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Agency problems of global budget system in Taiwan's National Health Insurance



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ABSTRACT

The main purpose of this study was to investigate the agency problem presented by the global budget system followed by hospitals in Taiwan. In this study, we examine empirically the interaction between the principal: Bureau of National Health Insurance (BNHI) and agency: medical service providers (hospitals); we also describe actual medical service provider and hospital governance conditions from a agency theory perspective. This study identified a positive correlation between aversion to agency hazard (self-interest behavior, asymmetric information, and risk hedging) and agency problem risks (disregard of medical ethics, pursuit of extra-contract profit, disregard of professionalism, and cost orientation). Agency costs refer to BNHI auditing and monitoring expenditures used to prevent hospitals from deviating from NHI policy goals. This study also found agency costs negatively moderate the relationship between agency hazards and agency problems

The main contribution of this study is its use of agency theory to clarify agency problems and several potential factors caused by the NHI system. This study also contributes to the field of health policy study by clarifying the nature and importance of agency problems in the health care sector.

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1. Introduction

Taiwan's National Health Insurance (NHI) was launched in 1995, and premium revenues have fallen short of medical expenditures since 1998. In July 1998, the Bureau of National Health Insurance (BNHI) initiated a global budgeting system (GBS) for dental treatments to help control medical expenses. BNHI subsequently extended to GBS to Chinese medical treatment in July 2000 and hospital care in

July 2002 [1–3]. BNHI and medical service providers (MSPs) share a principal–agency relationship; each has different organizational objectives and priorities. GBS-induced changes have restructured economic incentives for MSPs and created two principal agency problems. First, the minimal restrictions imposed by the GBS on patient choice of medical service provider give MSPs a motivation to try to restrict patient access to other services. Second, BNHI-imposed caps on benefits give MSPs a motivation to inflate their medical expense claims.

Previous studies have focused primarily on the impact of changing budgeting systems on medical behavior [4]. Few have addressed agency problems and associated factors. The literature is particularly silent with regard to

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agency problems occurring between insurers and MSPs. Although agency hazards appear to be key factors of the agency–principal relationship process, we know little about why some MSPs (agency) are more effective to be solved agency problems between hospitals and BNHI than others. Likewise, it is not known what effects that agency hazards behavior has on the agency problems between MSPs and BNHI. For example, we do not know if agency hazards behavior inclines to strengthen versus drain MSPs, and which factors may improve or lessen such effects. To this end, the current study examined the linkage of agency hazards behavior with agency problems.

In the context of GBS in Taiwan, although there appears to be a consensus that agency hazards is harmful to public benefit, the consequence of agency hazards behavior appears to be dependent on various factors. Perhaps most importantly, agency hazard requires controlling efforts of BNHI's to prohibit MSPs' intention of agency hazards [5]. Owing to the complicated nature of health services market, it is not enough to depend only on MSP's ethic—BNHI must be confident in their ability to effectively apply power to prevent MSPs' potential hazard behavior [6,7]. This is because MSPs' hazard behavior can be highly unpredictable and very risky for patient right, especially for those who facing cost containment pressures in GBS context. MSPs who are facing the possibility of reduced payment in GBS context are likely to experience financial pressures during medical services operation and have a higher propensity to stimulate agency hazards. For these reasons, spending more resource to monitor, supervise and constrain MSPs' behavior was expected to have a negative moderating effect on the relationship of agency hazards behavior with agency problems in Taiwan's GBS context. However, the primary aim of this study is to explore the relationship between agency hazards and agency problems in Taiwan's hospital industries under GBS context. Moreover, in our research context, we clarify the effect of agency cost invested by BNHI on the relationship between agency hazards and agency problems as well. For this purpose, we proposed three types of agency hazards (self-interest behavior, asymmetric information, and risk hedging) as the determinants of three agency problems (disregard of medical ethics, pursuit of extra-contract profit, and disregard of professionalism and cost orientation) in Taiwan's hospital sector. Furthermore, agency cost (monitoring, supervision, and constraint cost) spending by BNHI may moderate the relationship between agency hazards and agency problems. Thus, this study thus describes and explores medical healthcare agency problems from an agency theory. In summary, there are two specific research questions in this research:

- (1) What is the influence of the agency hazards that may impact agency problems in Taiwan's hospital industry under GBS context?
- (2) What is the effect of agency costs on the relationship between agency hazards and agency problems in Taiwan's hospital industry under GBS context?

2. Theory and hypotheses

2.1. Agency theory

Our research model draws from agency theory to explain how agency hazards and agency costs influence agency problems of Global Budget System in the context of Taiwan's National Health Insurance. The principal–agency model of agency theory presumes that the principal go into a contractual relation with the agency, and delegates responsibility to the agency to accomplish a set of responsibilities on behalf of the principal to form an agency relationship [6]. Such a contract possibly will involve the designation of some authority by the principal to the agency, it is recognized that principals authorize agency to enhance profits (or minimize costs) of their services and goods that agency would not go into the contract if they have better choices. Problems take place because of an asymmetric distribution of information which favors the agency. The latter allows the agency to chase its own interest and engage in opportunistic behavior – moral hazards – at the cost of the principal's interest. The problem of the principal is how to manage and limit shirking by the agency [7].

In our theoretical model are two players, the BNHI (principal) and the MSPs or hospitals (agency) in a Taiwan's health care setting. We assume that the hospital's objective is to ensure its own survival, whereas the BNHI seeks to maintain the benefit of public health. We further assume that both players are engaged in a strategic game that is hypothesized to be fraught with the moral hazards and agency problems compounded by the Global Budgeting System. To ensure the MSP's survival, the hospital needs a specific quota of health services. This creates strong incentives for the MSP to under invest in the maintenance of excessive patients' benefit because this would not earn more payment from BNHI and decrease the operational cost to ensure the MSP survival. This behavior by the hospital is implicitly sustained by the moral hazards and agency problems found in GBS: BNHI need the hospital as clients to maintain the benefit of public health, whereas financially struggling MSPs need BNHI to finance their capital expenditures and subsidize their operations [5]. Therefore, in order to mitigate the agency moral hazards and agency problem, BNHI need to spend time, efforts and resource (agency costs) to monitor, supervise, and constrain the MSP's medical behavior to make sure they follow the health policy. Fig. 1, "Conceptual framework," summarizes the relationships proposed here among agency hazards, agency problems, and agency costs within Taiwan's hospital industry.

2.2. Agency hazards and agency problems

2.2.1. Agency hazards

Agency hazard is a condition that poses a level of threat to agency–principal relationship. In agency theory, a moral hazard of agency is a state where an agency will have a propensity to take risks because the costs that could suffer will not be felt by the agency taking the risk [6,8]. An agency hazard may happen where the actions of agency

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