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# What Drives Hospitals to Expand? A Case of Private Hospitals in Palawan, Philippines

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## Abstract

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**T**his comprehensive study aims to determine the different factors that motivate private hospitals in rural areas to expand their operation. The study was conducted in seven private hospitals in Palawan, Philippines. The study used key informant interviews to gather data on operations, finances, and other concerns affecting the viability and sustainability of the

*The results reveal that financing, government policies, human resources, and organizational issues, if addressed by the government, could serve as positive incentives to hospital owners and decision makers to further engage in the provision of health care services in rural areas.*

private hospitals covered. The results reveal that financing, government policies, human resources, and organizational issues, if addressed by the government, could serve as positive incentives to hospital owners and decision makers to further engage in the provision of health care services in rural areas. The results could provide useful information to policy makers in assessing the impact of existing government hospital regulations. Moreover, the study may also provide some insights on how the private sector can be harnessed to invest in health care, especially in rural and poor areas in the country.

*Keywords:* financing, government policies, incentives, private hospitals

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## Introduction

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**P** rivate hospitals are one of the key players in health care systems. In 2009, 60% of hospitals in the Philippines were privately owned (DOH, 2009); and 48% of the population who needed inpatient care were confined in private hospitals (NSO & Macro International, 2009). Despite the dominance

*Despite the dominance of private hospitals, however, the distribution of these hospitals in urban and rural areas is skewed. This means that most private hospitals are located in urban and affluent areas where the demand for health care is high.*

of private hospitals, however, the distribution of these hospitals in urban and rural areas is skewed. This means that most private hospitals are located in urban and affluent areas where the demand for health care is high. A study conducted by Lavado et al. (2010) noted that there is a high positive correlation between poverty incidence, urbanity, and the number of private hospitals in an area. This implies that a richer area would tend to have more private hospitals than the poorer areas.

In areas where there are distributional gaps, such as poor and far flung areas, the government is expected to fill the gaps in health care provision. However, given the financial constraints of the national and local governments to provide efficient health facilities, the other option is to harness the private sector. But to be able

to mobilize the private sector, they should have enough incentives to invest in health care provision, more so in rural areas. Thus this highlights the need to be informed on the different factors that prevent the private sector from investing in health care delivery. However, information on the factors that drive investments in health care and in rural areas is inadequate due to the scarcity of researches in this field. This research thus seeks to contribute to the study of health care systems by looking at the factors that promote investment in health care in a rural context, with particular focus in Palawan, a province that is predominantly rural.

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## Objectives of the Study

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**T**he general objective of this study is to analyze the issues and identify the bottlenecks that discourage private hospital owners, or other decision makers in Palawan, from expanding the operation of their hospitals. Specifically, this study will concentrate on the issues relating to financing, human resources, government regulations, and hospital organization.

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## Significance of the Study

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**M**ost hospitals in the Philippines are concentrated in highly urbanized areas, like the National Capital Region (NCR), the nearby provinces in the south of NCR, Cebu and Davao. In addition, there is a good mix of hospitals providing different levels of health care in urban areas. On the other hand, in provinces

*Most hospitals in the Philippines are concentrated in highly urbanized areas, where there is a good mix of hospitals providing different levels of health care. On the other hand, in provinces comprising more rural areas, there are fewer private hospitals and the services provided are also limited.*

comprising more rural areas, there are fewer private hospitals and the services provided are also limited. To address the situation, the government needs to encourage the private sector to expand their health delivery in rural areas. With limited studies that shed light on the factors influencing the investment decisions of private hospital owners, the author felt the necessity to investigate the specific bottlenecks and issues affecting their actions. By knowing the specific issues, the government would be able to craft more appropriate policies and programs that would motivate the private

sector to invest in health care services particularly in the rural areas.

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## Methodology

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**T**his study adopts a qualitative approach to the analysis of data. Key informant interviews were conducted to gather data on the operations, finances, and other concerns affecting the viability and sustainability of the private hospitals covered by the research. The key informants interviewed include medical directors, hospital administrators, or eligible hospital staff from seven hospitals in Palawan, Philippines.

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## General Characteristics of the Study Area

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### *Demographic and Socioeconomic Characteristics of Palawan*

**P**alawan is an island province located in the MIMAROPA region. It is the largest province in the country in terms of total area of jurisdiction composed of 13 mainland municipalities and 1 island municipality. Puerto Princesa is the province's capital, a highly urbanized city that governs itself independently from the

provincial government. Palawan is a melting pot of 87 different cultural groups and races, with migrants coming mainly from Mindanao.

Table 1 shows that the population of Palawan was about 890,000 in 2007; it grew by 3.64%, which is significantly higher than the national growth rate of 2.04%. Life expectancy of the population, an important health indicator, is lower at 62.8 years compared to the national average of 70 years. The incidence of poverty in the province estimated at 49.3% of the population is higher relative to the national rate of 36%.

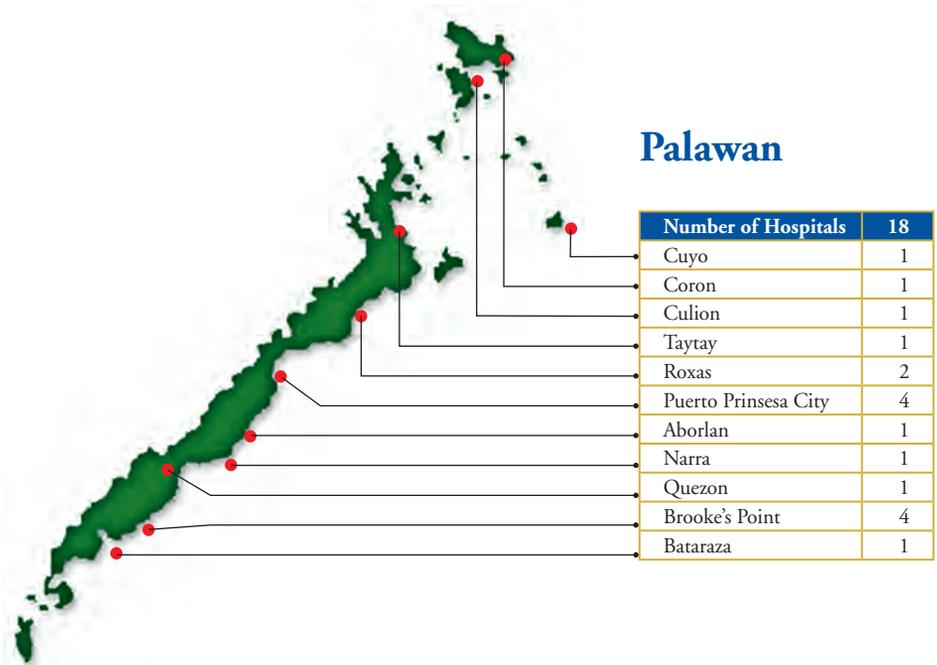
Table 1. Selected Sociodemographic Indicators of Palawan, Selected Years

Population	892,660 (2007)
Life expectancy	62.8 years (2006)
Poverty incidence among population	49.3% (2006)
Functional literacy	20.9% (2006)
Income classification	1st class (30 September 2011)
Per capita income	20,434 pesos (2006)

Sources: Human Development Network. (2009). 2008/2009 Philippine Human Development Report: Technical Notes and Statistical Annexes; Castro, L. V. (2009, June). 2006 Poverty Statistics for the Basic Sectors; National Statistical Coordination Board. (2011). Philippine Standard Geographic Codes as of 30 September 2011; National Statistics Office - Region 4B. (2009). Chapter 3: Demography of Palawan

## *Hospital System in Palawan*

The province has 18 hospitals licensed by the Department of Health (DOH), 7 of which are privately-owned. Figure 1 shows the location of these hospitals.



*Figure 1.* Map of Palawan and number of hospital located in each municipality

Ospital ng Palawan, a regional DOH-retained hospital, is located in Puerto Princesa City. A good concentration of Level 1 and Level 2 hospitals is found in Brooke's Point, 92 kilometers south of Puerto Princesa City, while a few Level 1 and Level 2 hospitals are in the northern part of the island.

Recognizing the lack of facilities in the northern part of the island, some hospitals in Puerto Princesa City are considering expanding or putting up satellite hospitals in the area. The presence of an ambulance system organized by the Puerto Princesa City government is expected to facilitate the transfer of patients to the city. However, the study done by Lavado et al. (2010) found that a lack of health manpower, particularly doctors, in areas outside Puerto Princesa City has also led to a lack of interest by private hospital owners to put up hospitals in these areas.

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## Key Issues

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This section below describes some key issues that affect the decisions of private hospitals to engage in health care, to expand their operations to rural areas, and to continue providing health services.

### *Regulatory Concerns*

**D**OH is the Philippine government agency responsible for the regulation of private hospitals. It imposes a wide range of regulations, starting from licensing. The Bureau of Health Facilities and Services (BHFS) of the DOH is in charge of issuing permit to construct (PTC) and permit to operate (LTO). For permit application, the documentary requirements are submitted to the Center for Health and Development, the DOH regional field office for MIMAROPA. The center then endorses the application to BHFS. It is important to note that the requirements vary, depending on the level of service capability of the hospital.

The Philippine Health Insurance Corporation (PhilHealth) is responsible for the accreditation procedures. In 2005, PhilHealth adopted the “Benchbook on the Performance Improvement of Health Services,” with the aim of ensuring quality health services for their members by improving the

quality of health care provided by accredited hospitals. The Benchbook serves as the reference for evaluating the performance of accredited health care providers.

During the key informant interviews, the respondents raised a concern regarding the DOH data requirements as being onerous. There is no motivation as well to submit complete and reliable data because it is observed that data submitted by hospitals are not used. The DOH requires hospitals to submit several

*The research also confirmed that most of the hospitals do not have interconnected or health information systems that would enable the collection and consolidation of information from the different departments of the hospital.*

sets of epidemiologic, financial, and operational data on a quarterly, semi-annual, and annual basis. Because the process and reporting requirements are quite tedious, reporting hospitals find it difficult to collate data as efficiently and accurately as possible; these have affected the reliability and completeness of submissions. This problem is more vivid in lower level hospitals because they lack personnel and structured health information systems that could facilitate the generation of data that are accurate and on a timely fashion.

The research also confirmed that most of the hospitals do not have interconnected or health information systems that would enable the collection and consolidation of information from the different departments of the hospital. It was further observed that the data requirements and data formats submitted by hospitals from the different regions in the province

are not standardized, resulting to raw data that are inconsistent and not comparable, and to province-wide estimates/counts that are not reliable.

Table 2 shows the level of Hospital Information System in private hospitals in Palawan. Another issue raised by the key informants involves the lack of coordination between the DOH and PhilHealth in terms of data requirements. Both institutions require hospitals to submit separate and different data/information, leading to much paper works for the hospital. Streamlining data requirement would help hospitals to submit more reliable and complete data.

*Another issue raised by the key informants involves the lack of coordination between DOH and Philhealth in terms of data requirements.*

Table 2. Levels of Hospital Information System in Private Hospitals in Palawan

Interconnectedness of Hospital Information System	No. (%)
Hospital Information System	2 (42%)
Admission connected to Hospital Information System	2 (28%)
Ward connected to Hospital Information System	2 (28%)
Medical record connected to Hospital Information System	3 (43%)
Billing connected to Hospital Information System	3 (43%)

Source: Author's calculation based on key information interviews.

Another observation made from the results of the study is the difficulty encountered by hospitals in complying with PhilHealth accreditation standards. Some hospitals agree that the Benchbook was devised to increase the quality of health delivery;

however, lower level hospitals find difficulty meeting the standards because it entails high costs. The Benchbook requires hospitals to re-structure their existing physical plans and operational dynamics in order to improve the quality of their services. During accreditation, the detailed documentation and logistics needed force hospitals to hire new personnel to handle and oversee pre- and post-accreditation

*Another observation made from the results of the study is the difficulty encountered by hospitals in complying with PhilHealth accreditation standards.*

activities. In other cases, the staff of the hospital would be tasked to prepare the documentation, devoting most of their time on this procedure instead of providing health services. Meeting the accreditation standards is given serious effort because failure to comply with the requirements could lead to downgrading of hospital operation, or worst, to cease operation.

### ***Incentives for Investments in Hospital Operation***

From the results of the interviews of the key informants (Table 3), it was also revealed that increasing market size, in terms of higher number of PhilHealth members, brings positive incentive to **invest (57% of total replies)**. Two other factors that would also drive hospital owners to invest are by increasing PhilHealth benefits and effecting changes in the current accreditation standards (equally cited by 57% of key informants).

From the hospital records, it was noted that a significant proportion of private hospital patients are not PhilHealth members. Meanwhile, reimbursements from PhilHealth could take around 85 days, which could affect hospital financial operations. As shown in Table 3, faster PhilHealth reimbursement, as cited by 71% of key informants, could promote further investments in health care.

Table 3. Market Drivers

Market Drivers	No. of Respondents (% of total replies)
Increase in PhilHealth membership in the area	5 (57%)
Increase in PhilHealth benefits level	4 (57%)
Faster PHIC reimbursements	5 (71%)
Changes in PhilHealth accreditation standards	4 (57%)
Changes in DOH regulations (i.e., CON)	2 (29%)
Changes in DOH licensing rules	2 (29%)
Others	
Investors to join	
No competitors	
Next generation to continue	1 (14%)
Accessibility	1 (14%)
More doctors in the area	2 (29%)
Funding source	1 (14%)
Service only	1 (14%)

Source: Author's calculation from key informant interviews.

On the other hand, the research also observed several factors that could serve as disincentives to potential investors to build hospitals in rural areas. These are:

- (1) The high amount of unpaid collectibles from patients is a major problem, especially hospitals in rural areas which predominantly cater to poor and indigenous patients. Though some hospitals are mitigating the build up of collectibles, through hiring of personnel who visit patients to collect payments and accepting collaterals like land titles and old appliances, measures taken are not enough to compensate for the amounts due to the hospitals.
- (2) The lack of doctors and allied-health professionals (e.g., medical technicians) hinders investments in rural areas. This can be attributed to the fact that most doctors prefer to work in urban areas where the bigger hospitals are located. In the southern part of Palawan, for example, the lack of doctors is a serious problem, but not in Puerto Princesa City.
- (3) The lack of family successors to continue hospital operation has become a threat, especially for
- Several factors that could serve as disincentives to potential investors to build hospitals in rural areas include the high amount of unpaid collectibles from patients, lack of doctors and allied-health professionals, lack of family successors to continue hospital operation for family-owned health facilities, lack of access to financing, poor utilities and infrastructures, and some conventional regulations.*

family-owned health facilities. It is noted that some of the siblings of the owners of these hospitals do not have the interest to stay in rural areas to manage the hospitals built by their parents. Some feel that managing hospitals in such an area is not attractive as a career.

- (4) The lack of access to finance both for investment in facilities and equipment and working capital is also being faced by lower level hospitals. Some of these hospitals are hesitant to secure loans because of high interest rates and tedious logistics involved in applying for loan. Some hospitals are considering establishing mobile clinics instead for conducting medical missions in under-served areas since the overhead cost is lower compared to building a facility.
- (5) Utilities and infrastructure, which are necessary in rendering medical services, are also poor or inadequate in some areas. In Palawan for instance, roads are not yet complete, limiting accessibility.
- (6) Some government regulations are detrimental to private hospital operation. For instance, discounts granted to senior citizens could be a disincentive to investment. Some hospitals increase the fees for other services rendered to compensate for the discounts, but there is a limit to this due to competition and they would ultimately face viability problems.

### *Availability and Distribution of Hospitals*

Most high level care hospitals tend to be concentrated in urban areas. The presence of advance health facility is of utmost necessity in order for complicated cases to be treated in a timely manner. In these cases, private hospitals play an important role by facilitating access to advance health facility. This is true in Palawan with the private hospitals more capable of delivering high level care considering the geographical feature of the place, being isolated from major cities in the Philippines. Two private hospitals in Puerto Princesa City have modern facilities that can handle and diagnose some complicated cases. In these cases, the patients are no longer transferred to Metro Manila for medical treatment.

### *Government Concerns*

Majority of family owned hospitals are Level 1 hospitals. Usually, a husband-and-wife team of

*Family ownership is common in Palawan: Almost all Level 1 hospitals are small family businesses, run by “medical families.”*

doctors or medical practitioners start up a primary hospital and run its operations as well. In some cases, the primary hospital is complemented by a pharmacy or a diagnostic laboratory, which is also owned and operated by the family. At the time of the survey for this study, the operators of these family owned hospitals are already of the second generation.

Family ownership is common in Palawan: Almost all Level 1 hospitals are small family businesses, run by “medical families.” The management of hospitals such as these is not well articulated since the organizational structure is basically flat.

### *Financing and Access for the Poor*

In general, the private hospitals covered by the study generate income from different sources, through patients’ out-of-pocket expenses, insurance reimbursements from PhilHealth and health management organizations or HMOs, and fees from training of nurses and allied medical professionals. Some non-profit hospitals also receive donations from other institutions. Most of the private hospitals interviewed rely heavily on out-of-pocket payments by patients. This thus manifests a dismal health insurance system which ultimately limits the access of the poor population as they are unable to pay for health care. Another noticeable trend is the high variation in revenues from PhilHealth reimbursements among the hospitals covered by the research. While they similarly generate most of their income from out-of-pocket payments by patients, the proportion of revenues by source significantly varies.

*Most of the private hospitals rely heavily on out-of-pocket payments by patients, thus a manifestation of a dismal health insurance system which ultimately limits the access of the poor as they are unable to pay for health care.*

Another way of increasing access of poor population to hospital facilities is through mandatory allocation of 10% of total bed capacity to charity and the anti-detention of patients on account of nonpayment of hospital bills. However, compliance of private hospitals with the mandatory number of beds for charity is poor. Thus, it is not an effective form of ensuring access by the poor to hospital care. Most of the hospitals do not technically follow the 10% allocation of their beds for charity. They argue that the high amount of collectibles from patients is enough to meet the purpose of the law of helping the indigents. Meanwhile, some hospitals with limited number of beds are of the opinion that the law is not applicable in their case. As regards the anti-detention law, some of the hospitals claimed that this policy of the government has led to an increase in the number of promissory notes executed by patients. Other hospitals, on the other hand, do not apply the provisions of the law to patients in pay wards.

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## Discussion and Recommendations

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The concerns on financing, government regulation, and human resources, if addressed, could be turned into positive factors that would drive private hospitals in rural areas to expand their operation. Meanwhile, the government should craft policies and provide incentives that would promote private sector investments in health care.

- In terms of financing, local government units should start enrolling their poor constituents in social insurance. As found out by the study, high PhilHealth coverage attracts hospitals to expand since membership in PhilHealth will enable the patients to pay their hospital expenses through social insurance. Else under the status quo, unpaid collectibles from most poor patients, who are unable to secure money for their hospital bills, will continue to increase.

*The government should craft policies and provide incentives that would promote private sector investment in health care such as enrollment of poor constituents to social insurance, review and evaluation of discounting laws, shortening the long process in the accreditation of hospitals, and addressing the scarcity of health workers.*

- Discounting laws should be reviewed or evaluated with respect to their impact on the operation of hospitals since the laws are prone to misuse and abuse. Though the laws provide for meeting the social obligations of service providers to the vulnerable segments of the population, it has become necessary to examine the pros and cons of the law to stop misuse and abuse. Other channels or means of helping the vulnerable population, such as the voucher schemes, can be considered in place of granting discounts.
- The government should shorten the long processes of regulating bodies, such as the DOH and PhilHealth, in the accreditation of hospitals as these have led to high transaction costs to hospital investors.
- The government has to address the scarcity of health workers such as doctors and allied health professionals. Given the working conditions in rural areas, the government should look into programs that will motivate health professionals to stay in rural areas. Private-public sharing of human resources is also possible.

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