopaedic, ENT and general surgical procedures (Apax Partners Private Equity Group, 2006).

In 2006, Netcare acquired, with funds advised by Apax Partners Worldwide LLP, London and Regional Properties and funds advised by Brockton Capital LLP the General Hospital Group (GHG) in the UK. Netcare will own 50.1% of GHG in return for an investment of approximately £217m, along with the injection of its wholly owned UK subsidiary Netcare Healthcare UK Limited. Netcare cited the limited opportunities for acquisition in South Africa as the reason for the General Health Group purchase (Apax Partners Private Equity Group, 2006).

Netcare owned 43.75% of a South African company, Community Healthcare Group. In 2007, the South Africa Competition Commission approved Netcare's purchase of the remaining 56.25% of the shares, in August 2007. Netcare is also planning to sell its pathology division, Ampath (Netcare Healthcare Holdings Ltd, 2007).

In September 2007, Netcare announced that it was considering the sale of its UK property portfolio sale 03/09/2007 *"Netcare chief financial officer Peter Nelson has been quoted as saying the company will consider selling its UK property portfolio, in order to achieve a better value for its UK main business before any share sale. The JSE-listed healthcare group is reportedly prepared to sell all the properties, which*

include 35 hospitals and 2,122 beds, under the right conditions. The property sale will formally go to the market in September" (Business Sale Report, 2007).

Netcare, as seen through an account of a Strategy Day in August 2007, thinks that there will be a reduction on of resources for the UK NHS which will lead to rationing and the introduction of user fees. The company sees opportunities for the development of personal medical insurance, following the decrease in resources going into the NHS (netcare Healthcare Holdings Ltd, 2007). This illustrates how private companies, providing healthcare to a publicly funded system, also consider possibilities for an expansion of private healthcare.

## AAR

AAR Health Services Limited was originally an air rescue health service. As a managed care company operating in Kenya, it received an IFC loan in 1998 to support its expansion into other East African countries. One of the founders of AAR was Bengt Beckmann, who was also a founder of Medcover, a healthcare company operating in Eastern and Central Europe (AAR Health, 2007).

In 2004, the company gained a new shareholder: the Acacia Fund, one of the funds managed by CDC Capital, the privatised investment arm of the UK government investment development company Commonwealth Development Corporation. This is another example of how national government investment companies are becoming involved in healthcare investments (Lethbridge, 2005).

However, in May 2004, the company sold 35% of its shares to Project Ventures International, a company dealing with health and information technology in several counties in Africa. This took place at the same time as the Kenyan Government has proposed a new national health insurance scheme, which had to potential to affect private healthcare providers because companies will no longer have to provide healthcare insurance for their employees (Wandera and Njeru, 2004). Government policies can have a significant impact on private companies.

AAR has expanded in Eastern Africa, using a franchise model of both preventive and curative services. The franchise package entitles suitably qualified institutions to have access to an e-commerce-based computer software package, together with diagnostic, treatment, referral, laboratory, drug, customer care and accounting protocols. This package enables non-health companies to develop and deliver services themselves. Five franchise health centres have been set up in Tanzania, Uganda and Kenya (AAR Health, 2007). AAR is one of the few IFC investments in Africa over the past decade that has been directly involved in the development of a health insurance company. The progress of this investment shows how finance capital is becoming involved in health insurance, albeit in a cautious way.

**Table 4: Types of expansion: Africa**

Company	Building hospitals	Acquisitions	Joint ventures	Medical tourism	Health insurance	IT services for health finance
Afrox/ Life healthcare	-	-	YES	-	YES	YES
Netcare	YES	YES	YES	-	YES	YES
AAR	-	-	YES	-	YES	YES

## 1.3. Americas

In the United States, by the 1990s, healthcare companies started to face financial problems because of higher medical costs, higher than expected Medicare costs, and an increasingly competitive market (Jasso-Aguilar *et al*, 2004). Premiums were not high enough to cover the increasing costs. By 1998 the rate of profit in the managed care market had slowed from 8% to 1.2% (Vranges, 1998).

With declining profits, healthcare companies started to merge. Larger companies were considered to be in a stronger position to drive down the costs of doctors and hospitals but this has not happened. The market for older people's healthcare and Medicare has proved less profitable than companies expected. The Balanced Budget Act (1997) placed further financial pressure on many large healthcare companies because it placed limits on spending; only allowing annual premium increases of 2%. Share values dropped and healthcare companies started to move out of unprofitable areas, such as Medicare and Medicaid (Jasso-Aguilar *et al*, 2004).

Many healthcare companies attempted to move into markets perceived to be more profitable. The Latin American market, where social insurance systems were being privatised, appeared to offer higher rates of profit Jasso-Aguilar *et al*, 2004). US health insurance companies such as Cigna and Aetna, both moved into Latin American markets but retreated within five years, when profits started to fall. By 2000, Aetna had sold its international division to ING, a Dutch insurance company. Cigna sold its operations in Brazil in 2003.

Some large healthcare companies experienced fall in profits and either filled for bankruptcy and were financially restructured, for example, Tenet, HCA, and Sun Healthcare. The Balanced Budget legislation, by limiting expenditure for Medicare and Medicaid, exposed some of the fraudulent practices that the companies had established to claim Medicare and Medicaid costs. There are indications that large healthcare companies are still involved in exploiting Medicare and Medicaid payments. Several renal care companies are currently under investigation for over-charging Medicare for Vitamin D and diagnostic tests (American Health Line, 2005).

In 2007, there are signs that the US healthcare system is becoming unsustainable with levels of debt rising to 12% of company turnover. The fastest levels of debt increases are for people with health insurance. As the costs of health insurance increase, employers and employees are choosing plans where more costs are passed onto the patient or are not taking out health insurance at all (Bowe, 2007). The capacity of healthcare companies to continue to expand will be restricted by the increase in debt.

**Table 5: Company revenues Million\$ 2004-2006 United States**

Company	Country	Operations	2005	2006
United Health Group	United States	United Kingdom	?	?
HCA	United States	UK, Switzerland	\$24,455	\$25,477
Cigna	United States	South Korea, Taiwan, China, New Zealand, Indonesia, Thailand, United Kingdom, EU, Chile	\$15,332	\$16,547

Sources:

United Health Group 10-K 2005

HCA 10-K 2005, 2006

Cigna 10-K 2005, 2006

### United Health Group

United Health Group is a US for-profit healthcare services company. In 1984, United HealthCare Corporation became a publicly traded company. Perhaps one of the most significant changes, in the last decade, was when the company changed its name from the United HealthCare Corporation to the United Health Group. It reorganised the company into separate but strategically linked business areas. The company has expanded into business areas that complement the provision of health insurance and healthcare services. This parallels the trend in several healthcare companies in Asia and Africa.

These services and products reflect many of global trends in commercialised healthcare (Pollock, 2004; Lethbridge, 2005). They can be considered as different stages of a vertically integrated industry. The key stages include insurance schemes to provide financing to cover the costs of healthcare, and information technology used to check patient eligibility, payments and billing systems, data management systems for practitioners, as well as access to healthcare services through doctors and other healthcare professionals. The company employs 55,000 people in the United States (United Health Group, 2005).

United Health Group is gradually providing a much wider range of products than health insurance and healthcare. It is positioning itself as a healthcare company that aims to improve the healthcare system. It describes its mission as "*dedicated to making the health care system work better*" which makes it appealing to other national healthcare systems that are involved in health sector reform. The company also stresses its role in "*designing products, providing services and applying technologies*". The significance of applying technologies lies not just in the use of high technology treatments for patients but in using technology to maintain control over payments, billing and eligibility of patients to healthcare.

In 2004, United Health Group set up a European wholly owned subsidiary, whose mission is "*to help European health services improve patient care*". The Chief Executive Office is Richard Smith, until recently



editor of the BMJ. The European President is Simon Stevens, previously an adviser to the Policy Unit, 10 Downing Street. The Chief Operating Officer is Gail Marcus who had 20 years of working in healthcare and pharmacy management companies, including CIGNA, a large US health insurance company (United Health Group, 2007).

The first stage in the United Health Group expansion into the UK has been the involvement of Evercare in a pilot scheme with the Department of Health, which aims to keep frail, older people out of hospital. In October 2006, United Healthcare Europe was awarded a five year contract to run a GP practice in Normanton in Derby (unison, 2006). It is one of the first Alternative Provider Medical Services (APMS) contracts, which allow PCTs to contract out the running of primary care services to a wide range of provider organisations.

The company has a recent history of complaints and legal suits made under two US laws: the Employees Retirement Income Security Act (ERISA), a US federal law that sets minimum standards for retirement and health benefit plans in private industry; and the Racketeer Influenced and Corrupt Organizations Act (RICO), which is used for civil claims by individuals injured in business or property by companies involved in corruption or illegal activities United Health Group, 2004).

In 2006, the Securities and Exchange Commission launched an enquiry into the stock option grants operated by United Health Group and found that the accounts published by the company for 2004 and 2005 could “*no longer be relied on*”. Several senior managers of the company were found guilty of increasing the price of stock options (United Health Group, 2006).

## **HCA**

In 2001, HCA owned and operated 184 hospitals (172 general/ acute care, 6 psychiatric hospitals and 6 hospitals included in joint ventures, 79 free standing surgery centres). These were located in 24 states of the US, England (6 hospitals) and Switzerland (2 hospitals).

In July 1997, there were Federal investigations into the business practices of the company. Since 1997 it has reduced the numbers of hospitals by 42% (144) and the number of surgical centres by 48%. The company sold most of its home health operations and non-core assets. It also spun off LifePoint Hospital and Triad Hospital to create 2 public traded companies, which operate 57 hospitals. In December 2000 HCA completed the sale of 116 medical office building to MedCap Properties. In May 2000 Columbia/HCA changed its name to HCA – The Healthcare Company and a year later to HCA Inc.

In 2006 HCA entered merged with the Hercules Acquisition Corporation, a subsidiary of Hercules Holding which is owned by a private investor group including Bain capital, Kohlberg Kravis Roberts, Merrill Lynch Global private equity, and affiliates of the HCA founder Dr. Thomas F. Frist. Following this merger, the company has a \$28,408 billion debt. HCA has 186,000 employees, 49,000 part time(HCA, 2006).

## **Cigna**

Cigna Corporation provides life, accident, and supplementary health insurance products and international healthcare products and services. Cigna International operations are located in South Korea, Taiwan, China, New Zealand, Indonesia, Thailand, United Kingdom, European Union, and Chile. In 2006, it sold its Brazilian life assurance business.

In 2007, it was reported that CIGNA International had appointed three people to sales and management positions to capitalise on the "growth opportunities of the European healthcare market (Health Insurance and Protection, 2007).

The United States healthcare market is in crisis. The major healthcare companies are not showing any signs of significant international expansion. Several North American companies have been awarded preferred bidder status for the United Kingdom NHS Intermediate Treatment centres. These suggest that US companies are entering the UK market through joint ventures and partnerships. Ascent Health Ventures, which was formerly Johnson and Johnson Health Care Systems ASG, is one of several partners with Mercury Health, which will run 9 treatment centres in England. Anglo-Canadian Clinics is a consortium of Calgary Health Region and University of Calgary Medical Group, Surgical Centres Inc, which runs private surgery clinics in Alberta. Other consortium members include several housing and construction companies. Nations Healthcare is a US company that runs day surgery centres (UNISON Bargaining Support, 2003).

**Table 6: Types of expansion: American companies**

Company	Building hospitals	Acquisitions	Joint ventures	Medical tourism	Health insurance	IT services for health finance
United Health Group	-	YES	YES	-	YES	YES
HCA	-	YES	-	-	YES	YES
Cigna	-	YES	-	-	YES	YES

## 1.4. Europe

Many European healthcare companies see European and other global opportunities for expansion in different aspects of the healthcare sector: insurance; clinical and diagnostic services; and facilities management services. Partnerships with the public sector are seen, by many companies, as an essential step towards developing and delivering new services and facilities. The involvement of these companies, in the delivery of services in the public healthcare sector, will have implications for health workers and for the accountability of public health systems.

Many companies view their relationships with government/ public healthcare sector as crucial to future company growth. Some companies are building up their experience of working with the public sectors. There are several examples in Europe of governments contracting private companies to manage a public sector hospital. In some countries this also involves the private company in building the hospital. Global service companies have been involved in private finance initiatives in the UK.

Expansion into Central and Eastern Europe by healthcare companies has been slow, although two companies, Medcover and Euromedic International, have continued to expand since 2004. Euromedic International is now expanding into Western Europe.

**Table 7: Company Revenues Europe**

Company	Home country	Activities	2005	2006
Alliance Medical		UK, Italy, Netherlands, Poland		
BUPA	United Kingdom	Spain, Thailand, Malaysia,	£3,8778m	£4,245m
Capio	Sweden	Sweden, Finland, Norway, Denmark, UK, France, Spain, Germany		
Cinven	UK	Spain, Portugal		
Euromedic International	Hungary	Bosnia-Herzegovina, Croatia, Czech Republic, Greece, Hungary, Ireland, Portugal, Poland, Romania, Russia, Turkey		
Fresenius	Germany	Austria, Belgium, France, Germany, Italy, Sweden, UK, Spain	€7,889m	€10,000m
Medicover	Hungary	Estonia, Czech Republic, Hungary, Poland, Romania		
Jose de Mello Saude		Spain, Brazil		

### Alliance Medical Group

The Alliance Medical Group provides a range of high technology services, such as PET, MRI, CT, and mammography services. It provides extensive, outsourced mobile services as well as fixed site services. The company was formed in 1989 by Robert Waley-Cohen, who had previously co-founded Alliance Imaging Inc. in the USA in 1983. The company started to operate in the UK in 1990. In 1996, a management buyout was backed by 3i plc and Foreign & Colonial. Bridgepoint bought out 3i and Foreign and Colonial in 2000. Since 2003, the company has continued to win contracts from the NHS. The company runs two Intermediate Treatment Centres in the UK with the Partnership Health Group in SW England and provides equipment for at least 19 hospitals with hospitals in the UK.

There has been some criticism of the quality of services delivered by Alliance Medical in the UK, including mistakes in the interpretation of images and delays in the delivery of results. Doctors in Belgium, South Africa and Spain interpret the data and do not collaborate with doctors in the NHS (BBC, 2005). There have also been questions asked in Parliament about the contacts between Alliance Medical and the Department of Health in the period before one contract was awarded in 2004. In January 2007, Alliance Medical, in partnership with Care UK, was awarded preferred bidder status to provide diagnostic services across the North East of England. The service will be delivered under a joint brand name of AMC Diagnostics Limited (Alliance Medical, 2007).

## **BUPA**

BUPA is one of the two largest providers of private health insurance in the UK with 40.1% of the market. In the last 10 years BUPA has expanded through a series of acquisitions in the UK and worldwide. Its most striking area of expansion has been into care services. BUPA Care Services consist of the three subsidiaries: BUPA Nursing Homes Ltd, BUPA Care Services Ltd and Care First Group plc. BUPA runs 223 care homes, 54 sheltered retired homes and in 1999 cared for 26,000 people in residential care or through home care services. BUPA has also expanded into nursing and other care services (BUPA, 2008).

In 2007, BUPA sold its 25 hospitals to Cinven for £1.44 billion, in order to pay off debt and to focus on long term development of the company, internationally and in the care sector. This is a dramatic change for BUPA, which has been one of the leading private sector healthcare providers in the UK. BUPA also operates in Spain, Middle East, Thailand, Hong Kong, Singapore and Malaysia.

BUPA Ireland was established in June 1996 but was sold to the Quinn Group in March 2007. This was due to the imposition of the Risk Equalisation Scheme (RES), which would have involved selling double the anticipated surplus to the State owned insurer VHI (BUPA, 2007).

Sanitas is a Spanish health insurer and healthcare provider and was incorporated into BUPA in 1989. In September 2006, Sanitas, won a government tender to build and run a large new public hospital in Manises, Valencia. The 15 year PFI contract for the Valencia government involves building and managing the new hospital as well as updating and running primary care centres in the region, building a new health centre in Turis and renovating a specialist centre in Aldaya. Sanitas has formed a consortium with Ribera Salud, (Sanitas 60%: Ribera Salud 40%), which is owned by Bancaja and Caja Mediterraneo, two Spanish banks (RiberaSalud, 2007). The project is worth €137 million. The Horta Manises hospital will employ 700 staff and treat 140,000 people in the province. Sanitas has two other hospitals, both in Madrid (BUPA, 2006).

In 2007, the Sanitas group acquired Sanitas Residencial, BUPA Group's Spanish care home provider, has bought the Euroresidencias' care home and day centre portfolio from the Spanish company Saarema Inversiones. This will make Sanitas, the second largest provider of long term care in Spain.

BUPA entered Thailand in 1996 when it joined with Blue Cross. Blue Cross was a Thai company founded over thirty years ago that became Blue Cross in 1985. BUPA Blue Cross is a provident association, which reinvests profits into the business. BUPA Blue Cross has between 65% and 80% of the Thai health insurance market. The company has contracts with 119 hospitals and about 100 clinics. It provides insurance coverage for at least 1,500 firms and 8,000 individual members (Bangkok Post, 2002; The Nation (Thailand), 2002). Although BUPA Blue Cross has a large percentage of the health insurance market in Thailand, it is in competition with life insurance companies that also sell health insurance policies as part of their life packages.

BUPA has been expanding into both health insurance and healthcare provision in Asia over the last few years. In 2001, BUPA bought Vista Healthcare in Asia which has contributed to BUPA's expansion in the Asia market. In 2002, BUPA together with Macquarie Bank bought AXA Asia Pacific Holdings, a health insurance in Australia. It is now the third largest private health insurer in Australia. BUPA owns half the business. In 2006, BUPA established a Representative Office in China (BUPA, 2006).

## **Capio**

Capio is a Swedish healthcare company, which is aiming to become a trans-European healthcare company. Since 2003, Capio has continued its expansion into France, Spain and Germany, as well as consolidating its provision of services to the public sector in Sweden, Norway, Denmark, Finland, Spain and the UK.

One of the most significant developments since 2004, was the sale in September 2006, of Capio to Opica, a company "indirectly jointly owned by Apex Partners Worldwide LLP, by Nordic Capital Fund VI and by funds advised or managed by Apex Partners SA". The company was delisted in November 2006.

In 2005, Capiro acquired the Grupo Sanitario IDC (Spain), its first entry into the Spanish healthcare market. It also sold the Clinique Saint Vincent (France) and closed the Dreux clinic in France. The same year, it also sold La Metairie clinic in Switzerland (Capiro, 2006).

In 2006, Capiro made expanded significantly into the French healthcare market, by buying the Arvita Hospital Group, Clinique La Rochelle and Clinique Saint Jean Languedoc, and the Tonkin Group. It also achieved one of its goals to enter the German healthcare market, by acquiring the Deutsche Klinik (Capiro, 2006).

Since 2004, Capiro has achieved its goals of moving into Spain and Germany as well as consolidating its presence in France and the UK. It has also negotiated longer contracts at St. Gorens, Sweden and Valdemoro, Spain with public authorities. The contract for Valdemoro, Madrid, is a contract on a capitation basis, which provides an annual fixed payment per head of population. The contract involves building a hospital, which is expected to open at the end of 2007 (Capiro, 2008).

In January 2007, Capiro Diagnostics was merged into Capiro UK. There are two hospital laboratories in the UK, which will be transferred to Capiro UK. The aim is to build a decentralised pathology services, outside the Capiro health care business, especially at 'point of care' testing (Medical Laboratory World, 2007). In August 2007, Capiro bought Unilabs, a Swiss based laboratory company, which activities in UK, France, Spain, Italy, Russia and Portugal. It will merge Unilabs with Capiro Diagnostics (Capiro, 2008).

In May 2007, a property consortium, including property entrepreneurs Nick Leslau and Sir Tom Hunter agreed to buy the property portfolio of 21 private hospitals in the United Kingdom from Capiro, worth £686m. They will be leased back to Capiro (Brodie, 2007). In June 2007, Opica was given permission by the European Commission to sell Capiro UK (Unison Companies Update, 2007). This follows an earlier announcement that Capiro UK was to become independent. Opica bought Capiro on condition that it sold the UK hospitals, "to avoid regulatory problems" (Unison Companies Update, 2007). In September 2007, Capiro sold its English acute hospitals to Ramsay Health Health Care Limited, an Australian company, which operates 65 hospitals in Australia and three in Indonesia (Capiro, 2008). The mental health and laboratory services will remain with Capiro.

### **Cinven**

Cinven, as a European private equity investor, has over a decade of experience of investing in healthcare companies. In 2005, it bought Partnerships in Care from the General Health Group. Partnerships in Care provide mental health services, specialist units for people with learning disabilities, brain injury rehabilitation units, community placements for supported living and an employee assistance programme. Cinven had also invested in the General Health Group, which it sold in 2000 (Cinven, 2008).

In 2007, it has made two significant healthcare investments. It bought 25 hospitals from BUPA and also bought a Spanish private hospital group, USP Hospitales Group, from Mercapital, a Spanish private equity group. USP Hospitales Group is the leading independent operator in the Spanish private healthcare market and second largest provider to the private healthcare insurance market. Cinven is aiming to expand the company through more acquisitions in Spain and in international markets. USP has recently acquired a 25% stake in HPP, the fourth largest hospital group in Portugal. Caixa Geral owned the remaining 75% of HPP (Cinven, 2007).

These two recent acquisitions, suggest that Cinven has identified the European healthcare sector as an important source of investment. Spain is considered to have a fast growing healthcare sector. Cinven has also built up some expertise in healthcare management over the past decade.

### **Euromedic International**

Euromedic Diagnostics BV and International Dialysis Centre BV are both 100% owned Dutch subsidiaries of Euromedic International NV, a holding company of the group (Euromedic International Group, 2007). For more than a decade, Euromedic has been building and operating imaging diagnostic centres and dialysis centres in Eastern and Central Europe. They work in public-private partnership arrangements, where Euromedic invests in the centres and the public healthcare system pays for the service.

The history of Euromedic International provides an insight into the way in which healthcare companies are beginning to operate within a European market. In 1991, two Hungarian entrepreneurs set up a company called International medical Centres in Budapest, which was owned by an Israeli company, Elbit. In 1995, the Euromedic group of companies was set up with the Red Sea Group, also an Israeli company. In 1998, these International Medical Centres merged with the Euromedic group. In 1999, GE Capital and Dresdner

Kleinwert Benson back the founders of Euromedic in a buyout from Elbit. Euromedic International is formed (Euromedic International Group, 2007).

The following year, 2000, further capital was raised, underwritten by the Washington DC based company Global Environment Fund. Euromedic International expanded into Poland, Bosnia – Herzegovina and Romania, opening up dialysis clinics. In November 2002, GE Capital and Dresdner Kleinwert Benson bought the Red Sea Group. In 2005, Warburg Pincus and GE Healthcare and management bought out the three financial investors. With support from the Dutch ING bank, they finance the company's growth plan, moving from Central and Eastern Europe to become a European- wide healthcare provider. In 2006, Euromedic International expanded its activities and moved into Russia, Czech Republic, Greece and Turkey. In 2007, it achieved a pan-European position by expanding into Italy, Portugal and Ireland (Euromedic International Group, 2007).

### **Fresenius**

Fresenius is a “*global health care company with products and services for dialysis, the hospital and the medical care of patients at home*” (Fresenius, 2007). As a vertically integrated renal care company, Fresenius produces products and equipment for renal dialysis and runs dialysis clinics. The company is becoming more involved in the production of infusion therapies for patients at home as well as for a wider range of conditions than renal care, e.g. cancer care.

The Fresenius Chairman pointed out in 2001 that there was the potential for Fresenius ProServe, the international management division, to expand because “*health systems, not only in Germany but all over the world, are in a state of change which is marked by increasing privatisation of hospitals and the demand for qualified, economically-efficient care of patients*” (Krick, 2001). Krick predicted that in Germany the current 7% of hospitals operated privately will increase and there will also be an increase in integrated hospital services where primary and secondary care are brought together.

Developments since 2004, show that Fresenius has continued to expand its healthcare management business. In 2005, Fresenius (ProServe, the healthcare management division) bought the HELIOS group, a German private hospital group, which has 55 hospitals and 26,000 employees. The Wittgensteiner Klinken Group, which Fresenius bought in 2001, has been integrated into the HELIOS group. In 2006, Fresenius bought the HUMAINE clinic group, with 6 hospitals and 2,900 employees (Fresenius, 2006).

There are signs that the integration of HELIOS has not been so smooth. The Herbolzheim hospital, Freiburg, has been returned to the local government, after being privatised and bought by the HELIOS group. Ver-di considered that HELIOS were not interested in providing services for the local population. Since the introduction of a pricing system, using diagnostic related groups (DRG), which involves payment for a condition rather than for specific treatments, smaller hospitals have been unable to compete successfully with larger hospitals. Ver-di also accused HELIOS of “chaotic management” (Ver.di, 2006).<sup>3</sup>

HELIOS made an agreement with Marburger Bund in December 2006 (Fresenius, 2006:45). The Fresenius 2006 Annual Report also reported that there has been a group-wide wage tariff agreement with ver.di for 14,000 employees at 24 clinics, starting from 1 January 2007. It has now established a European Company (SE) with workers participation on the board of the company.

Fresenius, through VAMED, its international hospital projects division, has become involved in public-private partnerships in Austria and Bosnia Herzegovina in Europe. In Austria, the projects involve clinics and a radiology centre. In Bosnia, VAMED is modernising the University Hospital at Tuzla and building a new medical centre at Banja Luka. VAMED is also contracted to deliver technical management for the Vienna General Hospital and manages the non-medical services contact for the Charite University Hospital, Berlin. It is also contracted to deliver technical management at Eppendorf University Hospital, Hamburg (Fresenius, 2006).

Fresenius Medical Care, the dialysis clinics division, bought the Renal Care Group, a company providing kidney dialysis, in the United States in 2006, thus expanding its presence in North America (Fresenius, 2006:18). In the United States, Fresenius Medical Care has recently acquired the Renal Care Group, a company that provides renal dialysis. This will strengthen the renal dialysis division of Fresenius. 68% of company revenue comes from North America. Fresenius is currently under investigation in the United States for over-charging Medicare for Vitamin D drugs and diagnostic tests that are given to patients being assessed for renal dialysis (American Health Line, 2005).

In Latin America, Fresenius has recorded an expansion of activities in the last year, even though the contribution to revenue is only 4%. Dialysis services contributed about 66% of revenues in Latin America. In

Argentina, the largest market in Latin America, over 6,600 patients were treated in 88 dialysis clinics (Fresenius, 2004). It also records that the Brazilian market is more difficult because reimbursement for dialysis is low. Fresenius is unable to run its own clinics because international companies are not, at present, allowed to run their own clinics (Fresenius, 2004). However, the company sold over half of all dialysers in Brazil, playing an important role in providing equipment and supporting drugs for dialysis. Fresenius also has dialysis patients in Colombia and Venezuela. It provides dialysis products in Peru and Chile (Fresenius, 2004). In 2006, reimbursement rates had increased in Latin America (Fresenius, 2006).

### Medicover

Medicover was established in 1995 by Oresa Ventures, a Swedish venture capital company. The company offers both medical insurance and a health care delivery system, to its clients. Medicover employs most of its physicians directly and provides health care through its own facilities. Medicover provides health insurance for corporations and individuals, and delivers health care services through health centres staffed by its own doctors and nurses, and on-site workplace facilities for large employers (Medicover, 2007).

In 2005, Medicover bought two laboratories in Poland (Wroclaw and Lodz) and a private hospital in Warsaw. It also bought 40% in Centrum Medyczne Damiana in Poland, a provider of clinical and hospital services. The company also rebranded its laboratory services, Medicover Rombel, and renamed them Synero in Poland and Romania. In Poland, Synero has several outsourcing contracts from public hospitals. Medicover also provides laboratories and logistics for clinical trials for sites in Poland, Czech Republic, Hungary, Slovakia, Romania, Lithuania, Latvia, Russia and the UK (medicover, 2005).

In 2006, Medicover was bought by Celex SA, whose owner was also Chairman of Medicover, Jonas af Jochnick, who originally owned 35% of Medicover shares. The company was delisted in 2006.

### Jose de Mello Saude

Jose de Mello Saude is part of the De Mello group, a large Portuguese holding company. The healthcare company has 976 beds distributed between three hospitals – Amadora Sintra, CUF Infante Santo and CUF Descobertas. It has been involved with a public-private partnership in Sintra. It has recently entered the Spanish market by buying 35% of Hospital Group Quiron, a Spanish private hospital group. (Jose de Mello Saude, 2007).

In 2000, the company invested, together with the International Finance Corporation and the Icatu Group, in Icatu Health Services in Brazil. The investment covered companies for home care, hospital management and health insurance (Jose de Mello Saude Brasil, 2007).

**Table Types of expansion: European companies**

Company	Building hospitals	Acquisitions	Joint ventures	Medical tourism	Health insurance	IT services for health finance
Alliance Medical	-	YES	YES	-	-	-
BUPA	YES	YES	YES	-	YES	-
Capio	-	YES	YES	-	-	-
Cinven	-	YES	YES	-	-	-
Euromedic International	YES	YES	YES	-	YES	YES
Fresenius	YES	YES	YES	-	-	-
Medicover		YES	YES	-	YES	YES
Jose de Mello Saude	YES	YES	YES	-	YES	YES

## 2. Conclusion

There are some common patterns of expansion among healthcare multinational companies throughout the world. There is a move towards diversifying away from just delivering healthcare to providing health insurance and other financial infrastructure. The importance of setting up new methods of financing private healthcare can be seen in Asia, and this is starting in Africa.

In Asia, medical tourism is a growing expansion strategy but does not appear to be developing on the same scale in other regions. In Africa, the South African market has expanded at a faster rate than elsewhere, but is showing signs of saturation. South African companies have had to expand away from Africa, into Europe.

There is some evidence that there are small scale investments taking place in Africa, in health insurance and managed care.

European healthcare companies appear to be the most active, especially in comparison to American healthcare companies. European companies are taking advantage of new opportunities to deliver healthcare to the public healthcare sector in Europe. Several companies have identified the need for high technology equipment in public health systems. Partnerships have been developed with national health systems. The ownership of European healthcare companies is changing and becoming dominated by private equity investments, which look for a faster return on investments. They also provide less information about company financial affairs.

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Jane Lethbridge  
[j.lethbridge@gre.ac.uk](mailto:j.lethbridge@gre.ac.uk)

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<sup>1</sup> Interview with Parkway Holdings July 2004

<sup>2</sup> Interview with Parkway Holding July 2004