



CHAPTER 1

INTRODUCTION

Background and Rationales

The current economic problems and the financing crisis are arousing all health organizations to survey, analyze, and conduct researches in most areas of financial management and cost control to utilize scarce resources efficiently and effectively and to improve the structure of expenditures in order to enhance productions or output efficiency.

In order to ensure that scarce resources are used to best effect and to develop a financing strategy package which will help to cover all or some of the costs involved in operating such institutions, it is necessary to know how hospital costs are influenced by output levels and other variables. Therefore, if the hospital managers are to be able to understand and properly evaluate and utilize financial data, they must understand resource analysis and related accounting principle. Apart from that, the administrators have to look for the ways in which those limited resource must be utilized as effective and efficient as possible. The correctness of the decision depends to a great extent on the accuracy of the cost information available.

One of the study as above-mentioned is to study the Diagnosis Related Groups (DRGs). They are the patient classification scheme, which provide a mean of relating the type of patients a hospital treats to the costs incurred by the hospital. They were created by the combination of 2 concepts. First was the concept of Health Economics in order to find out the Production Function and the second was the concept of Engineering in order to analyze all resources used and occupied by every unit in hospital.

DRGs are widely used for a variety of purposes including quality improvement, hospital output measurement and funding analysis ⁽¹⁾. The result of the study also assist the decision-makers to determine the average and marginal cost by combining the total cost information with various types of output such as admissions, patient days, or by types of patient (surgical, medical or by diagnosis). In addition, the result can be used as a guideline for negotiation equitable reimbursement rates with third party payers and when combined with a schedule of charges and a revenue budget, they can establish an adequate charge structure. Nowadays, many developed countries such as The United States, Canada, and Australia are using them as the prospective payment rates and standard tool for the financial and resource management of the hospitals. In Thailand, The Ministry of Public Health is trying to use DRGs system for the reimbursement rates for the Social Security Fund, the Vehicle Insurance Fund, the Civil Service Health Insurance Fund, Health Card and other health care policy decisions.

King Chulalongkorn Memorial Hospital is a Tertiary Care Hospital, which serves as a leading university hospital; accordingly, common surgeries are always happening so consuming a lot of funds. By the statistical record of the registration department, the numbers of surgery for Appendectomy is always in the top three; hence it was selected for this study. To study its expenditures as the DRG method can assist the administrators analyze the trend of cost and the relevant factors that can decrease the budget realistically; moreover, it would be used as a guideline for the reimbursement rate, price of charge, other DRGs and health economic studies.

In accordance with the DRG studying process is in conjunction with the cost accounting information, this study had kindly asked King Chulalongkorn Memorial Hospital to utilize some results of a cost analysis study of them to represent some costs information for this study. The study as mentioned is " **Cost Analysis of Patients Services at King Chulalongkorn Memorial Hospital**" ⁽²⁾, which was studied by Pirom Kamolratanakul, Jiruth Sriratanaban, Sureerat Ngamkietphaisan, the duration of the study was from May 2000 – June 2001.