

STRATEGY OF PUBLIC HEALTH AGENCY OF THE CITY  
COUNCIL AT THE TIME OF HEALTH CARE REFORM IN  
UKRAINE:

OPPORTUNITIES AND PRECONDITIONS OF MANAGED  
HEALTH CARE MARKET IN THE CITY

Voloshenko  
Leonid

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Strategy of Public Health Care Agency of The City Council at the  
Time of Health Care Reform in Ukraine:  
Opportunities and Preconditions of Managed Health Care Market in  
the City.

Newport Business Academy / General Management  
Instructors: Dr. Ruud Heijblom, Dr. John Verbura

Voloshenko Leonid

<http://blog.leonidv.com.ua>

Pobedy avenue, 67, app.8, Yevpatoria, 97401, Autonomous Republic  
Crimea, Ukraine.

Yevpatoria

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## **ABSTRACT**

The paper subject concerns to preconditions and possibilities for manage market tools application to municipal Public Health Care system, as well as strategic policies to implement the tools. Where market tools are inapplicable, recommendations for non-market regulation are given.

Now in Ukraine the National Health System is reforming. Although reform lasts for several years, many directions of reform still demand further detailed researches and clarification. For political reason the final pattern of reforms till now is not determined – whether the National system will be budgetary or based on obligatory social insurance. Nevertheless, in these conditions bodies of local government should develop precise strategic reference points for actions.

As a result of research different approaches to market tools application are determined for levels of Health Care: Primary and Secondary. The most beneficial method of payment for Primary Care services is capitation, and for hospital care – Diagnostic Related Groups. Use of market mechanisms for Primary Care is the most helpful. On the other hand, regarding limited opportunity for market tools application to finance hospitals, introduction of such tools as knowledge management system, computer management accounting system for quality management and value chain analysis is highly advantageous.

Strategic policies for municipal Public Health facilities should be based on Porter's hybrid strategic approach of achieving optimum low costs at the limited differentiation, Ansoff's market penetration and limited introduction of some new services. It is necessary to strengthen partnership with regional and nation-wide levels of National Health System represented by highly specialized medical centers, clinics, research institutions.

To give recommendations the paper examines legislation of Ukraine, pertinent literature, statistical and financial data. Unfortunately, the cost accounting data concerning Health Care Facilities couldn't be used for limited reliability or its absence.

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## **PREFACE**

Now Ukraine experiences the period of Public Health reforms, which concerns the core of Health Care management and financing. The key feature of the reforms is that they overlap with administrative-territorial reform in Ukraine. That situation demands clarification of local government responsibility and opportunities for Health Care Service regulation. The field of action for local health authorities according to modern approaches of World Health Organization covers a wide spectrum of activity, including decision-making in city planning, influence on population life-styles and various social determinants of illnesses.

However the core question for Ukraine now is the opportunities to use market tools for regulation of delivered medical services to the population. So in the paper I've analyzed the very topic. Since the experience of using these tools in Ukraine is limited, the paper recommendations may be useful to health institutions of local government at planning their activities.

Subject of the research is Public Health Agency of The City Council. In research the literature, legislation, as well as statistics concerning activities of the Health Agency and municipal medical facilities are used.

The research is based on seven-steps approach for strategy development presented in Kiev by Dr. Ruud Heijblom at the Seminar of Newport Business Academy on Strategy and Policy in April the 12-13<sup>th</sup>, 2006.

In the first chapter strategic vision, mission, and objectives of Public Health Agency of The City Council are determined. Second and third chapters consider internal features, an environment of the organization, and competitive forces of medical care market. In the fourth chapter you will find SWOT-analysis to draw the key competencies and factors of success for the organization. The fifth and sixth chapters determine a basic strategy and a strategy of growth according to Michael Porter and Igor Ansoff. The final chapter contains recommendations for Strategic Planning by Public Health Agency of The City Council.

# CHAPTER 1. VISION, MISSION, STRATEGIC OBJECTIVES

## 1.1. Description of Public Health Agency of The City Council

Public Health Agency of The City Council is a specific body created according to article 1 of the Law of Ukraine "About local governance in Ukraine"<sup>1</sup>.

According to Civil Code of Ukraine Public Health Agency of The City Council is a body of public authority<sup>2</sup>, which purpose is not profit earning. Strategic planning in Public Sector significantly differs from that of profitable organizations. John M. Bryson in the book «Strategic Planning for Public and Nonprofit Organization " distinguishes the rational-deductive approach to planning and decision-making, inherent to profitable organizations, and political-inductive model, which is inherent to the majority of state and non-profit organizations, to organizational networks and communities. While the rational-deductive approach begins with the purposes statement from which strategy and programs is logically drawn, the political approach begins with problem statements, which by definition concerns a conflict and agreement process<sup>3</sup>.

Nevertheless, in the paper I shall try to unite the listed approaches for strategy development. Where it is necessary, references to distinction of strategic planning for non-profitable organizations is given, and these features is taken into account at the analysis and strategy development.

Public Health Agency of The City Council is a subject of Public Law and it should not be identified with municipal and private medical health facilities, which provide medical services to the population. They are independent legal units and subjects of economic activities<sup>4</sup>. Together with other auxiliary establishments (a chemist's network, City Sanitary Anti-epidemic Station, Health Care facilities) Public Health Agency of The City Council form The Public Health System in Yevpatoria city. All participants of the system have their own interests and strategies, which may differ.

According to The Regulations<sup>5</sup>, approved by The City Council, Public Health Agency is an executive body of The City Council. Public Health Agency according to its responsibilities coordinates activities of community's and private health enterprises and facilities to protect and strengthen health of the city population by arranging medical services, preventing diseases, spreading healthy way of life.

Public Health Agency takes part in development of municipal social-economic programs, other targeted programs in accordance with authorities of local government in Ukraine. It develops recommendations for City Budget allocations to Public Health services, distributes funds to Community's health facilities and supervises their budgetary and quality performance.

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<sup>1</sup> Закон України "Про місцеве самоврядування в Україні" <<http://www.nau.kiev.ua/cgi-bin/nauonlu.exe?search+guest>> (23.06.2006)

<sup>2</sup> Е.О.Харитонов, ed., Гражданский Кодекс Украины: Комментарий (Харьков: «Одиссей», 2004), 258.

<sup>3</sup> John M. Bryson Strategic Planning for Public and Nonprofit Organization. (New York: John Wiley & Sons, 1995. Translated in Ukrainian, Львів: Літопис, 2004) p. 30-31.

<sup>4</sup> Н.А.Саниахметова, ed., Хозяйственный Кодекс Украины: Комментарий (Харьков: «Одиссей», 2004), 142

<sup>5</sup> N.N., Решение городского совета №24-16/15 «Об утверждении положения об управлении здравоохранения городского совета» (Евпатория: н.р., 26.11.2003), unpaginated.

The municipal enterprises and facilities of Public Health based on municipal property are individual economic subjects. They receive the status as legal entities from the time of state registration and carry out the activity for State Policy implementation in the field of health protection. Public Health Agency of The City Council has a stewardship function with respect to municipal enterprises, facilities, and municipal property transferred them for operative and economic management.

## **1.2 Vision, Mission and Strategic Objectives of Public Health Agency**

It is necessary to note, that municipal Health Care facilities and Public Health Agency of The City Council perform as a part of integrated National Public Health System of Ukraine. For this reason the first step of strategic planning - definition of vision, mission, functions, and objectives - is for the municipal or state organization one of the most difficult because it demands to consider an array of questions related to social obligations, functions, purposes, problems, reform directions of National Health Systems of various countries, as well as Ukraine.

### 1.2.1 Strategic Vision of Municipal Health Protection System

According to World Health Organization fundamental objectives of a National Health System are<sup>6</sup>:

1. Protecting and improving the health of the population it serves.
2. Fair distribution of resources.
3. Responding to people's expectations.

These purposes are usually achieved by collecting and allocating financial resources, organizing such patterns of health service delivery that protect the population from risks and losses related to illnesses. The tools often involve prepayment schemes for rendered services, budgetary financing, accumulating medical accounts of citizens, obligatory social insurance, etc. The major precondition for health system is availability of medical services for the least socially protected population groups.

The third objective – "responding to people's expectations" – is connected rather to cultural features and subjective patient perception about rendering medical aid. It concerns to non-medical aspects of medical services (for example, conveniences, presence of queues at medical receptions, goodwill of medical personnel, etc.). The trend of modern medicine is that this aspect has growing importance for health care quality assessment.

To achieve these overall objectives national health systems carry out the following functions<sup>7</sup>:

1. Delivering necessary medical services to the population. Providing availability and quality of medical services for the whole population.
2. Generating human and other resources for health services, both private and public.
3. Collecting and allocating financial resources for medical services; financial protection of the population against the losses related to disease.
4. Setting up strategic directions for health system development, "rules of game" for all subjects involved in Health Care. This function refers to "stewardship".

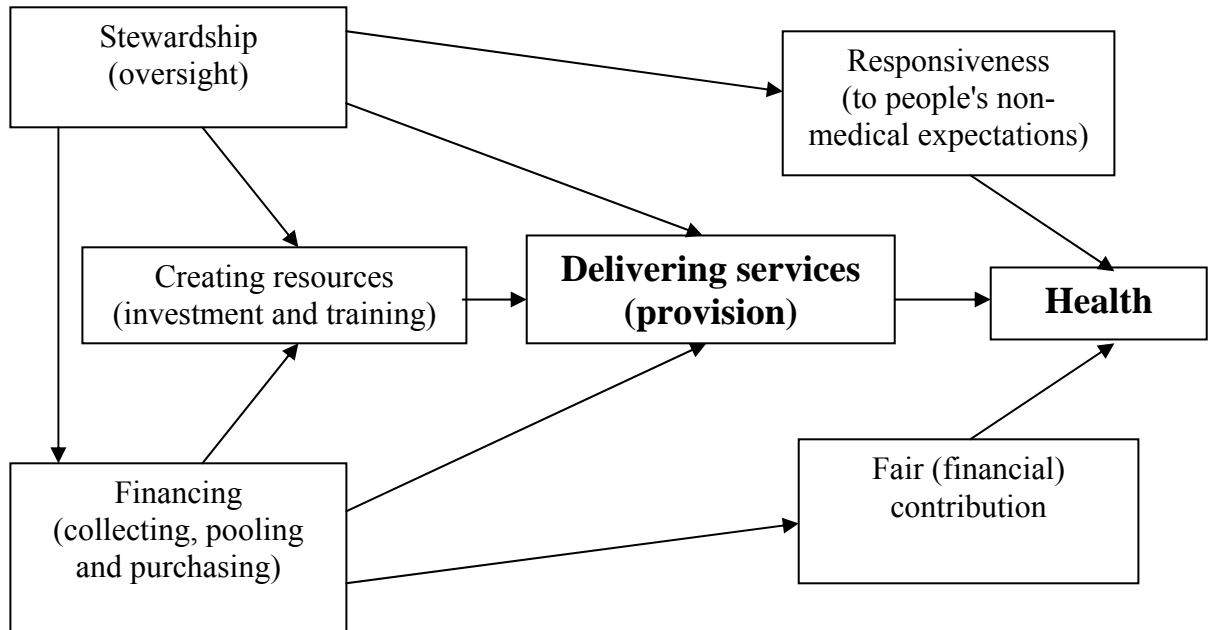
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<sup>6</sup> N.N., World Health Report 2000, Health Systems: Improving Performance (Geneva: World Health Organization, 2000), p. 8.

<sup>7</sup> N.N., World Health Report 2000, Health Systems: Improving Performance (Geneva: World Health Organization, 2000), p. 24

The objectives and functions of national health systems are closely interrelated as shown in Figure 1.

**Figure 1. Interrelation of Functions and Purposes of Public Health System<sup>8</sup>**



The modern phase of world health systems development is named as "new universalism"<sup>9</sup>. This phase is featured by providing high-quality basic volume of medical services to each citizen, determined with criteria of cost-efficiency and social acceptability. Such approach demands a precise choice of priorities among all possibilities, rationing medical services. The emphasis is made on demand - "money follow the patient". And now almost all various national health systems existing in the world is converging to "new universalism". Health Care more and more is guided by demand, responding to expectations of the population, protecting the poor people, introducing fair financing of medical services.

Despite of distinctions in approaches, the basic trends of modern health systems concern with introducing managed market of medical services and using various tools for service purchasing to increase efficiency and eliminate market failure<sup>10</sup>. Such approaches are characteristics for obligatory medical insurance systems, as well as for budgetary systems. There is no exception in trends in Ukraine. In Road-map of the Health Ministry of Ukraine all managed market features are present<sup>11</sup>.

<sup>8</sup> N.N., World Health Report 2000, Health Systems: Improving Performance (Geneva: World Health Organization, 2000), p. 25

<sup>9</sup> N.N., World Health Report 2000, Health Systems: Improving Performance (Geneva: World Health Organization, 2000), p.15

<sup>10</sup> Josep Figueras, Ray Robinson and Elke Jakubowski, Purchasing to improve health systems performance (New York: Open University Press, 2005), pp.4 and 102.

<sup>11</sup> N.N., Національний план дій на виконання Указу Президента України від 06.12.2005 № 1694/2005 "Про невідкладні заходи щодо реформування системи охорони здоров'я" (Дорожня карта реформування системи охорони здоров'я), n.d. <<http://www.moz.gov.ua/ua/main/docs/?docID=4974>> (23.06.2006), unpaginated.

On the grounds of modern trends analysis, taking into account that City Health Protection System is a part of the National Health System, we now may formulate the Strategic Vision for the City Health Protection System as follows:

***The system ensures Essential Health Care of high quality and availability for all the people, providing medical services directed on effective treatment of diseases, as well as on their prevention. Using the managed health care market model, the system meets the expectations of citizens about a proper quality of medical care, promotes high quality of life, financial protection against illnesses.***

### 1.2.2. Mission of Public Health Agency

Now we may proceed to considering strategic vision and mission for Public Health Agency of The City Council.

It's worth to mention, that managed health care market can have various patterns. The models based on obligatory private or social medical insurance are market driven. At the same time the most of budgetary systems also use the tools of managed market<sup>12</sup>.

Now in Ukraine there is critical disagreement about the ways of reforming in Public Health<sup>13</sup>. One of the ways is the budgetary model. This case is probable enough, as we have historical experience of Semashko system that was budgetary, though not market driven. Implementing market tools in our budgetary model will cause radical changes. In the case of autonomisation of health care institution, introducing competitive forces and contractual arrangements for service purchasing, the scenario of Great Britain is possible where local health authorities act as the purchasers of medical services<sup>14</sup>.

Other scenario for Ukraine also is possible. Many years Supreme Council of Ukraine – Verkhovna Rada – has been delaying approval of the Law on obligatory social medical insurance. Nevertheless if Verkhovna Rada approves the Law, the purchasing function comes over to insurance and sickness funds. It also will cause radical change in authorities and responsibilities of local government institutions. As risk-pooling is the most effective at the total population not less than 1 million<sup>15</sup>, it is usual for other countries that only one or several insurance funds represent the market on demand side. As Yevpatoria has a population of 120,000, risk-pooling can't work effectively here. So it is improbable that Municipal Health Agency will purchase medical services or even exist as a unit.

The mixed multi-channel financing is the third variant. In this case financial returns to municipal medical enterprises will be transferred from social insurance funds, local and state budgets, other sources.<sup>16</sup>

If we take into account three probable variants of national system development it becomes clear, that the forecast about possible distribution of the responsibility and authorities between different levels of National Health System is rather unreliable.

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<sup>12</sup> Надія Солоненко, Економіка охорони здоров'я: Навчальний посібник (Київ, Видавництво НАДУ, 2005), 152.

<sup>13</sup> Volodymir Rudyj, Legislation base development for Mandatory Social Health Insurance: Comparison of Two Conflicting Paradigm (Presentation at Learning Course for Health Care Managers, Kiev, 01/19/2006), unpaginated.

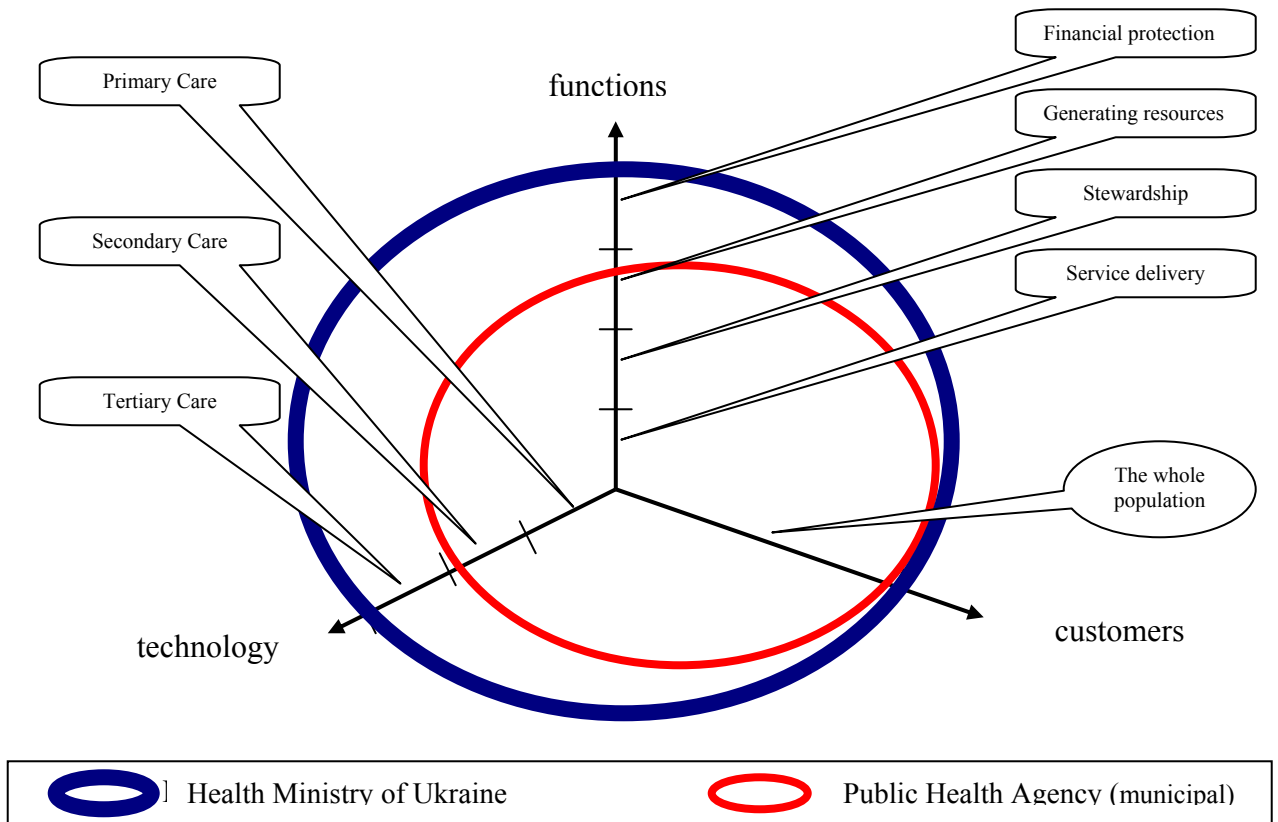
<sup>14</sup> R. Paul Shaw, New Trends in Public Sector Management in Health: Applications in Developed and Developing Countries, 1999. <<http://www-wds.worldbank.org/>> (12/07/2002), p. 59.

<sup>15</sup> Antonis Malagardis, Collecting and Pooling Financial Resources for Mandatory Social Health Insurance: the Experience of Some Countries (Presentation at Learning Course for Health Care Managers, Kiev, 01/19/2006), unpaginated

<sup>16</sup> Volodymir Minak, Lecture: Governance in Health Care and Health Care Systems (Kharkov Medical Academy for Postgraduate Education: Learning Course for Health Care Managers at Yevpatoria: n.p., 09/04/2002), unpaginated.

Thus, regarding unpredictability of political decisions, the formulation of strategic vision for Public Health Agency of The City Council is actually inexpedient. More reasonably is, proceeding from vision of municipal health protection system just determined, formulation of specific mission for Public Health Agency. We can define its mission according to the role in National Health system and duties legislatively assigned to it. The mission of Public Health Agency is a little bit narrower in relation to national system as illustrated by Figure 2. According to Health Ministry regulations municipal health system is responsible for the essential care – Primary and Secondary.

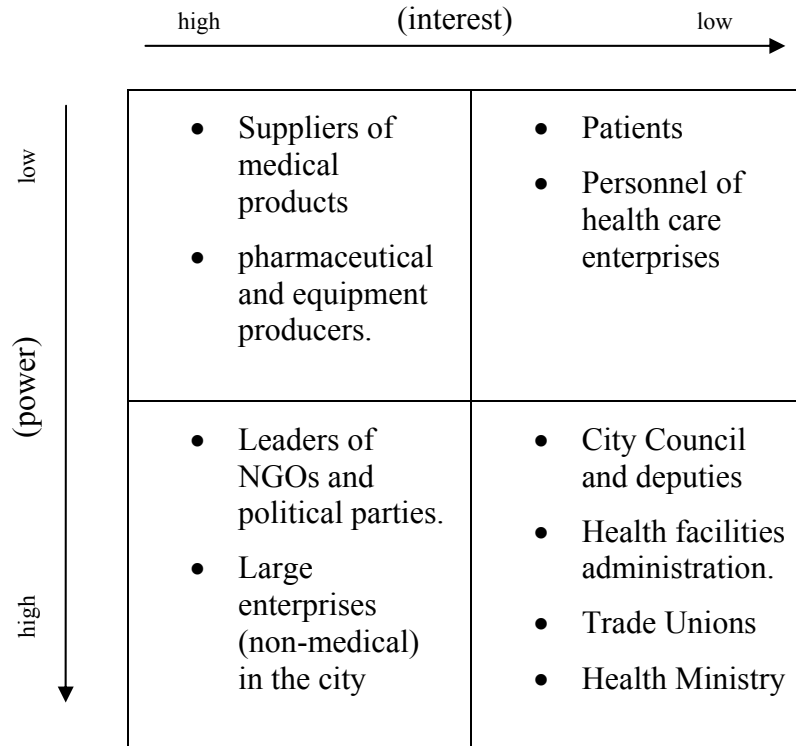
**Figure 2. Correlation between the Mission of the National Health System and the Mission of Public Health Agency of The City Council**



At a step of mission definition it is expedient to carry out the analysis of stakeholders<sup>17</sup>. The basic stakeholders are specified on Figure 3.

<sup>17</sup> John M. Bryson Strategic Planning for Public and Nonprofit Organization. (New York: John Wiley & Sons, 1995. Translated in Ukrainian, Львів: Літопис, 2004) p. 98.

**Figure 3. Stakeholders Map**



*The Conclusion:* As it is evident from the stakeholders map, the most influential are stakeholders who are responsible to the whole population. For that reason the mission of Public Health Agency includes providing free-of-charge and accessible medical care to all population of city.

Proceeding from above-stated, the mission for Public Health Agency of The City Council should be determined as follows:

***Providing accessible free-of-charge essential medical services of high quality for all city dwellers, implementing various national, regional and municipal programs for diseases prevention, using tools of managed health care market to improve quality of medical services and efficiency of resource allocation.***

1.2.3. Strategic Objectives for Public Health Agency of The City Council

Drawing from strategic vision of the City Health Protection System and mission of Public Health Agency, it is possible to formulate the following strategic objectives for Public Health Agency of The City Council:

1. To create new pattern of Health Care management and financing in the city using managed health care market tools.
2. To establish appropriate organizational culture in municipal health care institutions.
3. To provide integrated Health Care to citizens including all levels of National Health System – Primary, Secondary and Tertiary Care.

## CHAPTER 2. INTERNAL ENVIRONMENT ANALYSIS

### 2.1. Municipal Health Care Facilities of Community's Property

Now the list of municipal institutions of community's property includes <sup>18</sup>:

1. City's territorial medical association (City's TMA).
2. Children's territorial medical association (Children's TMA).
3. Emergency Ambulance Station.
4. Maternity home.
5. Stomatologic polyclinic.
6. City hospital #2 (mental hospital).
7. Community's enterprises "Panacea".
8. City Centre for healthy life-style.
9. Centralized motor vehicle service.
10. Medical informational analytical centre.
11. Medical ambulance at Novoozerne district.
12. Medical ambulance at Zaozerne district.
13. Medical ambulance at Mirny district.

City's TMA includes a city polyclinic, a city hospital and a medical ambulance station at the district Ismail-bej. Children's TMA includes a children's polyclinic, an ophthalmologic centre, a hospital that contains children's and infectious beds.

Stomatologic Polyclinic and Community's Enterprises "Panacea" has already reorganized from budgetary establishments into municipal enterprises and now are autonomous entities and subjects of market.

Medical ambulance at districts of Novoozerne, Mirny, and Zaozerne are financed by local district governments, but methodically they are subordinate to Public Health Agency.

### 2.2. Financial Data

Municipal health care facilities are non-profitable organizations; therefore the analysis of their activity has some features.

Now annual budgetary expenditures on public health services are calculated with per capita ratio communicated to the city by Finance Ministry. The ratio has to ensure the state guarantees in Health Care policy. However realities are those, that these guarantees are not provided with the given ratio because of financial resources lack. According to researches the minimal size of the state expenses per capita should be 300 \$<sup>19</sup>. For comparison: in Poland - near 200 \$, in Ukraine – approximately 40 \$.

As the budgetary funds calculated with the ratio are extremely insufficient, the local government is compelled to add extra resources annually from city's development fund. Thus, if the ratio for 2005 was 148,56 Hr. per capita (approximately 30 \$) the actual expenditures per capita was 193,7 Hr.<sup>20</sup>

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<sup>18</sup> N.N., Решение городского совета №24-16/15 «Об утверждении положения об управлении здравоохранения городского совета» (Евпатория: n.p., 26.11.2003), unpaginated.

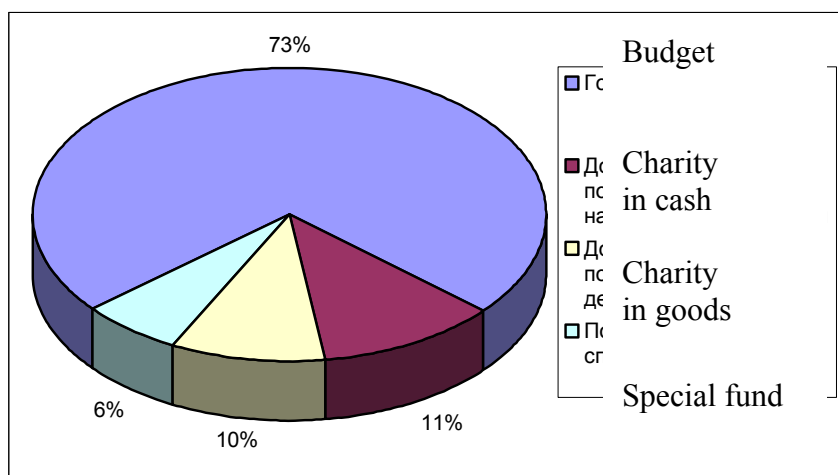
<sup>19</sup> Volodymir Minak, Lecture: Governance in Health Care and Health Care Systems (Kharkov Medical Academy for Postgraduate Education: Learning Course for Health Care Managers at Yevpatoria: n.p., 09/05/2002), unpaginated.

<sup>20</sup> N.N., Annual Treasury Reports of Health Care Agency for 2004 and 2005 (Yevpatoria: n.p., n.d.), unpaginated.

Nevertheless, even additional financial resources are not enough to provide the population with all necessary medical services.

So public health facilities according to the current legislation receive the charity payment from physical and legal persons, payment for some medical services, returns from tenancy of premises, etc. But voluntariness of the charity raises great doubts. Proportion of various sources of financing is given in Figure 4. But this data don't include a great deal of payment to chemist's network for pharmaceuticals. The amount of these payments, despite of their significance, may not be calculated. These expenses impose a heavy burden on the patient family budget. The situation with socially-unprotected groups of the population is especially serious, that considerably reduces accessibility of medical care. This problem is also common all over Ukraine. It raises a social conflict and is a driving force for initiation of reforms.

**Figure 4. Proportion of Various Sources for Health Facilities Financing in Yevpatoria**



The share of the three latter additional sources does not differ significantly for last years. For instance in 2004 they made up totally 27 %. Thus we see that the basic financing source for municipal health facilities is the local budget.

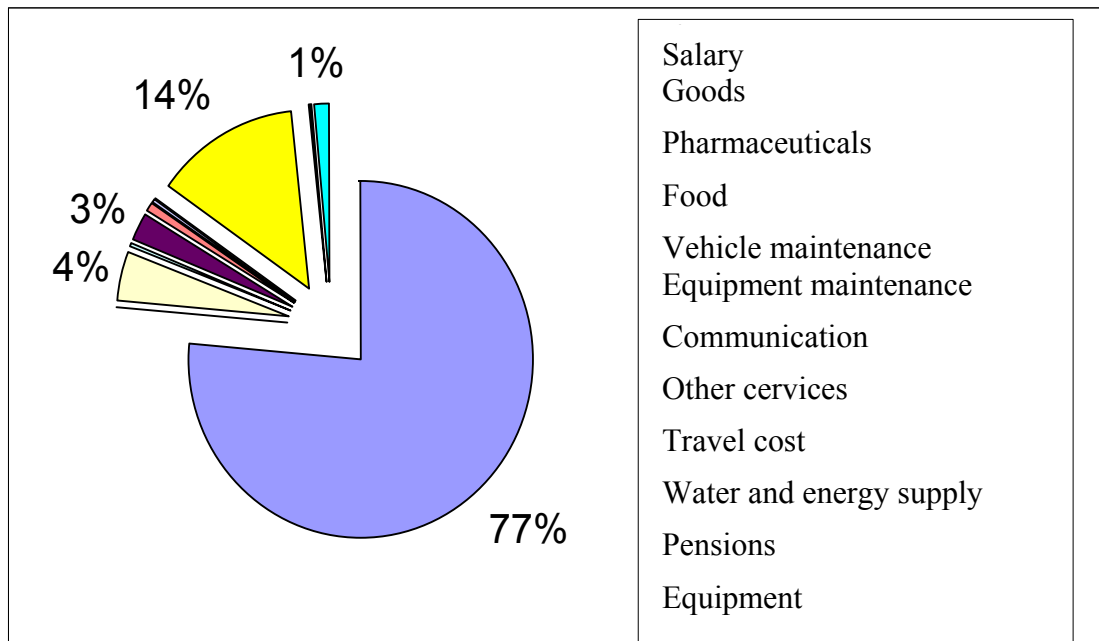
Scientific researches concerning size of "informal payments" and "gray economy" in the city was not carried out; however Gallup polls by Public Health Agency in 2003 and 2005 revealed that the situation in city did not differ significantly from nation-wide<sup>21</sup>.

The structure of local budget expenditures on health services in the last years is almost the same. For an example, the structure of expenditures for the 2004 budget is given at Figure 5.

From the Figure 5 it is evident, that the basic expenditures of the local budget are directed on salary payment, water, gas supply, warming, etc. On pharmaceuticals and vehicle maintenance 4% and 3% was spent accordingly, and for purchase of the equipment only 1%.

<sup>21</sup> А.Літвак, В.Погорілий, М.Тишук, Тіньова економіка та майбутнє медицини в Україні (Одеса: Вид.ТЕС, 2001), с.24.

**Figure 5. Structure of Expenditures of Health Care Facilities in 2004**



The reliable data on medical service cost accounting and the analysis of value chains now are absent.

*Conclusions:*

1. Basic source to finance municipal Health Care facilities is City budget.
2. Budgetary deficiency leads to distorted structure of expenses. The basic expenditures run to wages and payments for energy and water supply. Expenses for medicines make up only 4 % that means that the citizens buy them out-of-pocket in drugstores.
3. Although costs are different for the same services in different health care facilities, now the reliable data available and opportunities for the analysis are limited. However the reasons of these differences require further studying.

**2.3. Health Services Data**

Out-patient institutions in the city annually carry out more than 1,3 million consultations that makes up on one inhabitant per one year:

- 2003 - 11,4 consultations;
- 2004 - 11,8 consultations;
- 2005 - 11,7 consultations.

The total amount of patients who visit doctors first time in a given year is rather stable and changes annually between 55 and 59 thousands. At all out-patient facilities begins and finishes treatment more than 80 % of the city dwellers, who need treatment and medical consultation.

The main performers among out-patient services are Primary Care physicians: General Practitioners and Theraputists who serve the population registered at medical cites. In Yevpatoria there are 48 therapeutic sites, 27 pediatric, 8 gynecologic, 6 psychiatric and 5

general practice sites. The populations on one therapeutic site averages 2059, on one pediatric site – 637, on one general practice site – 1503.

Now a part of therapeutic medical sites are reorganized into general practice sites, and in 2006 reorganization of four medical ambulances in some districts is expected.

At out-patient facilities totally 136 beds for day time stay and treatment have been performing, including: 15 ophthalmologic, 60 therapeutic, 20 pediatric, 15 gynecologic. In 2003-2005 the total of beds and efficiency of their work increased and further increasing is expected.

Frequency of vehicle visits for emergency medical problems by Emergency Ambulance Station is annually reduced that reflects decreasing demand. The total of visits since 2001 has decreased by 7183 and made up in 2005 near 50 thousands.

Total beds capacity of hospitals in Yevpatoria makes up 74,6 beds on 10 thousand population, (in Crimea region at average- 88,5, in Ukraine - 94). The largest hospital in Yevpatoria, included in City's TMA, has 495 beds. Second-largest hospital – Children's TMA – has 180 beds, further are a maternity hospital with 120 beds, and mental hospital with 85 beds. Annually on hospital beds more than 23 thousand persons get in-patient treatment, and trend is that their total number increases owing to local resident patients and nonresidents.

Delivering health services for nonresident citizens represents a serious specific problem for our city that is a resort. Dynamics of medical service delivering to nonresident citizens is those. For last two years the total of nonresidents who visit health care facilities in the city has annually exceeded 38 thousands. And the number of nonresidents further increases. In hospitals nonresidents make up near 20 % of in-patient total.

The amount of nonresidents who visit the city annually grows, but there are no legal financial sources, besides charity, to reimburse the cost of service delivery for nonresidents who are Ukrainian citizens. This impose additional financial burden for health care facilities.<sup>22</sup>

*Conclusions:*

1. The annual increase of in-patient total evidences ineffective work of Primary Care service and absence of effective strategy for cost containment in hospitals.
2. As it's apparent from the analysis, that at out-patient facilities approximately 80 % of patients begin and finish treatment. For that reason this kind of Health Care requires priority development.
3. Hospital beds work is steadily intensifying, that is justified and related to quality perfection of medical care and cost rise concerning with modern medical technologies.
4. As Yevpatiria is a dynamically developing resort, the total of nonresident and foreign citizen visits will annually grow. It demands the legal solutions to reimburse the treatment cost, although authority to solve the problem is outside of local government responsibilities. Solving the problem would create favorable conditions for health market growing in Yevpatoria.

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<sup>22</sup> Sergey Chudinov, Final Report about Municipal Health Care Services Performing in 2005 (Medical Council Meeting, Yevpatoria, n.p., 02/17/2006), unpaginated.

## 2.4. Medical Service Life Cycle Analysis

Whereas private health care sector in the city doesn't play significant role, we will limit the research only to Public sector. Choosing specific medical services for Public facilities are determined mainly by legislative duties and socially significant values rather than their market appeal. Analyzing opportunities for introduction of new services it's necessary to take into account considerable State regulation. The State is now preparing special qualifiers<sup>23</sup> of medical services and programs of guaranteed medical care that imposes some restrictions on medical facilities in a choice of new medical services. The State policy concerns to prompt cost rise of medical technologies, especially in hospitals. Other criteria for introducing new services and technologies in Public sector are conformity with principals of evidence based medicine and cost-effectiveness<sup>24</sup>.

On the other hand, some features of Public Health Care as its high vertical integration (integrated medical care) and factors inherent to the health service market (informational asymmetry, supplier-induced demand) may facilitate quick introduction of new modern services approved by higher level of medical care (Tertiary Care).

### *Conclusions:*

1. Integration of municipal knowledge management system with university clinics and research centers (Tertiary Care) is highly favourable for introducing new services and modern medical technologies.
2. High vertical integration of various levels of Health Care within the framework of the National Health System allows providing Health Care of high quality by using abilities of clinical centers, medical universities, and expert systems of highest levels.

## 2.5. Customer Life Circle

Legislation and social obligations of Public Health Agency and municipal Health Care institutions of public sector exclude an opportunity for consumer selection. Nevertheless, inside municipal health system different players may fight for customers. And this is completely justified and complies with the mission of Public Health Agency. It is known from experience of Western Europe countries that at Primary Care level more than 90 % of patients begin and finish treatment<sup>25</sup>. Moreover the preventive feature of Primary Care allows providing effective strategy for cost containment at high quality of services. The most beneficial strategies may include capitation method for General Practitioner waging<sup>26</sup> and creating steady relations with consumers<sup>27</sup>.

Maximum fast consideration of complaints, polls and sociological researches, and other proactive marketing tools of a client-guided organization are necessary to implement.

*Conclusion:* Thus, further development of Primary Care is a priority goal that can

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<sup>23</sup> N.N., Національний план дій на виконання Указу Президента України від 06.12.2005 № 1694/2005 "Про невідкладні заходи щодо реформування системи охорони здоров'я" (Дорожня карта реформування системи охорони здоров'я), n.d. <<http://www.moz.gov.ua/ua/main/docs/?docID=4974>> (23.06.2006), unpaginated.

<sup>24</sup> Надія Солоненко, Економіка охорони здоров'я: Навчальний посібник (Київ, Видавництво НАДУ, 2005), 127.

<sup>25</sup> В.Н.Лехан, ред., Организация первичной медико-санитарной помощи на принципах семейной медицины (Київ: Електронная книга на CD-ROM диске, 2004), unpaginated.

<sup>26</sup> В.Н.Лехан, ред., Организация первичной медико-санитарной помощи на принципах семейной медицины (Київ: Електронная книга на CD-ROM диске, 2004), unpaginated.

<sup>27</sup> Philip Kotler, Marketing Management (New Jersey: Prentice Hall, 2000. Translated in Russian, Санкт-Петербург, Питер, 2000), p. 72.

improve market performing in Health Care and responsiveness of the whole system.

## 2.6. Organizational culture

The most important features of the organizational culture in Health Care facilities are presented in Table 1.

**Table 1. Organizational Culture in Municipal Health Care Facilities.**

	Component	Description
1.	Stories	<ul style="list-style-type: none"> <li>• "Patient is guilty in his illness because he delay the visit to doctor".</li> <li>• "So was earlier and always, therefore it is correct".</li> <li>• "I am the best doctor, you should visit me earlier, not other doctors"</li> <li>• "I am paid insufficiently, therefore I should not be kind with all patients"</li> <li>• "I work hardly, but I love my job"</li> <li>• "Even though patients can be unfair, I am a professional and relate to them fair"</li> </ul>
2.	Symbols	<ul style="list-style-type: none"> <li>• White dressing (uniforms)</li> <li>• Dilapidated building and out-dated equipment.</li> <li>• Few doctors has luxury car as symbol of "informal payment".</li> </ul>
3.	Power structure	<ul style="list-style-type: none"> <li>• Informal leadership plays a great role. Some physicians have significant personal power using familiarity to politicians.</li> <li>• Health facility administrators and managers of Public Health Agency are physicians by education, so they often influence decision-making related to exclusive competencies of doctors.</li> </ul>
4.	Organization structure	<ul style="list-style-type: none"> <li>• Hierarchical with weak interactions between departments.</li> <li>• Functional criterion for establishment of departments concerns to clinical discipline.</li> <li>• Lack of multidiscipline teams.</li> </ul>
5.	Control	<ul style="list-style-type: none"> <li>• Treasure control for line-item budget performing.</li> <li>• Quality management is rather perfect. It performs by the main three methods: indicators of quality, statistically calculated; expert control for compliance with treatment protocols; control for compliance with health facility accreditation standard.</li> <li>• Statistics use computer software and municipal databases containing data on patients. There are accountant computer systems in health facilities, though they are fragmented.</li> <li>• Investigations on patient complaints.</li> </ul>
6.	Rituals and routines	<ul style="list-style-type: none"> <li>• At "lethal conferences" and "case analyses" defense pattern of doctor behavior is usual.</li> <li>• Some problems with compliance of personnel with norms of medical ethics and deontology.</li> </ul>
7.	Paradigm of the system	Municipal Health Care facilities deliver rather professional and qualitative medical services, but the system as a whole is an example of low responsiveness to non-medical aspects of Health Care (comfort and convenience, waiting in queue, ethics)

*Conclusions:*

1. Organizational culture of municipal Health Care facilities is not client - guided, does not meet to expectations of the population. That, apparently, is related to insufficient motivation of medical workers.
2. Having strong features (presence of adequate quality management, computerizing statistics and accounting), the system at the same time is characterized by low responsiveness to needs of patients concerning non-medical aspects of Health Care due to “grey market of medical services”.

## **CHAPTER 3. EXTERNAL ENVIRONMENT ANALYSIS**

### **3.1. PESTEL- Analysis**

One of the basic political problems in Public Health of Ukraine is insufficient influence of National Health System on health of the population because of outdated and inefficient system of health care delivery, financing and management. Problem became deeper with economic decline and standard of life decrease, prompt cost raise of new modern medical technologies and pharmaceuticals, which took place in 90th of the last century. Marked deficiency in budgetary financing has resulted in destruction of assets, deficiency of highly skilled medical personnel, deterioration of medical services, disproportions in service delivery<sup>28</sup>. Powerful “gray sector”, based on informal out-of-pocket payment in state and community medical institutions, has emerged and distorted motivation of health care workers. The estimations of "informal payment" size in the literature differ widely, but all authors ascertain the fact, that in the national medicine the powerful “gray economy” was gradually created.<sup>29</sup>

The state obligations to maintain free-of-charge medical care for all citizens had frankly declarative character. Despite of declared constitutional law on "free-of-charge medical aid", our citizens continue to receive treatment in medical establishments due to so-called “informal payment” to personnel pockets and “additional charity payments” to hospital cashiers, which legality is rather doubtful.

One of the basic features of "the gray market" in health is that financial stream of “informal payments” flows on personnel motivation. And the gray market has generated powerful distorted motivation and the certain pattern of behaviour, which unfortunately is not complied with the goals of National Health System<sup>30</sup>. So National Health System now experiences reforms, though slow and inconsistent.

One of the state policies is decentralizing management by Public Health Care. If the Public Health System of former Soviet Union (namely Semashko system) was the rigid system hardly controlled by Central Ministry of Health, now Health Ministry of Ukraine has

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<sup>28</sup> Valery Lekhan, Volodymir Rudyi, *Health care systems in transition: Ukraine.* (Copenhagen: WHO Regional Office for Europe on behalf of the European Observatory on Health Systems and Policies, 2004) p.15.

<sup>29</sup> А.Літвак, В.Погорілий, М.Тищук, *Тіньова економіка та майбутнє медицини в Україні* (Одеса: Вид.ТЕС, 2001), с.24.

<sup>30</sup> Shahriari, Belli and Lewis, Institutional Issues in Informal Health Payments in Poland: report on the qualitative part of the study. 2001. <<http://www-wds.worldbank>> (05/15/2003), p. 37.

lost many levers of influence on regions<sup>31</sup>, and can't reform the system effectively. At the same time the authority and financial resources of local governments is insufficient. The gap results in slow and inconsistent reforming. Yet modern trends according to administrative-territorial reforms point to further strengthening of local governments. Now Ukrainian legislation transfers many authorities to local level including service financing and manpower policy<sup>32</sup>. Even though now there is an uncertainty concerning the future model of Public Health services in Ukraine - insurance or budgetary, the tendency to further decentralization and local government role increase is precisely traced.

A number of cities and districts in Ukraine are now introducing experiments with market-driven budgetary municipal model. For example, such experiments are successfully implementing in Komsomolsk (Poltava oblast), in Zolochiv district (Kharkov oblast), in Popel'nja district (Zhitomir Oblast) with support of the European Union projects<sup>33</sup>.

### 3.2. Demographic and Illnesses Data

**Table 2. Natural Movement and Migration of the Population**<sup>34</sup>

	1989	1995	2000	2001	2002	2003	2004
Born	1667	948	744	768	894	933	961
Died	1187	1838	1638	1592	1626	1628	1654
Natural increase of the population	480	-890	-894	-824	-732	-695	-693
Arrived	5826	4146	2904	3414	3055	2954	3272
Left	3902	4247	2585	2234	2131	1910	1959
Mechanical gain	1924	-101	319	1180	924	1044	1313
Total increase (reduction)	2404	-991	-575	356	192	349	620
Chain index – total population	0,00%	99,22%	99,52%	100,30%	100,16%	100,30%	100,53%

The note: Chain index - part of an aggregate number of the population in comparison with previous year

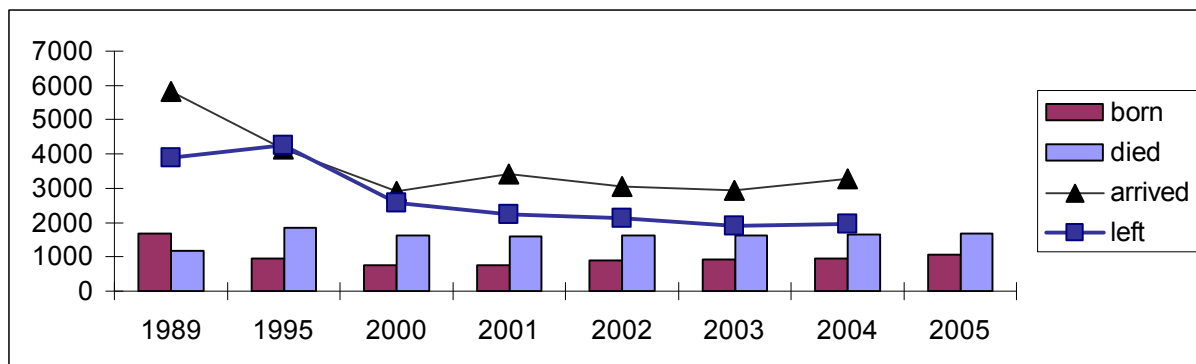
<sup>31</sup> Alexander Serduk, Proofs and Ways for Rearranging Health Care Services in Ukraine (Presentation at Conference “Modern Principles of Health Care Reform in Europe and Ukraine”, Yevpatoria, 12/20/2005)

<sup>32</sup> Закон України "О местном самоуправлении в Украине" <<http://www.nau.kiev.ua/cgi-bin/nauonlu.exe?search+guest>> (23.06.2006), статья 32.

<sup>33</sup> Antonis Malagardis, Strategic Planning for Efficient Resource Use and Health Services Management in Ukraine, (Presentation at Learning Course for Health Care Managers, Kiev, 10/13/2005), unpaginated

<sup>34</sup> Профіль громади міста Євпаторія <[http://www.led.net.ua/ukr/pages/map\\_yevpatoria.html](http://www.led.net.ua/ukr/pages/map_yevpatoria.html)> (23.06.2006), с. 3.

**Figure 6. Natural Movement and Migration of the Population<sup>35</sup>.**



The population of Yevpatoria for 01.01.2005 makes 121,0 thousand persons. Number of constantly living population – 118,1 thousand persons, including adults and teenagers – 102,2 thousands, children – 16,48 thousands.

**Table 3. Distribution of the Population on Age in 2004<sup>36</sup>**

	2004	%
Men of 0-14 years	7275	6,13%
Women of 0-14 years	6764	5,70%
Men and women of 0-14 years together	14039	11,83%
Men 15-24 years	8218	6,92%
Women 15-24 years	7809	6,58%
Men and women 15-24 years together	16027	13,50%
Men 25-44 years	13962	11,76%
Women 25-44 years	16557	13,95%
Men and women 25-44 years together	30519	25,71%
Men of 45-60 years	9157	7,71%
Women of 45-60 years	12124	10,21%
Men and women of 45-60 years together	21281	17,93%
Men grown-ups of 60 years	7497	6,32%
Women grown-ups of 60 years	14013	11,81%
Men and women grown-ups of 60 years together	21510	18,12%
Age index	153,21604	

Note:

$$\text{Age index} = \frac{\text{Population in the age of above 60 years}}{\text{Population in the age of till 14 years inclusive}}$$

<sup>35</sup> N.N., Профіль громади міста Євпаторія <[http://www.led.net.ua/ukr/pages/map\\_yevpatoria.html](http://www.led.net.ua/ukr/pages/map_yevpatoria.html)> (23.06.2006), с.4.

<sup>36</sup> N.N., Профіль громади міста Євпаторія <[http://www.led.net.ua/ukr/pages/map\\_yevpatoria.html](http://www.led.net.ua/ukr/pages/map_yevpatoria.html)> (23.06.2006), с.4.

The analysis of the demographic data shows<sup>37</sup> steadily decrease of the annual population of Yevpatoria in 2001-2005. As the positive moment is necessary to note stabilization and even growth of birth rate up to 8,95 on 1 thousand population or by 29 % in comparison with 2001, at rather stable parameter of death rate - 14,42, that has resulted in some reduction of natural decrease of the population from (-) 6,9 up to (-) 5,4. However the parameter remains negative.

Relatively high level of death rate and rather low parameter of birth rate evidences that the significant part of persons living in the city are elderly. The share of these age groups makes up more than 40 % of the population. Here it is necessary to note, that death rate from all reasons in-home more than 3 times exceeds in-hospital death rate – at home dies 77,5 % of city dwellers.

The structure of death rate of the population during last time does not change and corresponds to the nation-wide trend. Death rate from a cardiovascular pathology - 58,5 %, on the second place - neoplasms - 16,4 %, on the third - traumas, accidents and poisonings - 11,9 %, on the fourth - diseases of digestion system - 3,6 %, on the fifth - infectious and parasitic diseases - 2,3%. All other reasons of death rate make up only 7,3 %.

*Conclusions:*

1. The share of the elderly population in the city is high.
2. Total increase in population of the city is caused mainly by migration, instead of a natural increase.

### **3.3. Analysis of the Health Care Market**

Below the main features of Health Care market at nation-wide and local levels are presented:

1. At the national market the main competitor are highly technological centers delivering advanced specialized services of high quality (cardiological, cardiosurgery, orthopedic, neurosurgery, etc.). Local health care institutions are not capable to compete with them for insufficient personnel potential (remoteness from clinical university bases and research institutes), as well as legislative restrictions with regard to dividing National Health Care into three levels<sup>38</sup> of Health Care.
2. Local health markets adhere to administrative and territorial units of Ukraine. Municipal Health Care Facilities perform their activity within the boundary of the given administrative and territorial unit and usually don't penetrate other local markets that stipulates by the budgetary pattern of financing from local budget<sup>39</sup>.
3. A serious problem for local health markets is the "gray market". It hamper introduction of new conscientious competitors, reduces opportunities for quality management and protection of the poors. The "gray market" decreases the ability of the state and local government to regulate and manage the market<sup>40</sup>.

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<sup>37</sup> Sergey Chudinov, Final Report about Municipal Health Care Services Performing in 2005 (Medical Council Meeting, Yevpatoria, n.p., 02/17/2006), unpaginated.

<sup>38</sup> Valery Lekhan, Volodymir Rudi, Health care systems in transition: Ukraine. (Copenhagen: WHO Regional Office for Europe on behalf of the European Observatory on Health Systems and Policies, 2004) p.20.

<sup>39</sup> Valery Lekhan, Volodymir Rudi, Health care systems in transition: Ukraine. (Copenhagen: WHO Regional Office for Europe on behalf of the European Observatory on Health Systems and Policies, 2004) p.22.

<sup>40</sup> Shahriari, Belli and Lewis, Institutional Issues in Informal Health Payments in Poland: report on the qualitative part of the study. 2001. <<http://www-wds.worldbank>> (05/15/2003), p. 30.

- Now some private competitors penetrate the local health market. But, first, they applies the focused strategy on some highly specialized medical services, which is beyond the state and local government responsibility<sup>41</sup> and local regulation. Second, they feel hard and unfair pressure of the gray health market from some part of state and municipal employees of medical facilities.

*Conclusions:*

- Thus, the nation-wide market and the local health markets perform in a sense in parallel to each other. Subjects of the specific local markets as a rule occupy the specialized niches and don't go to others.
- Private companies don't play significant role in market performing. Their activity is focused mainly on those kinds of medical services which lay outside responsibility and regulations of local Health authorities, and they do not put competitive pressure upon medical facilities of public sector.
- Gray market significantly limits the ability of state and municipalities to regulate market performing.

**Table 4. Five Competitive Forces of M.Porter for the Local Market**

	Competitive forces	Features
1.	Competition between providers of medical services (degree of rivalry)	Now in the city the health market for the majority of medical services was not arose yet, with exception for stomatology market where a plenty of fine private firms operates, as well as Municipal Stomatologic Enterprise. In near future in local health market the most real competition is possible among Primary Health Care facilities and practitioners as they deliver the most simple and the same services. Possibilities of rivalry are limited among hospitals as they employ focused niche strategy, delivering specialized services.
2.	Threat of newly emergent competitors (barriers to entry)	In the health market entrance barriers are not high for Primary Care Facilities and practitioners, so the probability to appear new competitors is high. For hospitals entrance barriers are high for some reasons: big volume of initial investments; impossibility of economy on scales at the beginning; complexity of medical technologies; absence of learning effect <sup>42</sup> .
3.	Competitors providing services-substitutes (threat of substitutes)	Competition from the side of service-substitute providers is low. Only pharmaceutical firms, which till now successfully delay obligation for drugstores to sell pharmaceuticals only prescribed by doctors, can confine out-patient visits to doctors because of wide drug availability. However this factor is of little importance.

<sup>41</sup> Valery Lekhan, Volodymir Rudi, *Health care systems in transition: Ukraine.* (Copenhagen: WHO Regional Office for Europe on behalf of the European Observatory on Health Systems and Policies, 2004) p.26.

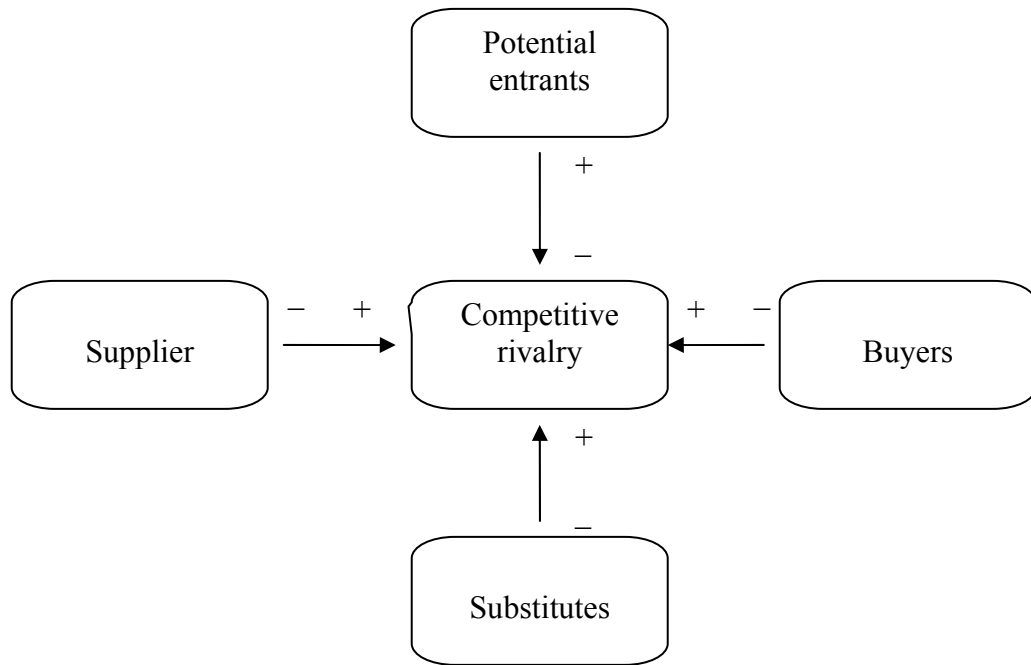
<sup>42</sup> Arthur A. Thompson, Jr., A.J. Strickland III, *Strategic Management: Concept and Cases* (New York: McGraw-Hill Companies, Inc., 2001. Translated in Russian, Москва: Вильямс, 2003), p.105.

	Competitive forces	Features
4.	Competitive pressure of suppliers caused by necessity of interaction with them and obligations to them (supplier power)	Suppliers for Health Care facilities are the companies-manufacturers of medical preparations and products. This market is rather advanced and sated with both national firms and transnational corporations. That results in high competition between suppliers and low supplier power.
5.	Competitive pressure of consumers of the medical services, caused by necessity of interaction with them and obligations to them (buyer power)	Some intrinsic features of any health service market restrict competitive pressure of consumers. Some of them can lead to market failure. These features are: <ol style="list-style-type: none"> <li>1. Information asymmetry.</li> <li>2. Supplier-induced demand.</li> <li>3. Moral hazard.</li> </ol> So in modern Health Systems specially authorized bodies purchase medical services on behalf of the define population.

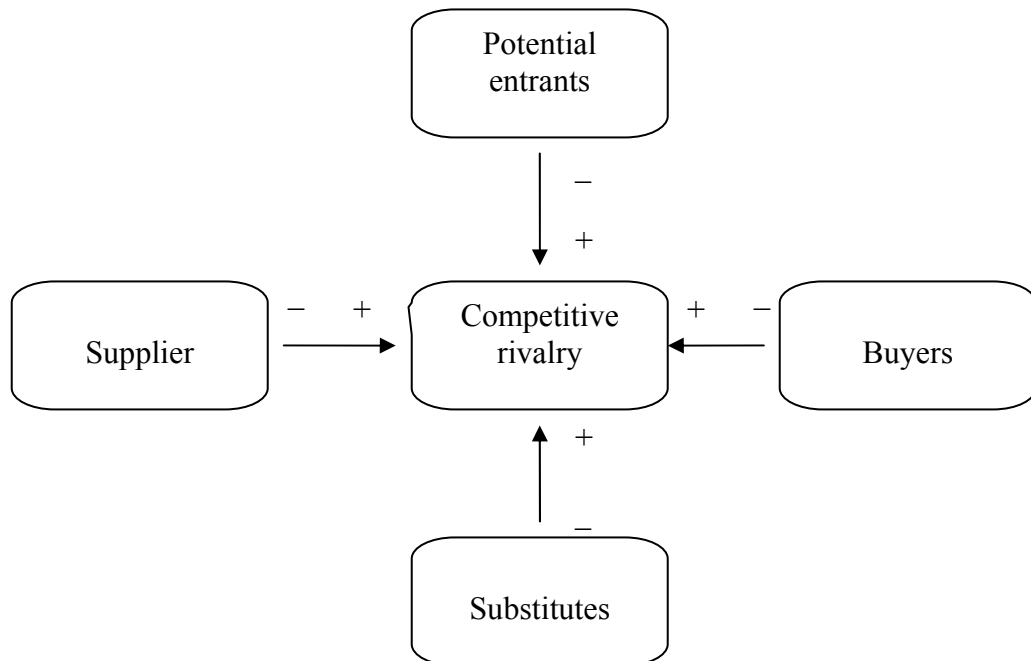
*Conclusions:*

1. As it is evidently from the Figure 7 the market of Primary Care services is attractive enough to potential participants - the enterprises and privately practicing doctors. As creation of the managed service market in Health Care comply with the mission of Public Health Agency of The City Council, its policy can use this opportunity.
2. Purchasing Health Care services from General Practitioners by third side can provide managed health market. The Public Health Agency or a sickness fund may represent this side.
3. Market regulation of hospital activities is much more complicated problem. Despite the absence of competition (see Figure 8) and high appeal of this market segment, occurrence of new competitors here is improbable regarding high entrance barriers. Virtually, a market pressure from Primary Care physicians, if they purchase medical services on behalf of patients, may be the only market regulator for hospitals. It's possible in the case if they assume "fundholding" and "gatekeeper" functions. But these schemes are quite complicated and doubtful.
4. In these case to provide quality management of hospital care and cost-effectiveness Public Health Agency has to apply some non-market tools, the most actual of which represent the following:
  - Using new computer information technologies, establishing the united municipal medical system of management accounting for cost-effectiveness control and quality management.
  - Introduction of modern schemes for hospital financing using Diagnoses Related Groups (DRG).
  - Improving municipal knowledge management system.

**Figure 7. Porter's Five Forces Model for Municipal Primary Care Facilities**



**Figure 8. Porter's Five Forces Model for Municipal Hospitals**



## CHAPTER 4. SWOT-ANALYSIS

### 4.1. SWOT - Analysis

**Table 5. SWOT-Analysis Matrix**

<h3 style="margin: 0;">Opportunities</h3> <ol style="list-style-type: none"> <li>1. Levers of influence and functions of local government grow</li> <li>2. Increased activity of citizens, public organizations, political parties which are committed to positively problem solving in Health Care.</li> <li>1. Various international and national programs to support Public Health services and local government in Ukraine can help.</li> </ol>	<h3 style="margin: 0;">Threats</h3> <ol style="list-style-type: none"> <li>1. Continuous rise of Health Care costs related to medical technology development and increasing standards of life.</li> <li>2. Worsening health status and aging the population, disability rate growth.</li> <li>3. Providing social guarantees in Public Health is the State function, but this function is not carried out. State transfers to local budgets do not cover even basic needs for Health Care services, as well as State medical social programs.</li> <li>4. Low incomes of the population.</li> </ol>
<h3 style="margin: 0;">Strength</h3> <ol style="list-style-type: none"> <li>1. Qualified enough medical personnel and knowledge management system.</li> <li>2. Availability of resort resources, some educational institutions.</li> <li>3. Existing multichannel system of health facilities financing (budget, voluntary insurance, out-of-pocket payment, etc).</li> <li>4. All municipal medical facilities are independent legal entities, potential participants of the managed Health Care market.</li> <li>1. In the city there are two autonomous (not budgetary) community enterprises</li> <li>2. Public Health Agency finances them with special targeted program on behalf of the population.</li> </ol>	<h3 style="margin: 0;">Weak</h3> <ol style="list-style-type: none"> <li>1. Significant deficiency of Health Care financing.</li> <li>2. Low motivation of medical personnel.</li> <li>3. Obsolete assets of municipal Health Care facilities.</li> <li>4. Using out-dated medical technologies.</li> <li>5. Insufficiently developed private sector of medical services</li> <li>6. The Additional burden on Municipal Health Care imposes the resort status of the city regarding inflow of nonresident and foreign citizens. Sources for treatment cost reimbursement legislatively are not defined.</li> <li>7. Scanty availability of medical care to poors and socially vulnerable citizens</li> <li>8. Medical service market now is reduced and has mainly “gray” feature.</li> <li>9. Growing dissatisfaction of the population with Health Care, negative image of Municipal Health Care.</li> </ol>

Now from SWOT-analysis we can go over to defining key competence and key factors of success for Public Health Agency.

## 4.2. Core Competencies

1. Sufficient quality management system to control quality of medical services.
2. All municipal facilities comply with the standard of accreditation for Health Care institutions.
3. Experience of using computer software for statistics, quality management, and accounting.
4. Presence of knowledge management system and opportunity to use knowledge and technology of higher level of Health Care.

## 4.3. Core Factors of Success

1. State Decentralization Policy in Health Care creates additional levers for local Health authorities to influence Health Care regulation and management including managed market.
2. Managed Health Care market is an effective tool for regulation and financing of the Primary Care. In some Ukrainian cities there is an experience of market reforms in public health services, mainly at the level of Primary Health Care.
3. In Ukraine there is an experience of using computer management accounting to allow providing high quality of medical services and costing control.<sup>43</sup>

# CHAPTER 5. THE BASE STRATEGY

Regarding Porter's five strategies we have to see that focused strategies do not comply with the strategic vision of the future and mission considered in Chapter 1. According to legislation and social obligation Public Health Agency have to provide available and accessible medical aid to all the citizens.

Opportunity to apply strategy of differentiation is rather limited that concerns with State regulation. The State has given citizens the constitutional guarantees on qualitative and accessible medical aid. So the State performs an active regulation policy<sup>44</sup>, determining the list of basic medical services for free delivering at state and municipal Health Care institutions.

Thus, we can choose the option for Municipal Health Care market from remaining strategies: the Cost Leadership Strategy and the Best-Cost Provider Strategy. The first strategy in low competition conditions of local market almost undoubtedly will turn to quality reduction of medical services<sup>45</sup>.

Use of the hybrid strategy approach – achieving optimum low costs at limited differentiation is the most favorable – as it's shown at Figure 9 with red oval<sup>46</sup>.

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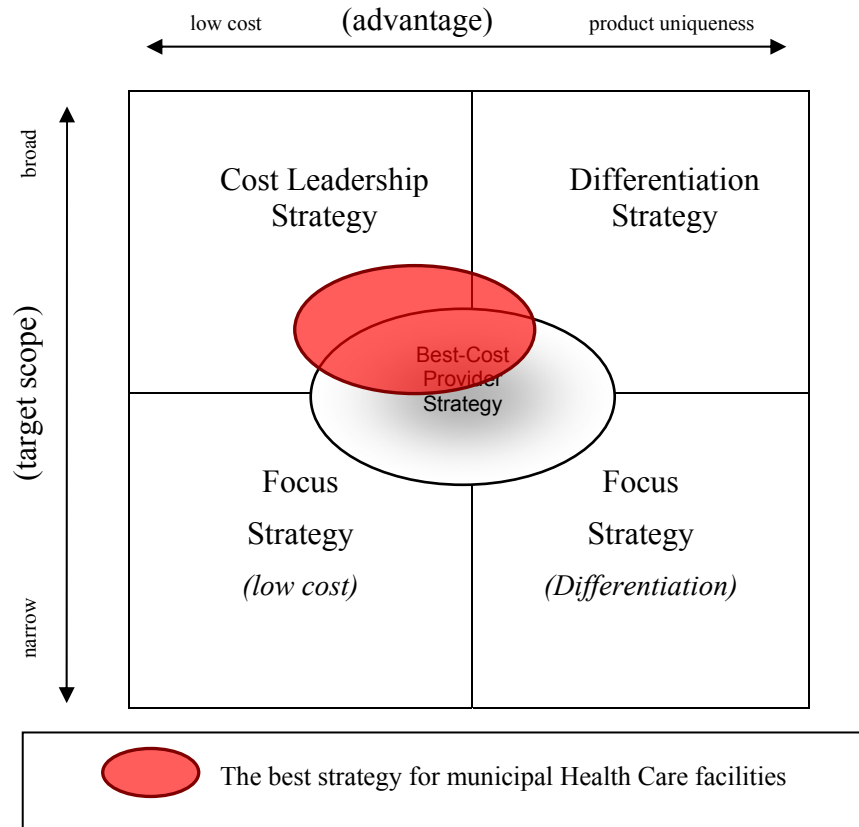
<sup>43</sup> Sergey Djachenko, Management Accounting and Cost Accounting in Ukraine: Experience of Two Pilot Regions in Ukraine. (Presentation at Learning Course for Health Care Managers, Kiev, 12/15/2005), unpaginated

<sup>44</sup> Valery Lekhan, Volodymir Rudi, Health care systems in transition: Ukraine. (Copenhagen: WHO Regional Office for Europe on behalf of the European Observatory on Health Systems and Policies, 2004) p.26.

<sup>45</sup> Arthur A. Thompson, Jr., A.J. Strickland III, Strategic Management: Concept and Cases (New York: McGraw-Hill Companies, Inc., 2001. Translated in Russian, Москва: Вильямс, 2003), p.166.

<sup>46</sup> Arthur A. Thompson, Jr., A.J. Strickland III, Strategic Management: Concept and Cases (New York: McGraw-Hill Companies, Inc., 2001. Translated in Russian, Москва: Вильямс, 2003), p.183.

**Figure 9. The Base Strategy for Municipal Health Care Facilities**



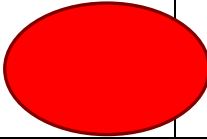
## CHAPTER 6. THE STRATEGY OF GROWTH

The market of medical services in the city performs rather as an isolated formation where external competitors almost are not present, as well as there is no opportunity to establish new markets. Therefore the goal of Public Health Agency of The City Council incurs introduction of the managed Health Care market, where the purchaser of medical services is the Agency, and providers – municipal and private medical institutions. It can be possible in the case of converting some budgetary municipal medical facilities into autonomous enterprises. This strategy is justified in the field of Primary Care, where the rivalry is the most beneficial. It's possible that later changing legislation will lead to transfer of purchase function from Public Health Agency to a sickness fund.

At the same time the opportunity to use competitive tools in the field of specialized services and hospitals are considerably limited as it was shown above. So Ansoff's strategy of growth is possible for applying only to low-specialized kinds of services. Taking into consideration abovementioned service regulation by State and social obligations it's impossible to develop new market and wide range of new products and services.

Taking into account the specified facts, the optimal strategy of growth for Primary Health Care facilities is the market penetration and limited introduction of some new medical services<sup>47</sup>.

**Figure 10. The Strategy of Growth for Municipal Health Care Facilities**

	Existing Product	New Product
Existing Market	Market Penetration 	Product Development
New Market	Market Development	Diversification

## CHAPTER 7. RECOMMENDATIONS

1. Further development of the integrated Health Care including referral, knowledge, and technological interaction between different levels within the National Health System are highly beneficial. Stable long-term partnership can promote quick introduction of new technology at municipal level.
2. It is reasonable for municipal Health Care system to narrow activity and concentrate its resources to Primary and Secondary Care.
3. As “gray” health care market significantly limits availability and quality of medical services, effective recourse use, and prevents to carry out the objectives of National Health Care system, one of the most important policies of Public Health Agency of The City Council is introduction of municipal managed health market.
4. Managed Health Care Market tools are mainly applicable to Primary Care. This approach will provide high quality medical services and effective utilization of resources. Reorganizing some out-patient budgetary facilities into municipal autonomous enterprises can create competitors for municipal Health Care market.
5. To increase personnel motivation it would be helpful to introduce capitation payment for Primary Care practitioners. The precondition of capitation method is autonomous enterprise status of Health Care facilities.
6. To eliminate health market failure it is necessary to introduce purchase function of the Public Health Agency. Using Public Purpose Program Methodology Public

<sup>47</sup> N.N., Ansoff Matrix, 2004. <<http://www.quickmba.com/strategy/Ansoff Matrix.htm>> (04/15/2006)

Health Agency can form orders to purchase health services on behalf of the population and introduce contractual arrangements with Health Care facilities.

7. To provide cost containment and quality management of the specialized care and hospitals it is necessary to use such innovative approaches as:
  - Computer system of management accounting administrated by Public Health Agency of The City Council will allow tracing service costs and value chains, as well as quality of hospital services.
  - Contracting and financing hospitals through Diagnostic Related Groups.
  - Further developing knowledge management system.
8. Modern management technologies may not be realized without municipal network computer system of management accounting. This system should be centralized and administered by Public Health Agency of The City Council.
9. Applying the hybrid strategy approach of optimum low costs at the limited differentiation is impossible without careful value chain analysis. So far this analysis hasn't been performing regularly. Nevertheless introduction of computer management accounting systems makes it possible to perform the analysis continuously.
10. Population ageing and new technology results to increasing cost of medical service. These trends lead to necessity of health service rationing that means to develop basic volume of essential medical services. The Health Care Agency on behalf of population will purchase them to provide their availability and quality to all citizens.

## GLOSSARY

**Accessibility of health care:** A measure of the proportion of a population that reaches appropriate health services.

**Accreditation:** The process by which an authorized agency or organization evaluates and recognizes an institution or an individual according to a set of “standards” describing the structures and processes that contribute to desirable patient outcomes.

**Availability:** Identifies the presence or absence of needed health care services.

**Budget:** A statement of the financial resources made available to provide an agreed level of service over a set period of time or to use them for a specific purpose.

**Capitation:** A fixed payment to a provider for each listed or enrolled person served per period of time.

**Diagnosis-related group (DRG):** A way of categorizing patients according to diagnosis and intensity of resources required, usually for the period of one hospital stay

**Decentralization:** Changing relations within and between a variety of organizational structures/bodies, resulting in the transfer of the authority to plan, make decisions or manage public functions from the national level to any organization or agency at the sub-national level.

**Evidence-based health care:** Evidence-based health care is the conscientious use of current best evidence in making decisions about the care of individual patients or the delivery of health services. Current best evidence is up-to-date information from relevant, valid research about the effects of different forms of health care, the potential for harm from exposure to particular agents, the accuracy of diagnostic tests, and the predictive power of prognostic factors.

**Fundholding:** A system of payment for medical care which has the following characteristics: financial resources for health care are allocated on a per capita basis; financial resources are held in a fund; and the general practitioner is usually the decision-maker for allocating the funds.

**Gatekeeper:** A primary care physician/general practitioner (or another provider) who is responsible for overseeing and coordinating all the medical needs of a patient. The gatekeeper must authorize any referral of the patient to a specialist or hospital.

**Health care:** Any type of services provided by professionals or paraprofessionals with an impact on health status.

**Health care facilities:** institutions, enterprises and organizations, which immediately deliver health care services to the population.

**Health care system:** A formal structure for a defined population, whose finance, management, scope and content is defined by law and regulations. It provides for services to be delivered to people to contribute to their health...delivered in defined settings such as homes, educational institutions, workplaces, public places, communities, hospitals and clinics.

**Health services:** Any service which can contribute to improved health or the diagnosis, treatment and rehabilitation of sick people and not necessarily limited to medical or health-care services.

**Informational Asymmetry:** a situation in which the parties on opposite sides of a transaction have differing amounts of information relevant to the transaction.

**Managed competition:** Government regulation of a health care market which uses competition as the means to achieve efficiency objectives within a framework of government intervention designed to achieve other policy objectives, such as equity.

**Market failure:** The situation in which a market economy fails to attain economic efficiency.

**Moral hazard:** The possibility of consumers or providers exploiting a benefit system unduly to the detriment or disadvantage of other consumers, providers or the financing community as a whole, without having to bear the financial consequences or their behaviour in part or in full.

**Primary health care:** The first level contact with people taking action to improve health in a community.

**Provider:** Professionals and institutions providing health care services to patients.

**Public health:** The science and art of promoting health, preventing disease, and prolonging life through the organized efforts of society.

**Purchaser:** A health care body which assesses the needs of a defined population and buys services to meet those needs from providers.

**Rationing:** Restricting supply of services according to implicit or explicit criteria, where demand exceeds supply.

**Responsiveness:** How the health system performs relative to non-health aspects, meeting or not meeting a population's expectations of how it should be treated by providers of prevention, care or non-personal services.

**Risk pooling:** Forming a group so that individual risks can be shared among many people.

**Secondary health care:** Specialized ambulatory medical services and commonplace hospital care (outpatient and inpatient services). Access is often via referral from primary health care services.

**Semashko system:** A uniform model of organizing health services introduced in CEE/CIS countries after the Second World War, and abolished in the early 1990s. Financing of health services is entirely through the state budget, with publicly owned health care facilities and publicly provided services. Different levels of state administration – central, regional, and local – were responsible for planning, allocation of resources and managing capital expenditures.

**Sickness fund:** Third-party payer in social health insurance system, covering the community as a whole or sections of the population.

**Stewardship:** A function of government responsible for the welfare of the population, and concerned with the trust and legitimacy with which its activities are viewed by the citizenry.

**Supplier-induced demand:** a phenomenon whereby a health care provider, usually a physician, influences the level of a person's demand for health care services. Supplier-induced demand arises from the existence of informational asymmetry between a patient and a provider. Professional ethics encourages supplier-induced demand in the interest of the patient, because the patient often has insufficient information to judge what services will improve their health. Providers exploiting their superior informational advantage to induce demand to further their own interest, however, is an important issue in the health sector.

**Tertiary health care:** Refers to medical and related services of high complexity and usually high cost.

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