



## Chapter 5

### Conclusion and Recommendations

This study is a cross-sectional descriptive study, about costs and benefits incurred by Nopparat Rajathanee Hospital for contracting out primary medical care to private clinics under the social security scheme and its impacts in 1994.

#### 5.1 Conclusion

The results of this study showed that the incremental cost for Nopparat Rajathanee Hospital to implement the contracting out primary medical care to private clinics under the social security scheme in 1994 was 20,969,648.25 baht. Most (80.01%) was accounted for by the treatment charges paid to private networks since 87.0% of insured patients prefer to get primary care from private networks rather than going to see a doctor at the very crowded out-patient department of Nopparat Rajathanee Hospital and the public networks. The lowest cost component is the building cost (no cost), because the building for the social security office has not been changed.

The incremental monetary benefit is equal to 33,564,574.00 baht. The revenue from the national social security office is the largest share, that is 83.53% or 28,037,100.00 baht. The benefit in the form of the saving due to the implemented programme can be reduced only by the expense for public networks, equal to 5,527,474.00 baht or 16.47% of the incremental monetary benefit. Another potential savings can not in reality be saved, such as treatment charges paid to supra-contractors, expenditure for out-patient and in-patient departments, because even though the utilization rate is reduced, the number of insured patients is increased. Then the real expenditure has to be higher than the hypothetical situation, that the contracting out programme has not been implemented. That means all costs have to be put in the incremental cost component.

##### 5.1.1 Fiscal efficiency

When the incremental cost and incremental monetary benefit were analyzed by cost-benefit analysis approach, it was found that net benefit equals

13,375,640.19 baht, the benefit-cost ratio is 1.66, and by break even analysis, the optimum number of insured workers registered with Nopparat Rajathanee Hospital should be equal to 63,731 workers, and maximum treatment charges which can be paid to private networks is 29,372,505.75 baht, so that the incremental monetary benefit balances incremental cost. Also, sensitivity analysis was conducted to confirm the results, by changing important components, personnel cost and the hypothetical number of registered insured workers, but the results still show that the contracting out programme has high fiscal efficiency. From all of these results, from cost-benefit analysis and sensitivity analysis, the contracting out programme can be concluded that the fiscal efficiency is quite high and agrees with the results of Nittayarumpong (1995), which assert that this programme has fiscal feasibility.

### **5.1.2 Non-monetary benefits**

#### **Services provision improvement**

In terms of non-monetary benefits such as services provision efficiency improvements, it was found that, after the contracting out programme was implemented, the average length of stay for insured patients was reduced 5.57 %, in-patient utilization rate was reduced 21.33 %, but the cost of drugs prescribed per OPD visit increased 60.61 %. From these results it is not whether contracting out can improve service provision, or not. More indicators are needed i.e. case mix, severity, technology etc., which could not be done in this study due to limited time. But the one which should be considered is the cost of drugs prescribed per OPD visit which was higher than the rate in 1992 and than the private network rate also.

#### **Quality improvement**

Improvement in quality of care was considered on the basis of observation of the employers' reasons why they selected the main-contractor. 90 % of them selected Nopparat Rajathanee Hospital because its networks are available, and 80 % of the employers asked for the needs of employees before selecting Nopparat Rajathanee Hospital as the main-contractor. But the satisfaction of insured workers about quality of services they consumed was quite low. That means the Hospital should improve the quality of services for greater satisfaction of consumers and to compete with other networks that are now increasing rapidly in number.

## **Equity improvement**

Concerning equity in utilization of access to medical services, the study found that, after the contracting out was established the out-patient utilization rate at Nopparat Rajathanee Hospital decreased, but for the whole network primary medical care utilization rate increased, due to insured patients preferring to use private clinics more than going to see doctors at very crowded public health facilities. Other reasons for increase in utilization and medical services accessibility are the availability of Nopparat Rajathanee Hospital networks: insured workers can get treatment where they want and not so far from their house or their office, throughout 24 hours. Thus equity improvement in terms of accessibility and utilization can be achieved by this programme.

## **Administrative efficiency**

In terms of administrative efficiency, by observation and study of government policy for Nopparat Rajathanee Hospital to running the contracting out programme, the hospital administrators have authority and freedom to manage the social security budget by themselves because of the decentralization strategy of the Ministry of Public Health. This contributed to the success in this hospital, since the hospital can contract with private networks without the fiscal policy constraint of government bureaucratic regulation.

Although there is administrative freedom to manage the programme for the administrators, they do not have any rewards for their contribution time. That is very serious for administrative efficiency which requires the environment for administrators to work for good health outcomes but without reward so that it is difficult for someone to contribute and to recruit new administrators. On the other hand it is easy for the private sector to siphon off those administrators, because private hospitals can give them more incentives i.e. salary and allowances.

Sensitivity analysis (Chapter 4), showed that the hospital has the ability to invest more in personnel (four times more) with few effects on fiscal efficiency. So, Nopparat Rajathanee Hospital should find ways to give more incentives for administrative personnel such as establishing some reward system for them. Their salary can not be increased, as it has to follow the salary step of government regulation. So, better ways to improve incentives for administrative personnel, are either to maintain the number of personnel as now but give them some monetary reward or employ more administrative personnel for social security tasks.

### **Allocative efficiency**

Contracting out primary medical care to private clinics can make a contribution by prevention of some severe illness, and to early recovery. That could reduce the burden of health care providers for secondary and tertiary health care provision in the long run. Therefore, allocative efficiency could be achieved through the contracting out programme.

### **Technical efficiency**

In terms of technical efficiency, this study found that primary medical care provided by contracted private clinics, both in total treatment charges per visit and drug prescription costs is cheaper than the hospital provision, under the assumption that treatment outcomes are the same. Thus, shifting responsibility for primary medical care provision from the public to the private sector is a possible way to improve health care delivery and the public resources can thereby be used more efficiently.

One important out come of the study is awareness of the high incremental administrative cost: around 7.00% of cost component is used in administrative tasks which include management, monitoring, supervision and promotion costs. That is not so high when compared with total incremental costs, but the hospital has low promotion costs due to the advantages of the hospital, such as being located in a factory area, being well known, large, with high capacity and every cost component is purchased at public prices. For other hospitals which have not those advantages they have to invest more in administrative tasks. Then the administrative cost may be higher than Nopparat Rajathanee Hospital and total cost might difficult to control. That might affect the costs of shifting health services to private providers.

#### **5.1.3 Impacts of implementing contracting out programme**

Impacts of implementing the contracting out programme, can be defined in a number of ways. The important one is potential shifting of patients to other scheme to utilize social security health benefits. The one that should be considered is the workman's compensation scheme, due to the fact that target populations of the social security scheme and the workman's compensation scheme are in the same group. Although in this study the evidence was not found, but it is possible to occur. According to the regulation of the workman's compensation scheme, if the

employees get sick from work often, the following year the employer has to be charged more for co-payment by the fund. Thus there is evidence that employers encourage employees to use their social security health benefits instead of the workman's compensation health benefits, even for those illnesses related to work; with some diseases it is very difficult to distinguish whether it is related to work or not. Also, when the contracting out programme is implemented, there are many contracted private networks available, which are easy to access.

The managers of a hospital which has established the contracting out programme should keep in mind ways to avoid and solve the problem of shifting patients from other scheme to utilize social security health benefits, otherwise, they might have to face an unnecessary burden and lose their potential benefits.

Another variable which can have effects on the programme, is private networks because they are the large group of health services providers. Their attitude should be studied, so that ways to control them can be known. From the results of this study, about the attitude of private networks, it was found that 60% of them think the revenue from Nopparat Rajathanee hospital is important revenue for them, for the remaining 40% who received revenue from Nopparat Rajathanee hospital this is not important revenue for them, but they still belong to the network because, they can increase the number of patients and can promote their clinics. Some clinics were sub-contractors not only to Nopparat Rajathanee Hospital networks but they also for other networks too. Then competition occurs; for this situation Nopparat Rajathanee Hospital has to prepare itself to compete with the other networks by improving the quality of services and providing more incentive to sub-contractors.

From the study, the service charges that the hospital pays to sub-contractors are still higher than other networks. That means Nopparat Rajathanee Hospital has capacity to compete with other networks. But the necessary policy, if the public sector wants to contract with the private sector is fiscal policy, that means payment for sub-contractors should be fast; according to the research 40% of clinic networks got payment within 3 weeks, 50% within 4 weeks, 10% have to wait more than one month after they submit the requirements. 60% of private clinics are satisfied, but 40% of them want more rapid repayment. Nopparat Rajathanee Hospital should improve fiscal policy to give more incentive and more convenience for sub-contractors, So they will still be sub-contractors for a long time.

#### 5.1.4 Strengths and weaknesses

Strengths and weaknesses of contracting out can be identified in two categories: First, considering in terms of Nopparat Rajathanee Hospital which conducts the contracting out as a tool to deliver health care services for its registered insured workers. Second, the nature of contracting out is considered, because there is no complete health care delivery programme in the world. Every programme has strengths and weaknesses:

#### **Nopparat Rajathanee Hospital**

##### **Strengths:**

1. The hospital can establish contracting out at low administrative cost as it is a big hospital, located in a factory area, has low promotion costs and the hospital can purchase all of administrative cost components at public prices.
2. The competition between the hospital and other public main-contractors is low. Because Nopparat Rajathanee Hospital is the only big hospital in that area, and is located far from other big public hospitals in Bangkok.
3. The hospital has unconstrained fiscal policy according to the decentralization strategy of the Ministry of Public Health and the Ministry of Labor and Social Welfare that allows hospital managers to manage almost all of the social security budget by themselves. So that can give rise to managers' satisfaction, therefore they might contribute more to work and to administrative efficiency.

##### **Weaknesses:**

1. Although the competition between the hospital and other public hospitals is not so strong, the hospital has to compete with private hospital which are emerging rapidly right now. According to insured workers satisfaction for the hospital services, this study found that to be quite low. Then, the hospital situation is not so good, it is possible that the hospital might lose some insured workers to private hospitals if the quality of services are not improved.
2. Despite the fact that managers of the hospital have authority to manage almost all of budget by themselves they have very low monetary rewards. that makes it very difficult to recruit new administrative personnel, due to low incentives for them. For the present administrative personnel, it is possible for them to be siphoned off by private hospitals which can offer them more rewards.

## **The contracting out programme**

### **Strengths:**

1. Resources can be used more efficiently in health care, as health services can be purchased at public prices and private quality.
2. People can access health services more easily, because health services are delivered near their place by private networks. That can reduce overcrowding at public out-patient departments and give people more satisfaction.
3. Capital investment can be saved, as services provisions are contracted, then some public facilities do not need to be constructed i.e. out-patient department.
4. The environment for administrative efficiency is generated because managers have authority and freedom to manage almost all of the budget by themselves and they have incentive to improve their own performances.

### **Weaknesses:**

1. Quality of services which are provided by private sub-contractors are difficult to control, underprescription could be happen due to the fact that they want to reduce their cost and get more profit.
2. Consumer over-utilization are likely to occur, because patients can access health care more easily that can stimulate their behavior to consume health services more than their need.
3. The contracting out programme needs more administrative investment i.e. needs administrative personnel with specific skills to manage the programme and needs manpower to monitor and supervise the networks. All of those are usually high in public management.

The contracting out primary medical care to private clinics is possible to implement for other main-contractors. But it needs more studies in detail, because the success of contracting out depends on many criteria, i.e. number of main-contractors, sub-contractors, competition among them and fiscal policy of each hospital, capacity of main-contractor to control sub-contractors etc.

## 5.2 Limitations:

This research was conducted under time constraints, So some aspects could not be studied in detail as it should be. For the cost in this research, the secondary data were used, therefore the possibility of over or under reporting can not be avoided. For benefits calculation base on the hypothetical number of insured workers in 1994 in the situation of no contracting out implemented, this could be wrong. Primary data were collected by questionnaire but only a few questionnaires were returned, making the sample size quite small, affecting the acceptability of the results. That means the results of this research might be changed if a larger sample size could be conducted.

## 5.3 Recommendations:

This study was conducted to learn the feasibility to implement the contracting out primary medical care to private clinics by public health facilities and it was found that it is possible to implement, but it has to be conducted under the appropriate condition. According to the contracting out as well as the privatization itself, some degree of decentralization has to be established i.e. reduce the constraint of fiscal policy and let the directors of the hospitals manage their own budgets, that can give them more incentive to work more for their own performance, then administrative efficiency can be achieved. While this study was conducted, weaknesses were found, but those are not a serious problem. All of those can be solved as mention below.

1. To avoid losing a number of registered insured workers to other (private) main-contractors, the hospital has to improve quality of services for consumers' satisfaction.
2. To avoid a brain drain of administrative personnel, the hospital should increase manpower investment, employ more social security administrative staff or give appropriate monetary rewards. Another way is to improve incentive for new administrative recruitment:
3. To contain administrative costs, and consumers' over-utilization, good information systems are required, such as the established national social security information system. Then, the further studies or researches can be easy to conduct, because every network's information is collected by the same process.



## **Further studies**

This study was carried out for one year of the implemented programme, that means only short term effects can be determined. Then , for more information of contracting out the following issues should be conducted in further studies:

1. Costs and benefits to insured workers or the whole society due to implementation the contracting out.
2. The attitude of insured workers about contracting out, by direct survey instead of asking from the employers.
3. The feasibility to establish the contracting out through the whole country.
4. Quality control of sub-contractors.
5. Equity improvement by the contracting out.