

CHAPTER 1

PROBLEM IDENTIFICATION

1.1 Introduction

Indonesia is the fourth most populated country in the world, consist of five major island and about 30 smaller groups, with 17.508 number of islands. Accross it many islands, Indonesia consist of distinct ethnics, linguistic, religious group, social group, economics and education. With these diversity and large demography as well as geographich condition, Indonesia may very need a well establish development system, especially on health issues.

At 1,919,440 square kilometers (741,050 sq mi), Indonesia is the world's 16th-largest country in terms of land area. Population based on 2005 intercensal population survey indicates that total population in 2007 were 225.642.124. Indonesia population density remained 118 people/km². More than half of population were distributed in Java with 58.38% of total population. Economicly wise, poverty has become a burden in Indonesia for over the past decades. According to National Social and Economic Survey, poor population defined as population with monthly expenditure by GDP under poverty line consisting of food and non food poverty line. In 2007, there were 37.17 million poor population with the percentage of 16.58%. Since it is the government obligation to provide healthcare for them, hence a system of hospital management must defined properly.

Although health status of Indonesians has not been affected drastically in the short term, economic crisis has certainly slowed the development of health system. Government of Indonesia is taking special steps to protect the health of its population through modification of its Seventh Five-Year Plan (Repelita VII), but the pace of progress in solving health problems has been slow. If we look through Human Development Index, Indonesia is currently on rank 111 and consider as a developing country. The measurement are based on the GDP rate, education rate and health status of a country. Specifically for health status, they measure Life Expectantny at Birth (E_0) and Infant Mortality Rate (IMR). Based on BPS estimation, E_0 in 2007 was 69.09 year. If we look through 2007 IMR, number of

infants who died on phase since birth to 1 year per 1000 live births, the ratio was 34 per 1.000 live births, still consider high. Together with Maternal mortality rate, these indicator may significantly described achievements of health programs.

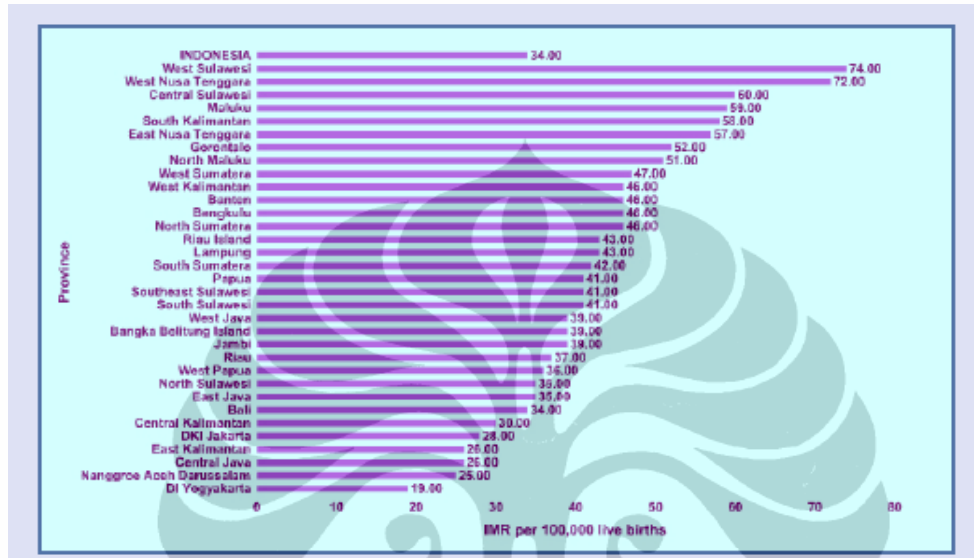


Figure 1.1 Infant Mortality Rate in 2007

Source from Indonesia Demographic Health Survey, 2007

As part of its effort to control health care costs and protect availability of services to local communities, government frequently challenges merger of hospitals operating in the same market. They of course, assume that greater market concentration will lead to fewer services and higher prices. Hospital industry, whether they like it or not is consider as a service industry where there is a demand and supply within them. To run their operation in effective and efficient manner, a solid business model strategy must be developed.

1.2 Main Problem

To determine what kind of business model strategy a hospital will be created, first we must refer back to its economic substance. The easiest is from its stated mission by their owner. Whether its substance is social-oriented where the funding is all from owner (in this case mostly government or institution) or maybe profit-oriented (private) in which managers have a freedom to maximize profits.

However realization comes to mind where social services industry is in a period of transition marked by the entry of for-profit hospitals that compete directly with nonprofits for government contracts. In an attempt to compete head to head with for-profits, not-for-profits in the industry are adopting for-profit management models in hopes of sharing these advantages. This not-for-profit hospitals is unique because they have to balance profit for growth and objective to provide affordable health service for middle-lower community. This thesis emphasize on the not-for-profit hospital with case study in Rumah Sakit Umum Daerah Koja (General Hospital own by Local Government) at North of Jakarta.

Business Model for hospital management is completely unique and complex if compared with other industry management. First they adopt a workshop management where it is tailor made in a term of wide variety of services they offer and in departments they have. Like RSUD Koja, they may have acute services such as an emergency department or specialist trauma centre, burn unit, surgery, or urgent care. These may then be backed up by more specialist units such as cardiology or coronary care unit, intensive care unit, neurology, Endoscopy, obstetrics and gynecology. They also have outpatient departments and chronic treatment units such as behavioral health services, psychiatric ward, rehabilitation services, and physical therapy. Common support units include a dispensary or pharmacy, pathology, and radiology, and on the non-medical side, there often are medical records departments and/or release of information department. With all of varieties in health service they have to set up in order to provide healthcare services in accordance with its mission, they need a comprehensive system to run it.

Hospital also adopt hotel management where they have to set up and control the price for treatment and room price for inpatient. Some patients go to a hospital just for diagnosis, treatment, or therapy and then leave ('outpatients') without staying overnight; while others are 'admitted' and stay overnight or for several weeks or months ('inpatients'). Whether the patient is male or female, having an infection or not, type of diseases, isolations, children or adult, surgery, social status, and many more must be considered when they set up a price. Pricing strategy here hold an extremely important role because it would help them

improve their competitive positioning, contract management and pricing optimization techniques. They would be able to set up rational, defensible, sustainable pricing and allow them to fulfill their charity mission while maintaining profitability. Since RSUD Kojima owned by the government, some part of their funding is subsidized. They only consider several components when calculating unit cost to determine a price for treatment and room classes. Variable such as land depreciation and salary were usually being left out because these variables burdened by the government.

Third is restaurant management where they not just have to provide food for patient but also pay attention to the nutrition since it is an essential part of patient care. Good nutrition food can encourage patients to eat well, giving them nutrients they need to recover from surgery or illness. Its character is individualistic, based on particular disease or treatment of that patient. Once food is unhealthy and unsuitable with patient, the consequence is unbearable. Lastly, they also have to manage office and administration. Since hospital is a 24-hours working unit, they have to create a comprehensive facility and personnel management system.

With these kind of complexity in mind, not-for-profit hospitals like RSUD Kojima may be spending more than billions rupiah annually to provide free health care due to its mission and mandate. This objectives can encourage a not-for-profit business model strategy focuses on covering costs rather than optimizing profitability or revenue. However, this kind of business model is unsustainable in the future due to the economic objectives that could not be avoided. Not-for-profit hospitals must embrace best practices of the for-profit, business world in order to survive. Mantra “no money, no mission,” is heard throughout the third sector. The loftiest mission will fail if its delivering organization lacks the financial stability to stay afloat.

Facing a growing number of uninsured and poor patients in Indonesia for whom they are obliged to provide health care, it is likely that they will continue to drain to what little profitability they have. The time has come for these so-called not-for-profit hospital that are operating on a slim profit margins while struggling to manage costs to develop a strategic blueprint in cost limitation, increasing

revenue and create a sound pricing strategy. An increasingly competitive business environment, with shrinking support from government and private donors, dictates that not-for-profit acquire the efficiency, flexibility, innovativeness, and discipline traditionally represented in competitive for-profit sector.

1.3 Research Question

Real challenge for not-for-profit organization is to balance margin with its mission. It is important to them to be able to both generate surplus to operate effectively and reinvest profit into hospital to help enhance performance and community service. Therefore, this thesis will be dedicated to discuss on how not-for-profit organization like RSUD Koja can build and run a business model strategy that would let them fulfill their mission of social and economic substance. More specifically, the question raised are:

- What kind of marketing strategy that must be implement so that RSUD Koja enable to competitively generate profit without relying much on government subsidies?

1.4 Research Objective

Based on those issues that have been mentioned above, the purpose of this research are:

- To analyze the service performance of a not-for-profit organization that influences the marketing activities to competitively generate profit.
- To generate a grand strategy for marketing in a not-for-profit organization who needs to balance their objective for social care while maintaining their growth and become sustainable in the future.

1.5 Organization of the Study

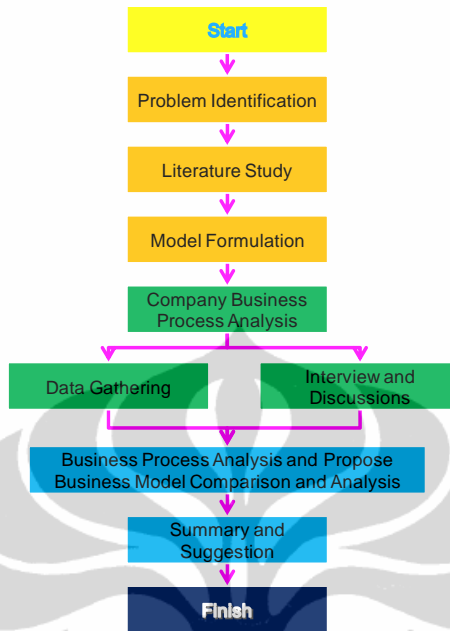


Figure 1.2 Organization of the Study

Systematic of this thesis will be as following:

Chapter 1 : Problem Identification

This chapter includes introduction of main problem, then identification of the problem itself, research objective, method used in the research and systematic of this thesis.

Chapter 2 : Conceptual Framework

Theoretical approach that becomes base of the research model will be described in this chapter. Theories used are gather from literatures studies done by researcher, book references and journals or articles concerning medical and hospital management.

Chapter 3 : Company Profile and Research Model

General picture of respective company will be described in this chapter. Facts like their vission, missions, company history, current business model practice they are using are presented here.

Chapter 4 : Research Methodology

This chapter contains the scope of research, the period of data used, methods of data collection, data processing and use of analytical techniques.

Chapter 5 : Analysis

Result of data analysis about the business model strategy of respective company and propose solutions will be described here.

Chapter 6 : Summary and Suggestion

This chapter will answer the research objectives as well to summarize research analysis.

