The Rating and Investment Concept

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Abstract

There is a situation where the hospital has a mission to serve the poor. Therefore, the government or the hospital owner has a policy of setting the lowest possible rates. It is expected that with low rates, the access of the poor will be better. However, it should be noted that high access does not necessarily guarantee good service quality. The various studies show that the quality of government hospital services is low due to limited government subsidies and low hospital rates with a bureaucratic management system. The government's failure to provide sufficient subsidies for the operational and maintenance costs of hospitals that have low rate has resulted in the hospital services quality getting lower continuously. In various local government hospitals, the policy of rate setting for VIP wards is based on considerations to improve service quality and increase job satisfaction of specialist doctors. For example, VIP wards were built to reduce specialist time in private hospitals. Too long time spent by government specialists working in private hospitals can reduce the quality of service.

Keywords: rating, government, hospital, investment, service

1. Introduction

Rate is the a service value which is determined by the size of an amount of money based on consideration that with money value a hospital is willing to provide services to patients. The hospital rate is an aspect of which a private hospital as well as government-owned hospitals is concerned. For some government-owned hospitals, the rate is set based on a Decree of Minister of Health or the Regional Government. This shows the tight control of government as owner of the hospital. However, it is recognized that government rate generally have a low cost recovery. If the rate has a low cost recovery rate applied to lower service classes (for example class III) then that is feasible, resulting in government subsidies for the poor to use hospital services. However, if the cost recovery rate is also low for the VIP class, then subsidies can occur for the upper class [1]. The existence of a self-funding policy has given authority to set rates to hospital directors, especially for VIP and class I which do not affect the poor. Therefore, hospital managers need to know the understanding of the rating concept [2].

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In microeconomics a point of equilibrium is known, where prices are in equilibrium based on demand and supply. In an economic system based on market equilibrium, it is clear that government subsidies are not implemented or limited to the poor. As a result, the rate is left in accordance with market demand [3]. However, this can lead to injustice, namely that the poor find it difficult to get hospital services, so subsidies need to be provided because this situation is very important in the process of determining government hospital rates.

2. The Purpose of Rate Setting

There is a classification of hospitals by owner, namely the handling of rate setting and the purpose of determination is influenced by the owner. In terms of social mission, rate setting can demonstrate its mission. Therefore, it is interesting to note that the rates for religious hospitals are actually higher than those for government hospitals. This is because religious hospitals have not received subsidies from the government or from the community, either through churches or other humanitarian funds [4]. From the perspective of the community as users, the religious hospital is currently not a place for treatment for the poor. Against this ownership background, rate can be set for the following purposes.

The Rate Setting for Cost Recovery and Cross Subsidies

Tariffs may be set to increase hospital cost recovery. This situation is especially true for government hospitals whose subsidies are decreasing over time. In the past, central government hospital self-financing policies were based on cost-recovery. Therefore, there is an opinion stating that the self-financing policy is related to the increase in hospital rates

In hospital management, it is hoped that there will be a policy in order that economically strong community can help ease the financing of hospital services for the economically weak community. With the concept of cross subsidies, the rate for VIP or class I wards must be above the unit cost so that the surplus can be used to overcome losses in class III wards. Apart from cross subsidies based on the economy, the hospital is also expected to implement a different rate setting policy in its parts. For example, Accident and Emergency Clinic (IRD) has the potential to be a disadvantageous share. Therefore, it needs to be subsidized by other parts that have the potential to bring profit, for example, pharmaceutical installations. This cross subsidy policy is practically difficult to implement because the rates for hospitals that carry out cross subsidies are far above those of their competitors. If the hospital imposes a cross subsidy of the existing rate, it is feared that there will be a decrease in the quality of service in the long term compared to hospitals that do not have the cross subsidies objective [5].

The Rate Setting for Other Purposes

Several other objectives are reducing competitors, maximizing revenue, minimizing usage and creating a corporate image. Rate setting to reduce competitors can be done to prevent new hospitals that will become competitors. In this way, hospitals that are already operating have a strategy, so that their rates are not the same as those of new hospitals. The rate to increase profits can be done in the hospital market, which tends to be controlled by one hospital (monopoly). Therefore, rate setting can be carried out with the aim of maximizing revenue. Without the presence of competitors in a market atmosphere with high

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demand, the rate can be installed at the highest level, so as to maximize the surplus. There is something interesting about rate setting which aims at minimizing the use of services, reducing usage, the tariff can be set high [6]. For example, the general check-up rates at government hospitals are set much higher than those of similar services at Public Health Centre (Puskesmas). In this way, the referral function can be improved so that people only use the hospital when necessary. Rate setting with the aim of creating a Corporate Image is the stipulation of rates that are determined with the aim of enhancing the image as a hospital for the upper class society. For example, various hospitals in Jakarta charge super VIP rates with very high values. There was an impression as if you were competing for the image of the most luxurious hospital.

3. The Rate Setting Process

Hospital owners can be private, individual or government institutions. The missions and objectives of private and public hospitals can of course differ. Private hospitals can be either for-profit or non-profit hospitals. With these differences, the rate setting process may be different. This section will discuss the differences in rate setting for private hospitals with government hospitals.

Determining Hospital Rates Using a Company Approach

In rate setting companies maybe a difficult decision to make information on production costs. In the hospital sector, the situation is worse because information on unit costs is still very rare. Techniques for fixing rate on companies are mostly based on information production costs and market conditions, whether monopoly, oligopoly or perfect competition. These techniques include:

- full-cost pricing,
- contracts and cost-plus,
- target rate of return pricing,
- acceptance pricing.

Full-Cost Pricing

This method is the simplest method theoretically, but requires information about production costs. The basis for this method is done by setting rates according to the unit cost plus profit. In this way, it is clear that cost analysis (see previous section) is an absolute must. This rate setting technique has been criticized, it often ignores the demand factor. Based on unit cost, the assumption is that there are no competitors or that the demand is very high [7]. With this assumption, it is as if the buyer is forced to accept the production line which causes costs even though it may not be efficient. Thus this technique ignores the competition factor. Then, it requires complex and precise cost calculations. As an illustration, to develop a good accounting system, large capital is needed.

Contracts and Cost-Plus

Hospital rates can be determined based on a contract, for example to insurance companies, or consumers who are organization members. In the contract the rate calculation

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is also based on costs with an additional surplus as a profit for the hospital. However, at present the calculation of contract rates with health insurance is still often debatable: whether the hospital gets a surplus from the contract, or does it actually lose or provide subsidies. This contract rate can force the hospital to adjust its rate according to the contract offered by the health insurance company. Thus, the issue of efficiency is an important thing to consider.

Target Rate of Return Pricing

This method is a modification of the full-cost method above. For example, the rate set by the directors must have 10% profit. Thus, if the production cost of a blood test is IDR 5,000, then the rate must be IDR 5,500 in order to give a 10% profit. Although this method is still criticized because it is based on unit cost, the factors of demand and competitors have been taken into account [8]. When investing, demand and competitors should have been projected so that the board of directors should have the courage to set certain targets. In this technique, several conditions are needed, among others, first, the hospital must be able to set its own rates without having to wait for approval from other parties; second, the hospital must be able to estimate the correct amount of income; and third, the hospital must have a long-term view of its activities.

Acceptance Pricing

This technique is used when there is a hospital in the market that is considered a role model (leader) of prices [9]. Other hospitals will follow the pricing pattern used by that hospital. Why do you need a leader in setting prices? This situation can arise because hospitals are reluctant to have a rate war and they are reluctant to harm each other [10]. Although there may not be formal communication, there is mutual understanding between hospitals. So it's not some kind of cartel [11]. In this situation, the hospital could emerge as the price leader. Other hospitals followed suit. Problems will arise if this price leader changes the rate. His followers must evaluate whether to follow him or not [12].

The Rate Setting by Looking at Competitors

The current structure of the hospital market is becoming increasingly competitive [13]. The relationship between hospitals in setting rates can be a "mutual peek". Rate setting is really based on competitor and demand analysis. In this method, the fees are adjusted according to the rate. There are two types of methods, namely: (1) pricing above competitors, and (2) setting rates below competitors.

By looking at the various types of rate setting techniques in private companies, several things that need to be considered include, among others [14], the purpose of rate setting must be clearly believed, and the rate must be determined on a destination basis [15]; market and demand structures must be analyzed; qualitative information should be sought to assist in rate setting [16]; Total revenues and total costs should be evaluated at various price levels with the necessary assumptions and rate setting [17]. It should be involve participation from accounting, marketing, and functional units [18].

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The Rate Setting in Government Organizations

In various sectors including health, the government still has the obligation to regulate rate. This obligation is aimed at ensuring equal distribution of hospital services. For this reason, the government feels the need to emphasize various components of the running cost hospital stays are subsidized [19], including salaries, investment, and development research. Thus, government hospitals are directly influenced by government regulations or norms. Against this background, when viewed from a managerial economic point of view, government hospitals differ from the private sector in several ways.

4. Conclusion

Government hospitals are owned by the community, so hospital directors must be accountable to regional or national political leaders, and also responsible to the House of Representatives (DPR) national or regional. This situation means that government hospital management decisions are often slow because they have to wait for the authorities approval. The classic example is the setting of regional hospital rates which must require the district head approval and the Regional House of Representatives (DPRD). Government hospitals tend to be larger than private ones, for example in Jakarta and Surabaya, the largest hospitals are owned by the national and regional governments. It is large in size and often accompanied by leadership in medical technology. With its subsidies, investment and research costs for development of government hospitals, especially teaching hospitals, they have the opportunity to monopolize certain service segments without considering investment costs. Thus, the investment cost is not taken into account in the rating so it can be cheaper than the private sector. Government hospitals tend to have high over-head costs. This is mainly high salary costs due to the large number of permanent employees, which will not be accompanied by high productivity. As a result, in the rating process the human resource costs are often not taken into account.

Based on differences with private hospitals, the process of determining rates in government hospitals must pay attention to various issues, namely social issues and the people mandate, economic issues, and political issues. In fact, non-profit religious or social hospitals also face various similar issues. For example, how to serve the poor for Islamic hospitals or run services based on love for the poor at Catholic hospitals.

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