



ORIGINAL ARTICLE

Competitive Strategy for Successful National University Hospital Management in the Republic of Korea

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Abstract

Objectives: This study provides information to aid decision making for managers and the staff of national university hospitals through analyzing their financial statements.

Methods: In order to analyze the finances of national university hospitals, this study used the report of final accounts announced by each hospital from 2009 to 2012 as baseline data. The research participants were 10 national university hospitals.

Results: According to the results of the analysis, most hospitals (except for a few) had medical expenses exceeding their medical revenues, resulting in a net deficit; however, there were significant differences amongst the hospitals. The result of adjustments based on a standard size of 100 beds showed that most hospitals had medical revenue deficits, and there were significant differences between hospitals in terms of medical revenues and medical costs.

Conclusion: It is not clear whether an expansion of national university hospitals is always beneficial for increasing net revenues, and it is necessary to establish a differentiation strategy to increase profitability by securing financial soundness instead of externally-oriented growth.

1. Introduction

Recently, private medical institutions are focusing on growth and specialization to enhance competitiveness and improve business performance. However, public medical institutions that are striving to improve financial earnings, expenses, and performance are suffering the

double torment of losing competitiveness while facing financial deterioration due to poor performance compared with private medical institutions. National university hospitals, which are typical public medical institutions, were established according to the Establishment of National University Hospitals Act for the purpose of nurturing medical personnel and advancing

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Table 1. Annual average medical revenues and expenses per hospital.

	Beds	Medical revenues					Medical expenses				
		2009	2010	2011	2012	Average	2009	2010	2011	2012	Average
Anuh	472	37,798	46,747	57,141	62,191	50,969	41,325	49,455	59,750	66,182	54,178
Bnuh	893	240,620	267,062	283,989	315,496	276,792	240,646	254,970	276,336	353,702	281,414
Cnuh	899	143,088	153,744	161,320	162,507	155,165	144,261	156,086	162,156	172,890	158,848
Dnuh	1,220	226,747	324,535	388,306	430,299	342,472	230,422	352,541	394,516	435,355	353,208
Enuh	1,790	581,191	631,653	692,860	750,859	664,141	602,766	638,612	693,063	776,737	677,795
Fnuh	980	336,292	380,399	407,570	429,876	388,534	343,803	383,241	400,517	439,054	391,654
Gnuh	1,004	202,053	228,099	244,820	243,911	229,721	203,362	219,000	233,455	245,059	225,219
Hnuh	544	41,191	53,881	69,348	80,222	61,160	40,824	57,421	72,900	84,103	63,812
Inuh	1,060	181,122	205,767	226,037	237,246	212,543	182,139	196,417	221,973	240,068	210,149
Jnuh	621	93,343	105,678	112,022	115,771	106,703	98,509	109,808	115,890	126,234	112,610
Average	948.3	208.3	239.7	264.3	282.8	248.8	212.8	241.7	263.0	293.9	252.8

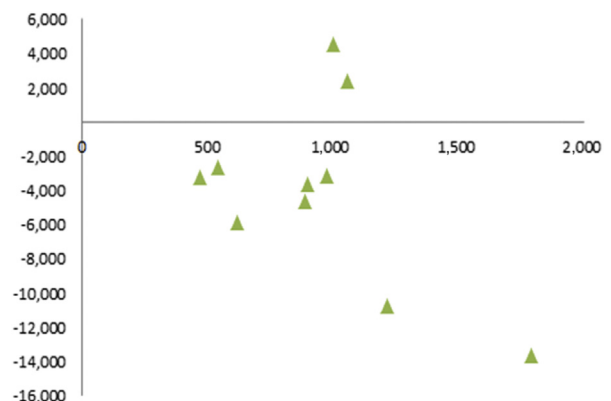
medical development through education, research, and treatment, and to act as a safety net for health and medical care. Thus, unlike private hospitals, national university hospitals must make an effort to gain public interest in medical care.

Nonetheless, it is not easy to distinguish national university hospitals from private ones as the public role played by the former is not clearly defined. At the same time, they are struggling to compete with other general hospitals in the same region [1]. Since 2003, accessibility to medical institutions in the metropolitan area increased due to the opening of the Korean Train Express as well as the further development of local transportation. This has led to an increase in efforts made by big hospitals in Seoul, Korea to attract patients from other regions. As national university hospitals in these regions strive to prevent the loss of local patients, the competition among regions to secure patients is becoming more intense [1]. Due to this intensified competition, the hospital insolvency rate for the past 3 years has shown a constant increase: 6.7% in 2008, 7.0% in 2009, and 7.8% in 2010. Therefore, national university hospitals must pursue financial independence by achieving profitability at an optimum level through efficient management.

Hospital profitability refers to successful business performance achieved by treating patients as well as carrying out other business activities during a fiscal year. Hospitals are different from general companies in that their unique characteristic of treating patients emphasizes their public social responsibility as much as their financial output. Thus, they must measure their business performance based not only on financials but also on qualitative features of services such as social benefits [2–4]. However, as it is difficult to define or measure the output of medical services, a profitability index is most commonly used as the tool to measure hospital business performance [5].

Hospital revenues are achieved through capital and finance management and are largely measured by the relationship between invested capital and profits, or medical revenues and profits [3]. Many studies have analyzed the profitability of hospitals. A study by Whitcomb and Cleverly [4] used return on assets as the hospital profitability index, while Lee and Choi [5] used net income to stockholder equity, net profit to total assets, and operating margin. A study by Coyne [6] used net profit to total assets, normal profit to total assets, and operating margin as the index, whereas Hibbard et al [7] used operating margin and net profit to gross revenues. Griffith et al [8] argued that operating margin and net profit to gross revenues are appropriate as profitability indices for Korean hospitals since such measurements compare medical revenues and expenses related to genuine medical practice and are most similar to the concept of hospital cost, take surplus and deficit into account by reflecting final business performance of a hospital, and include all details of the hospital.

It is not easy to establish a theory that can deductively explain what factors influence hospital profitability. Therefore, inductive analysis is considered the

**Figure 1.** Relationship between medical income and bed.

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