Sustaining Success in Singapore Private Medical Practice

Rowena Jong
School of Mechanical & Production Engineering
Nanyang Technological University
Singapore
Email: mrjong@ntu.edu.sg

Abstract

The paper discusses the prerequisites for medical private practitioners in Singapore to sustain a successful private practice in an environment characterised by structured competition, managed-care systems and capitation for the benefits of cost, quality and efficiency. It also presents a framework outlining the procedures for building a successful practice. Private-practice physicians from various specialties were interviewed and consumers of medical care were surveyed. The results, incorporated with analysis of the Singapore medical care industry, were used as the basis for outlining the framework for sustaining success in private practice.

Maintaining a substantial patient base is still the lifeline of sustaining success in private practice. To do so in the present environment, a practice needs to build up its core competence, especially through the physician's capabilities and the practice's network-ability. The practice must be able to operate within the boundary of cost, quality and efficiency. Moreover, physicians need to be proactive in managing both the structure and the delivery of their services and to develop a clear organisational orientation toward the market to ensure success in their practices.

Keywords: Medical private practice; health-care management

1. Background

1.1 The health-care industry

The medical profession in most parts of the developed world is undergoing an intense degree of change brought about by government pressure to constrain the costs of health care caused by an ageing population and sophisticated technological advancement in medicine. Driven by the declining input of resources from health-care service purchasers such as the government, industry, and individuals, many countries are concerned with the affordability of health care for their citizens. The central issue facing health-care leaders and the medical profession is the imperative to operate the system in a more efficient manner by implementing concepts such as cost containment and quality patient care. The intention is to contain the cost of actually delivering the service to patients and to make doctors more accountable for the public money that they spend.

To accomplish more effective health care delivery, health-care organisations and physicians are using many different approaches to contain costs. Despite some fundamental differences in their approaches, developed countries all over the world have implemented different systems to accomplish the delivery of more effective health care, all of which can be generally classified under the term managed health care (Burns & Macino 1987). The basic idea of managed
health care is that patients receive health care from an organisation such as an health management organisation (HMO, is used as a generic term in this paper. It is intended to refer to a for-profit organisation where doctors are paid a fixed fee to treat patients covered by a plan. They include insurance companies, health-care investors, and so forth) or preferred providers organisation (PPO, an organisation that contracts with physicians to provide health-care services to patients for a discounted fee.) which usually includes a payer and a network of approved providers. A primary care physician is designated as a gatekeeper who coordinates and directs the patient's care.

1.2 Singapore health-care system

From the mid-'90s onward, the Singapore health-care industry has largely been dictated by the White Paper on Affordable Health Care (1993). Of particular significance to health-care providers is the government’s intention to rely on competition and market forces to improve service and raise efficiency, and to intervene directly in the health care sector where the market fails to keep costs down in areas such as the overall supply of medical services and the charging of patients using Medisave (Lim 1997) in private hospitals.

The degree of industry concentration both in health insurance and in the provision of health-care services has risen in the Singapore market due to the increased role of managed care in health insurance. At the same time, the reform of health-care services has given patients a greater choice in the services available through the introduction of a competitive structure into medical practice in the private sector. It has also impeded patients’ freedom in their choice of physicians. The managed-care system not only changes the private health-care system from a retrospective, fee-for-service system to a prospective, package-price approach, but also influences patients' health-care service utilisation patterns.

One prevailing concern for physicians in the private sector is to measure the extent their practices need to align with the changing external environment, and how these external factors may affect business and the direction of their practice. While the environment may create good opportunities for enterprising physicians to increase their market share and expand their business opportunities, some private practitioners may face the threat of losing patients to resourceful and competent competitors, and their clinical autonomy to business managers. Others feel they are under increasing pressure to meet corporate rather than clinical priorities. Those who are complacent with their achievements and market position still have to think about whether their practice will be able to sustain their business under the incessantly changing industry environment.

1.3 Sustaining success in a competitive environment

Management literature is divided as to how a firm can remain competitive. In portraying different means and sources for firms to remain competitive, the strategy theorists attributed sustained superior performance or above-average profitability of companies to either the industrial organisation (I/O) theory framework, which explained superior performance through structural features of industries such as barriers to competition, product differentiation (Porter 1985, 1998), or the resource-based model, which advocates that firm-specific resources and competencies are critical factors enabling firms to achieve superior performance in the market (Kanter 1994; Hamel & Hanee 1994).

1.3.1 Industry-organisation theorists

To the industry-organisation theorists, industry conditions the performance of individual firms. It is essential for a firm to
understand the structure of its industry and position itself to gain a sustainable competitive advantage. The I/O model challenges firms to locate the most attractive industry in which to compete. Because most firms are assumed to have similar strategically relevant resources that are mobile across companies, competitive-ness generally can be increased only when they find the industry with the highest profit potential and learn how to use their resources to implement the strategy required by the structural characteristics in that industry. The five-forces model of Porter (1985) is an analytical tool used to help firms with this task.

1.3.2 Resource-based view

In contrast to the I/O model, the resource-based view is grounded in the perspective that a firm’s internal environment, in terms of its resources and capabilities, is more critical to the determination of strategic actions than is the external environment. Most resource-based scholars agree that the resource of a firm is made up of the firm’s competence, i.e. its expertise or technological know-how and its physical, human, organisation and intangible assets.

The resource-based competitive strategists suggest that a firm’s unique resources and capabilities provide the basis for a strategy. The strategy chosen should allow the firm to best exploit its core competence relative to opportunities in the external environment (Hitt et al. 1999). Not all of a firm’s resources and capabilities have the potential to be the basis for competitive advantage. This potential is realised when resources and capabilities are valuable, rare, costly to imitate, and non-substitutable. Resources are valuable when they allow a firm to exploit opportunities and /or neutralise threats in its external environment. (Hitt et al. 1999).

1.3.3 Strategy to sustain success in medical private practice

In evaluating the competitive environment with the concept of core competences, practitioners are able to determine where to transfer competences within their organisations and identify opportunities for profitable diversification. By linking market analysis to competence, the practitioner can use market data to predict the kinds of key competence and how large an advantage they will provide. An important part of industry and competitive analysis is to delve into the industry’s competitive process to discover the main sources of competitive pressure and how strong each competitive force is (Strickland 1999).

1.4 Industry specific competitive environment

Nevertheless, industries differ widely in their economic characteristics, competitive situations and future profit prospects. Competitive advantages workable for one industry may not work for another. The economic character of industries varies according to a number of factors: the overall size and market growth rate, the pace of technological change, the geographic boundaries of the market (which can extend from local to worldwide), the number and sizes of buyers and sellers, whether sellers’ products are virtually identical or highly differentiated, the extent to which costs are affected by the economies of scale, and the types of distribution channels used to access buyers (Strickland 1999). Moreover, industries differ widely in the degree of competitive emphasis put on price, product quality, performance features, service, advertising and promotion, and new product innovation. In some industries, price competition dominates the marketplace while in others, the competitive emphasis is centred on quality or product performance, customer service or brand image/reputation.
In other industries, the challenge is for companies to work cooperatively with suppliers, customers and maybe even select competitors to create the next round of product innovations and open up a whole vista of market opportunities. An industry’s economic traits and competitive conditions and how they are expected to change determine whether its future profit prospects will be poor, average, or excellent.

While Porter’s five-forces model is a powerful tool for systematically diagnosing the competitive pressures in a market and assessing how strong and important each one is, it does not specifically take account of the human and behavioural dimensions of competitive strategy. It assumes that competitors will behave rationally with a profit motive and that they understand the dynamics of the market and competition and the consequences of their own strategies (Brown 1990). Burke et al. (1987, 95) pointed out that in an owner-controlled firm, as there is a trade-off for the owner between profits earned and leisure time spent on the golf course etc., he generally will not strive for maximum attainable profits as defined by economists.

What does it mean for health-care providers -- especially medical practitioners in the private sector -- to be competitive? Hospital administrators whose business is to ensure the effective and efficient running of a hospital, will be well versed in different strategic moves to cut costs and stay competitive. Medical practitioners in public service who are accustomed to bureaucracy and red tape must acquire management skills to fit the environment.

1.5 Objectives

This paper examines the competitive environment in Singapore's private medical-care industry as a basis for a framework to identify the pre-requisites and procedures for medical private practices to successfully sustain themselves in an environment characterised by structured competition, managed-care systems and capitation for the benefits of cost, quality and efficiency.

1.6 Scope

The paper focuses on how physician-owned private practices in Singapore can sustain and defend their business by analysing the market, and the competitive forces brought forth by government policy, competitors in the private sector and buyers of health services. It does not emphasise how institutions and investor-owned private practices should respond to the environment.

1.7 Procedures

The industry environment was analysed using Porter’s five-force model to determine the components that have an impact on the business of the private practice. Porter's framework on industry value-chain partners is adapted as a guide to understanding a practice's primary and supporting activities and how they can be used as the starting point in the practice’s analysis of its strengths and weaknesses.

Thirty private physicians, dentists and administrators from health-care organisations were interviewed to find out:

- how the external environment affects private practitioners and their responses to the environment, and
- what they consider as relevant value-chain activities and assets that contribute to sustaining their practices in the present-day environment.

The results of the survey, which show different definitions of a successful practice, are used to analyse how practices can achieve their goals in the present environment.

Another survey on private patients’ evaluation of their preferences for doctors was also conducted. The results, incorporated with results of the previous survey and analysis of the Singapore medical care industry, were used to discuss factors
for sustaining success in private practice, as well as for building a framework of procedural approaches for each practice to follow in the present environment.

2. Porter’s five forces of industry

Porter’s five-force model (1998) is used to evaluate the competitiveness of the Singapore medical-care industry by using. The five-force model suggests that an industry’s potential profitability is a function of interactions among five forces: suppliers, buyers, competitive rivalry among firms currently in the industry, product substitutes, and potential entrants to the industry. Using this tool, a firm is challenged to understand an industry’s profit potential and the strategy that should be implemented to establish a defensible competitive position, given the industry’s structural characteristics.

2.1 An analysis of the competition in the medical care industry with Porter's five-force model

Michael Porter (1985, 1998) demonstrated that the state of competition in an industry is a composite of five competitive forces. Below is an analysis of the medical care industry using Porter’s five-force model:

2.1.1 Entry/exit barrier

The threat of new entrants to the private sector depends largely on the ability of the industry to erect entry barriers that exclude newcomers. To encourage competition to bring health-care costs down, as well as to develop the country as a medical centre in the Asia Pacific region, the Government has brought in world-renowned specialists such as those from John Hopkins Medical Institutions to develop clinical treatment facilities for the care of patients with cancer, cardiovascular diseases and other illnesses. The government implementation of the Faculty Practice Plan, which allows public-sector specialists to practise in the private sector, is another step to relax the entry barrier into private practice. Moreover, the exodus of public-sector doctors into the private sector in recent years has greatly increased the number of medical private practitioners. While private practitioners do not usually retire at the age of 60, those giving up their practices entirely for a new business are few and far between. All these moves have resulted in an increase in the number of players in the private sector.

2.1.2 Buyers of medical services

The managed-care system has extended the parameter of the buyers' market to include business organisations, group incorporate health-care organisations, and insurance companies. The customers of the physicians therefore include the following parties: (1) Employers who buy health insurance coverage for their employees from third-party payers; (2) third-party payers such as insurance companies or health-care purchasers that collect premiums and then pay providers for services rendered to the insured or subscribers; and (3) patients who receive health-care services. Large corporation employers and other purchasers of health care on a group basis have exerted their influence on the costs of health care. These group purchasers are more informed and more sophisticated buyers of medical and hospital services. A by-product of this is that the economic interests of physicians and hospitals are becoming more closely linked in dealing with group purchasers. Today, it is increasingly prevalent for the services of hospitals and physicians to be purchased as a package. The failure to meet the expectations of group purchasers will lead to reduced patient volumes, particularly if more cost-effective options are available to the group purchasers (Burns & Mancino 1987).

Patients now select hospitals and physicians on price, convenience and
compatibility with a predetermined conception of how the care is expected to be delivered. Employers are subjecting patients to greater deductibles, co-payments and co-insurance provisions, thereby making them increasingly accountable for health-care expenditures. This growing accountability of patients for the economic consequences of their decisions, as well as the increasing sophistication of patients in the selection of physicians, has intensified the importance of competitive pricing for private practitioners (Burns & Mancino 1987).

2.1.3 The suppliers
A supplier can use its market power to raise prices or lower quality. The suppliers of medical practices include pharmaceutical companies, medical equipment and medical consumables. Most private physicians are of the opinion that medical consumable and drug suppliers do not have much bargaining power. Firstly, competition among suppliers of drug firms is very keen. Secondly, most of the physicians think that the majority of the private patients are willing to pay for an expensive but effective drug. However, investor-owned practices or practices contracted to, or employed by health-care organisations, will enjoy economies of scale because of their bulk quantity orders.

2.1.4 Substitutes
Substitute health-care services, such as alternative medicine or facilities, can be a competitive threat to the physicians. Theoretically, advanced and high-technological medical equipment has now made it possible for patients to engage home care. Moreover, the capitation policy which determines the amount of money a patient can spend according to the illness itself and not according to length of stay at the hospital or the number of visits made to a physician has made many private patients think of alternatives. However, according to practising physicians interviewed, in general, patients who seek substitutes or alternative medicine belong to a different market and therefore do not affect the physicians’ volume of patients. The minority of patients who usually resort to alternative medicine because of terminal illnesses constitute only a negligible percent of their patient base and do not pose a threat to practising physicians in the private sector. (Appendix A: Table 3.1 “Reasons for the Decline in the Number of Patients)

2.1.5 Competitors
Because of the low entry barrier, the number of competitors is on the rise. Private practitioners find that they are no longer competing with their own profession but with corporations and business organisations. Rivalry increases when corporations outside the industry view health care as an attractive business opportunity. At the same time, corporate chain systems acquire weak firms in the industry and launch aggressive, well-funded moves to transform their newly acquired competitors into major market contenders, which in turn creates an impact on the medical private sector. Moreover, private practitioners also compete with employee specialists from government institutions who, under the new Faculty Practice Plan, are allowed to practise in the private sector for a number of sessions a week.

2.2 Analysis of the industry environment on private practice
Porter (1980, 1998) pointed out that not all the five forces will be equally important in an industry. The general environment analysis and industry analysis show a highly competitive environment brought about by the increasing number of competitors and the changing demand of the patients' and payers' needs. The delivery of medical service is heading towards a managed-care and third-party approach emphasising cost, efficiency and quality of service.
The concept of management implies that health-service providers have emphasised planning, organising their business to ensure the feasibility of implementing the large-volume/small-profit concept. This may imply additional staffing to meet administrative requirements; controlling the use of all resources; obtaining constant feedback about the quality, cost and effectiveness of operations; and constantly re-planning and fine-tuning to assure flexibility and adaptation to an ever-changing environment. Clinical professionals who are in the managed-care scheme may feel their ability to make clinical decisions affected by the resources allocated by their professional counterparts, or by non-medically trained health-care administrators.

2.2.1 A cost-driven environment

The rationale of the managed-care market is to force purchasers to consider all of the alternatives to obtain the most cost-effective use of the resources at their disposal. With keen competition, a practice has to reduce professional fees to make the practice compatible and competitive. The cost-driven environment means private providers have to consider the large-volume/small-profit type of services and be prepared to do more with less. At the same time, as managed-care providers are paid retrospectively, maintaining a sound cash flow is important.

2.2.2 A quality-driven environment

The quality of service is defined by the consumers. The relatively well educated and affluent consumers of health-care services today are more aware of the quality of care. This group of consumers is also more ready to obtain second opinions and to search for alternatives.

The unique characteristics of professional services lie in their intangibility, non-standardisation and experiential quality. The intangibility factor means customers’ purchasing behaviour develops on the basis of three main factors: experience, referrals and reputation (Brown 1990). In this light, to evaluate the quality of service of one's clinic means taking into account referrals and recommendations generated by patients and physicians. With a lack of clarity regarding the service needed from such providers, the choice of selecting a physician is usually based on recommendations or referral. The physicians’ current and future success stems from their rapport with patients and recognition by their professional colleagues.

2.2.3 An efficiency-driven environment

Efficiency becomes a catch phrase in the present environment. Efficiency entails the alignment of people and resources, coordination, and standardisation and division of roles. Efficiency means focus and minimum wastage, which in turn enhances the chance of success. Efficiency from some patients’ perspective means being able to accomplish the procedures required in the shortest possible time. Physicians with foreign patients who spend a day or two in Singapore for checkups or to have simple procedures done realise their efficiency and the ability to "send patients home" in the shortest possible time are factors foreign patients consider when choosing a physician. This requires good practice infrastructure and supporting activities; coordination among value chain partners in the health-care industry; time management to ensure efficiency; and most important, the physicians’ professional capabilities.

The environment commands a practice that is customer-oriented, willing to provide quality service at a lower price, and has the capabilities to work for HMOs. The changing environment shows signs that the managed-care policy works in recognition of the fact that health care is now a zero-sum game in which surviving requires taking market share away from others. It also gives
a signal that the traditional organisation of health care, consisting of many independent hospitals and hundreds of thousands of individual physicians all operating in relative independence, may not be functional and effective any more.

2.3 Impact of the environment on medical private practice in Singapore

Whether a private practice finds the environmental changes conducive or aggressive to its business depends on how the yardstick made up of cost, quality and efficiency affects the practice’s revenue, patient base and financial status.

The present environment affects private practices in four different ways: 1) The degree of autonomy the physician has on clinical decisions and procedural matters. There are clinical professionals who feel their ability to make clinical decisions is being affected by the resources allocated by their professional counterparts. 2) Rivalry increases when corporations outside the industry view health care as an attractive business opportunity. Corporate chain systems acquire weak firms in the industry and launch aggressive, well-funded moves to transform their newly acquired competitors into major market contenders and have created an impact on the medical private sector. 3) Coupled with the keener competition increase in the number of competitors and the government move to prevent monopoly, there is a redistribution of the patients. Patients can go to the restructured hospital and be seen as private patients. 4) The revenue received will be affected by the intensity of rivalry.

The magnitude of threats and opportunities imposed on a practice is largely dependent upon its patient base, its assets and the practice as an organisation. In other words, factors such as composition of the patient base, the volume of business, the source of patients, the practice's infrastructure, its value-chain activities, its ability to adjust to or cater for managed-care systems, and its overall financial status will affect a practice's ability to survive.

Depending on how the environment affects the practice, the physicians can choose to bypass the managed-care system; increase its patient base; reduce its expenses or work towards maintaining the practice’s market share. (Appendix A Table 3 “Trend in Volume of Patients from 1995-2000) The four orientations are based on the assumption that the practice functions as a business organisation. The ability of a practice to generate an income to exceed expenses to sustain the financial integrity and growth strategy of the practitioner should be the basis of all strategic moves. The physicians' different responses to the environment should by the environmental impact on the practice's assets, patient base, and financial status.

2.4 The practice assets

The ability of the practice to create opportunities or to neutralise threats in the external environment depends upon the practice’s capabilities to compete and to respond to market needs. The practice's capabilities are generated from its value-chain activities as well as its resources.

2.4.1 Value-chain activities

Porter’s concept of value chain (Porter 1998) has provided a general framework for thinking strategically about the activities involved in any business, and in assessing their relative costs and roles compared to the competitors. The value chain provides a rigorous way to understand the sources of buyer value that will command a premium price, and why one product or service substitutes for another. Porter’s (1980) industry value-chain analysis is a useful tool that may help practices relate themselves to the industry and also to understand how a practice's primary and supporting activities can be used to create value. It is also the
starting point in a practice’s analysis of its strengths and weaknesses.

### Table 1: Value-chain activities of a typical private medical practice

<table>
<thead>
<tr>
<th>Upstream value chains</th>
<th>Practice value chain</th>
<th>Downstream value chain</th>
<th>Buyer/end-user value chain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activities, Costs, &amp; Margins of Suppliers</td>
<td>Practice-performed Activities, Costs &amp; Margins</td>
<td>Activities, Costs, &amp; Margins of forward channel, Strategic partners, Alliances</td>
<td>Patients, Group Purchasers</td>
</tr>
<tr>
<td>Relationship/Activities with suppliers</td>
<td>Consultation Procedures Marketing</td>
<td>Hospitals Other Specialists Ambulatory care centre</td>
<td>Networking activities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Inbound Logistics</th>
<th>Operations (depends on specialty)</th>
<th>Marketing &amp; Sales (depends on practice)</th>
<th>Service</th>
<th>Outbound Logistics (depends on specialty)</th>
<th>PRIMARY ACTIVITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mediations handling, inventory control</td>
<td>Mixing of drugs, minding equipment</td>
<td>Marketing activities</td>
<td>Contact with patients</td>
<td>Distributing medication to customers</td>
<td></td>
</tr>
<tr>
<td>Firm Infrastructure, General Administration</td>
<td>Human Resource Management</td>
<td>Technological Development</td>
<td>Procurement</td>
<td>Procurement</td>
<td>SUPPORT ACTIVITIES</td>
</tr>
<tr>
<td>Organisation structure</td>
<td>Employing /training of supporting staff: clerks, nurse, receptionists</td>
<td>Attending conference and seminars Engaging in Research</td>
<td>Purchasing of drugs, medical equipment, office equipment</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A typical health-care industry value chain consists of four chains: The *upstream chain* refers to the practice’s activities with suppliers. It includes the procurement of medical supplies necessary to run the practice and the associated inbound logistics. The *practice value chain* refers to the activities that take place within the practice and the most important of these includes procedures and consultation. The *downstream value chain* consists of activities related to "forwarding activities" of a practice. This includes the referral of patients to other physicians, hospitals and or joint management of cases with other specialists. The value-chain of *buyers or end-users* refers to activities related to the patients’ and group purchasers’ value and patterns of purchase.

By analysing the activities in each industry-related value chain, the practice can identify the specific types of activities that make up the practice’s competitive posture. It is these activities that determine the practice’s competitiveness in serving customers in the health-care market.

### 2.4.2 Upstream value chain

Although the price of medical consumables and medications affect the profit of the practice, there is no formal contractual relationship between the physicians and suppliers of equipment, medication and medical consumables. While most physician-owned practices are slow in realising the potential in cost savings and the efficiency of supply chains, hospitals, institutions and for-profit health-care organisations are moving towards upstream
(supplier) and downstream (customer) integration and value-adding activities and services.

2.4.3 Downstream value chain and end-user value chain

The practice’s downstream value-chain activities refer to its relationships with its industry partners. In the event that a medical case needs joint management or has to be forwarded to another specialist, most physicians select their collaborators based on expertise, personality, reputation and capabilities, and the personal relationship (i.e., physicians with the same vision as well as physicians that they can trust). All the physicians maintained that friendship, as a criterion for selection, is always superseded by the four criteria mentioned. Physicians from group practice will generally refer patients to specialists in the same organisation or specialists in the same hospital where the clinic is located. (See Appendix A, Table A2: "Physicians' Inter-practice Relationships") The rationale is that it will save patients’ time and effort in going from one location to another. Similarly, physicians usually admit patients to the hospitals where their clinics are located. Depending on the financial situation of the patients, some specialists will even refer patients to government-owned centres or hospitals.

2.4.4 End-user value chain

The end-user value chain refers to the activities done to enhance the value of the service perceived by the customers. Most of the physicians were not keen on end-user value-chain activities. Only some orthodontists and dentists interviewed were keen in pursuing after-consultation contacts with the patients. Their receptionists will routinely call the patients to remind them to go for checkups. Some oncologists would also take the trouble to arrange suitable hospice for patients who need it.

2.4.5 Practice activities

The practice value chain is considered the most important sector in the industry value-chain activity. Among all practice value-chain activities, 99 percent of the physicians interviewed believed that the development of human resources in the practice as the most important, followed by any activities associated with contact with patients. Many physicians expressed that they spent more time on the relatives of the patients than with the patients themselves. At the other extreme, some physicians spend a hefty amount decorating their clinics to make it comfortable for the waiting patients and their relatives, and to form a good impression in the eyes of the patients.

Most physicians gave a very low priority to inbound logistics relating to the purchase of medical consumables and drugs. Inbound logistics such as inventory management and operations such as maintenance of equipment and facilities were regarded as duties of the nurses, clerks, and receptionists.

2.5 The practice infrastructure

Most physician-owned clinics have a two-tier organisational structure to operate all primary and secondary or supporting activities. A typical private medical practice consists of the physicians supported by receptionists and nurses and sometimes headed by a senior staff. The physicians unanimously agreed that human resource management, especially in the training of staff, research and technological development, and procurement, is important in helping the business succeed.

3. Resource-based view

Once a practice’s various activities have been identified using the value chain, it is necessary to assess the practice’s capability in performing each activity. The resource-based view is grounded in the perspective that a firm’s internal environment, in terms of its resources and capabilities, is more
critical to the determination of strategic actions than is the external environment. The resource-based views suggest that a firm’s unique resources and capabilities provide the basis for a strategy. Most resource-based scholars agree that the resource of a firm is made up of the firm’s competence: its expertise or technological know-how, and its physical, human, organisational and intangible assets.

Some resource-based theorists classify a firm’s resources into three categories: physical, human and organisational capital. Others differentiate resources into tangible assets, intangible assets and organisational capabilities. There are many classifications as to what falls under the category of physical capital or tangible assets.

Dawson (2000) thinks that the resources of professional service firms, for instance, medical practices, are not fixed assets such as plants and machinery but the intangible assets of human capital, structural capital, and relationship capital. In his classification, human capital refers to the people who work for an organisation, and their skills and abilities in creating value for the organisation and its clients. Structural capital includes systems, processes, and legally protected intellectual property such as patents and organisational culture. Relationship capital includes relationships with clients, suppliers, alliance members, regulators, and other parties as well as image and reputation (Dawson 2000).

With reference to a medical practice, potential areas of a practice’s strength can come from the practice’s expertise in certain specialisations such as its reputation, or a piece of equipment that the practice has. The practice’s location, its workforce, its loyal customers are all potential sources to create an advantage. Nevertheless, not all assets or capabilities can be effective in creating an edge over rivals. A medical practice can be seen as a profile of assets which consists of its people and their skills or capabilities, as well as the service the practice provides. The internal analysis of the practice should help the practice to determine how best to manage the combination of its people, capabilities and services to align with the environment. These assets can be classified according to expertise/skills provided; physical assets (state-of-the-art equipment, facilities, location); human assets (talented workforce); practice/structural assets (system for conducting business, know-how embedded in the practice) and relationship assets (practice reputation, networking ability).

**Table 2: Classification of practice assets**

<table>
<thead>
<tr>
<th>Expertise / skill</th>
<th>Physical assets</th>
<th>Human assets</th>
<th>Practice assets</th>
<th>Relationship assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expertise</td>
<td>State-of-art equipment</td>
<td>Experienced &amp; talented workforce</td>
<td>System for conducting business</td>
<td>Practice reputation</td>
</tr>
<tr>
<td>Technological know-how</td>
<td>Attractive real estate location</td>
<td>Ability of combing assets people and processes</td>
<td>Positive work climate</td>
<td>Image</td>
</tr>
<tr>
<td></td>
<td>Facilities</td>
<td></td>
<td>Collective learning &amp; know-how embedded in the practice &amp; built up over time</td>
<td>Patients’ goodwill &amp; loyalty</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Employee loyalty</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Networks with other clinics</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Contract with health-care organisations</td>
</tr>
</tbody>
</table>
4. Composition of patients

The third area that affects a practice's capabilities vis-à-vis the environment is its patient base. The composition of the patient base plays an important role in assessing how the practice is to be affected by the managed-care environment. It also provides a useful gauge for physicians to plan their practice orientation. Patients can be categorised into fee-for-service patients and those under a capitated rate. (Capitated rates come in the form of a fixed price in Singapore, prospective payment system, based on the classification of patients into Diagnosis Related Groups (DRGs))

Under the fee-for-service category, patients can be holding corporate insurance policies or personal insurance policies. These patients may also entirely self-finance their medical bills. The capitated-rate patients are usually holders of managed-care or integrated-care policies, be they corporate or personal in nature. It is useful to find out the whether the patient base is made up of local or foreign patients; and whether they are built up from referrals or managed-care contracts and so forth. This will help the practice to fine-tune its strategy and define its niche.

4.1 Strategic orientation and composition of patient base

The practice’s assets and its value chain activities and composition of the patient base are the basis for considering the orientation of the practice. The patient base is a good gauge for identifying a market. For example, practices with a substantial amount of foreign patients can work on expanding the foreign-patient market at the expense of the capitated-rate market. Physicians who have over 90 percent of fee-for-service patients may fine-tune their market segment accordingly to benefit from it.

4.2 Select a niche

Defining a practice target market allows the practice to serve segments that match its capabilities with its distinct value-chain activities. There are three major types of practice in the Singapore market to suit the physicians' strategic intent: a fee-for-service boutique practice, characterised by quality service and a small client base; a managed-care practice aimed at serving a larger patient base at a comparatively smaller profit; and a practice which receives all kinds of paying patients.

4.2.1 A fee-for-service boutique practice

A practice targeting fee-for-service patients automatically excludes patients who pay a capitated rate. This type of practice is suitable for those who want to maintain autonomy in clinical decisions and resource allocation, and for those who like to establish a rapport with each patient. Practices that select this orientation should theoretically have a sizeable fees-for-service patient base and be able to deliver "quality" service satisfactory to this group of patients.

4.2.2 Managed care-oriented clinic

This type of practice is appropriate for physicians who want to occupy a bigger market share and build up a patient base. Those who are ready to see managed-care patients should realise that by accepting capitation, physicians are accepting responsibility for the provision of care to a population, in the belief that such care can be delivered at manageable cost with an acceptable margin of profit (Krohn 1998). The ability to handle managed-care contracts or large-volume/low-rate systems comes from the practice's ability to survive the system in terms of cash flow, manpower and time management. Strategically, a managed-care practice needs to think about networking with service providers to get referrals from them.
Running a managed care-oriented clinic in a cost-efficient and quality-driven environment has the following implications: physicians must price their professional fees at a competitive level and private providers must be in for the large-volume/small-profit kind of services provided. They must be prepared to do more with less. To respond effectively to the increasing demands of the patients under capitation rates, the physicians need a thorough working knowledge of the existing or new system. They also have to expand their range of skills so that in addition to clinical competence, they should be proficient in the art of management, delegation, negotiation, and liaison with other agencies. It is just as important for the physicians to be able to work within teams. The current trend implies a necessity to take into consideration the industry value-chain partners to ensure the smooth operation of the practice. Moreover, the practice needs a sound infrastructure with managed-care savvy and management personnel to handle the logistics problems that come with it.

4.2.3 A clinic open to all potential patients

A clinic that aims to receive all potential patients must have the properties of a managed-care ready clinic, and the strength of a clinic to maintain a fee-for-service patient base. Currently, 94 percent of the practices do not segment their market and receive all patients. For the time being, it does not pose a logistical problem for practices that have managed-care patients beyond 10 percent. Some general practitioners and specialists cautioned that it is essential to define market segments; such segmentation will have implications on time, resource allocation, and practice set-up, which will affect the revenue received.

5. Financial status

The financial status of a practice and its physician(s) determines, to an extent, the strategic orientation of the practice. A sound cash flow will help practices that are affected by the change to prospective package-price. Practices with financial resources may invest in high-technique medical equipment to enhance the practice competitiveness. Some practitioners finance their clinic overheads with other resources, and hence have a greater freedom in the way they operate their practices.

The increase in the number of competitors does not affect practices that have established their patient bases, reputations and financial status. Those with strong financial backup are equally not affected by the decrease in revenue received. This may account for the fact that intense competition hit some practices harder than others.

6. Determine the practice orientation

The central thrust of choosing a strategic orientation is to aim towards building and strengthening a practice's long-term competitive position in the market. This strategic orientation should allow the practice to best defend itself against the relevant competitive forces in industry and influence them in the practice's favour. Physicians can assess whether the practice/physician faces severe competition in the years ahead, loses its autonomy or its patients, or benefits from the new rulings and changes.

The strategy chosen not only reflects specific issues facing the practice's business but also the physician's evaluation of changes in the industry. The physician's value, his philosophical beliefs and practices can influence his strategic moves. He can work toward maintaining the practice’s market share or sustaining business, increase the market share, or even bypass the managed-care system. These orientations need not be exclusive to one another. A practice may want to increase market share
and at the same time retain autonomy in planning and resource allocation.

6.1.1 Market orientation: Sustaining market share
Maintaining market share is the cornerstone of keeping the practice alive. The private practitioners with in-patients have a way of calculating market share. They interpret their market share as the percentage of the total number of the same type of cases performed in private hospitals. These physicians maintained that days when physicians only see a few patients are over. The more competitive market and the more informed patients make it difficult to rely on a few fee-paying patients. Maintaining a certain share of the market is the only way to have a guaranteed source of income.

To sustain market share does not mean maintaining the status quo for the practice. The ability to keep the existing volume of patients in today’s changing competitive landscape means accepting the changing rules of the game: that at present, delivering quality and efficient service at capitated rates is the means to survive and that networking is the means to expand one's patient base. It also reflects the practice’s or the physician's acceptance that a new competitive landscape has emerged. This landscape challenges those responsible for making strategic decisions to adopt a new mindset in response to patients’ needs, economic trends, and new regulatory requirements.

Furthermore, physicians have to protect their existing patient lists from the activities of their immediate competitors by ensuring that their current patients are satisfied with the service they receive. At the same time, physicians should develop the ability to acquire new patients to keep a constant renewal of patients. The physicians' perception that each practice is idiosyncratic and its relationship with patients is unique notwithstanding, benchmarking with competitors allows one's practice to be compatible and competitive.

6.1.2 Increasing market share/revenue
A practice will not be able to increase its market share without sustaining its patients and it can only do so by increasing its patient base and buyers of medical service. From the management point of view, a practice needs competitive advantage to win the competitive game. Competitive advantage is a "firm-specific advantage" -- a firm that does or possesses it has an edge against competitors and allows a firm to earn higher-than-average profits (Schnaars 1991). It can be an established brand name that connotes premium quality in a particular product category. It can be looked upon as "anything that favourably distinguishes a firm or its products or service from those of its competitors in the eyes of its customers or end-users" (Fahey 1989). The value-chain analysis and an evaluation of the practice's assets provide the basis to source a competitive advantage for the practice. A stand-alone activity or a combination of different activities from the practice value chain and the practice core competence may therefore generate many routes to competitive advantage. For instance, the practice can generate new skills and capabilities through cooperation and strategic alliances with its downstream partners and even its rivals. A review of the subjects' practice value-chain analysis and the source shows that resources, capabilities and activities that serve as a source of competitive advantage for practices are capability-related advantage and networking-related advantage.

6.1.3 Bypassing managed care
Eighty-two percent of the physicians are not keen to be part of the managed health care system. Besides the difference in professional fees received, the practice has to handle more administrative work with a managed-care patient. The professional fees
physicians received were so nomimal that it was not worth their logistics to bill the managed-care organisations. Physicians who enjoy the autonomy and independence of running their own practices have to focus on fee-for-service patients.

7. Strategic intent and physician’s preference

If one expects physicians to act solely on an management-oriented external-and-internal environment analysis of the practice, one is assuming that physicians are management-savvy, business-oriented operators with a profit motive who understand the dynamics of the market and competition as well as the consequences of their own strategies. Conversely, the private practitioners interviewed agreed that despite keen competition and their interest to sustain business, not all of them were inclined to lose the independence or autonomy by networking with preferred-provider organisations that monitor their clinical decisions. Nor were they willing to be part of any contractual hospital-physician alliance, which may deprive them of too much of their time. To increase the volume of business at the expense of time and independence was not the intent of many physicians.

In the practising life of the private practitioners, the strategy or the orientation of the practice very often is determined by how the physicians view success. When physicians were asked how they define success, many physicians mentioned that the feeling of success came from their patients. The majority held the opinion that a successful physician is one who can satisfy patients with the service provided; who can cure the patients; who is able to sustain business; who can expand, and if possible, occupy market share. Others maintained that success means a good reputation, which will in turn generate patient referrals. Being ethical and professional, to have patients coming back, and to be able to make money are also mentioned as definitions of success.

Burke et al. (1987) pointed out that in an owner-controlled firm, there is a trade-off for the owner between profits earned and leisure time spent on the golf course. The owner generally will not strive for maximum attainable profits as defined by economists. Success was also looked upon as peer recognition and having time and facilities at one's disposal. A minority of physicians believed that a successful physician can help improve patients’ quality of life. Success was also defined as a challenge to surpass what the present can offer in curing diseases. Different physicians defined success differently and the survey conducted indicates that success can be categorised as (1) rewards in terms of monetary gain; (2) recognition/reputation in the form of patients’ and physicians’ referral; and (3) achievement in terms of cure rate and breakthroughs in the clinical part of procedures. Those who believe in autonomy and independence think they are running their practices to fulfill their original intention to be in the private sector.

Table 3: Physician’s definition of success

<table>
<thead>
<tr>
<th>Definition of success</th>
<th>Recognition</th>
<th>Rewards</th>
<th>Achievement</th>
<th>Autonomy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Referral</td>
<td>Monetary Gain</td>
<td>Cure Rate</td>
<td>No surveillance Make own decision</td>
</tr>
<tr>
<td>Assets/ skills</td>
<td>Reputation</td>
<td>Research</td>
<td>Research</td>
<td>Fee-for-service patients Capabilities to build up a niche Networking with physicians for referral</td>
</tr>
<tr>
<td>Expertise</td>
<td>Patients</td>
<td>Research</td>
<td>Patients</td>
<td>Fee-for-service patients Capabilities to build up a niche Networking with physicians for referral</td>
</tr>
<tr>
<td>Capabilities</td>
<td>Networking with potential service buyers</td>
<td>Capabilities</td>
<td>Physicians' Recognition</td>
<td></td>
</tr>
<tr>
<td>Integrity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Networking</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
8. Significance of findings

This paper presents a framework using Porter’s five-force model as a basis to highlight the industrial changes that private practitioners are facing in Singapore. The framework indicates three possible impacts the environment may have on private practices: a more intensified competition based on cost, quality and efficiency; the number of patients, hence the revenue received; and the degree of autonomy physicians enjoy because of the introduction of the third-party intermediaries. The physicians are then challenged to evaluate the impact of the environment on the practice by evaluating the practice’s patient base, value-chain activities and assets as well as its financial status. The results of the evaluation would point toward a logical direction to determine the practice orientation, increase market share and revenue, or just to sustain business and market share considering whether to bypass the capitation-market network. The framework is detailed in Figure 1.

**Environmental changes:**

<table>
<thead>
<tr>
<th>Competition based on:</th>
<th>Cost</th>
<th>Quality</th>
<th>Efficiency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lose autonomy to third party, healthcare organisation, in planning &amp; decision in package-price cases</td>
<td>Affect volume of patients/revenue received</td>
<td>Competition</td>
<td>Keen competition, lose Competitiveness</td>
</tr>
</tbody>
</table>

**Patient Base**

<table>
<thead>
<tr>
<th>Source of patients</th>
<th>Upstream</th>
<th>Practice</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Type of patients</th>
<th>Downstream</th>
<th>End-user</th>
</tr>
</thead>
</table>

**Value Chain Activities**

<table>
<thead>
<tr>
<th>Human Assets</th>
<th>Relationship Assets</th>
</tr>
</thead>
</table>

**Practice Assets**

| Resources to sustain the upkeep of the clinic |

**Financial Status**

**Respond to environmental threats / opportunities**

Increase market share
- Networking with 3rd party co., service providers, patients
- Market the practice
- Join managed care organisations
- Introduce new technology/equipment
- Strengthening capabilities/competence
- Reconfigure service orientation to suit consumers/patients
- Diversify

Maintain market share:
- High professional capabilities
- Maintain competitiveness by:
  - Improving cost, quality of service
  - Managed Care, Coalition ready
  - Networking with industry partners
  - Reconfigure service orientation to suit consumers/patients
  - Networking with 3rd party co.
  - Widening scope of service/business
  - Marketing

Maintain Autonomy
- Maintain fee-for-profit patients:
  - Expand scope of business
  - Networking with non-managed-care organisations

**Boutique Practice**

<table>
<thead>
<tr>
<th>Small client base, fee-for-service</th>
<th>Large volume, lower rate</th>
<th>Aim to build up volume of patient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus on quality of service</td>
<td>Efficiency, quality, cost</td>
<td>Cost, quality, efficiency</td>
</tr>
</tbody>
</table>

**Managed Care**

**Practice for All**

**Recognition**

<table>
<thead>
<tr>
<th>Expertise</th>
<th>Capabilities</th>
<th>Referral</th>
<th>Achievement</th>
<th>Autonomy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patients</td>
<td>Capabilities</td>
<td>Networking</td>
<td>Research Capabilities</td>
<td>Independent practice</td>
</tr>
<tr>
<td>Capabilities</td>
<td>Networking</td>
<td>Reputation</td>
<td>Patients and physicians’ recognition</td>
<td>Create a niche</td>
</tr>
<tr>
<td>Reputation</td>
<td>Networking</td>
<td>Reputation</td>
<td>Research Capabilities</td>
<td>Independent practice</td>
</tr>
<tr>
<td>Networking</td>
<td>Patients</td>
<td>Capabilities</td>
<td>Networking</td>
<td>Create a niche</td>
</tr>
</tbody>
</table>

**Figure1: Framework for sustaining success**
Before physicians consider the overall strategic orientation to match the practice’s capability, physicians are asked to consider their career aspirations before they define a niche in sustaining the practice. In the owner-controlled firm, where the physician is the organisation and vice-versa, there is a trade-off between profits earned and leisure time, and physicians generally will not strive for maximum attainable profits as defined by economists (Burke et al. 1987).

In looking at the framework, there are some common traits present in the three strategic orientations. All the findings show that the managed care-oriented environment has generated a process of medical-care delivery in the Singapore private sector which is driven by human capital emphasising professional competence and efficiency, and relationship capital which focuses on referral and recommendation. The findings rated practice activities associated with relationship and image building and human resource training the most important value-chain activities. In the delivery of professional-specific services, it is not uncommon for the medical practitioner to act independently of suppliers of other services and goods. In medical consultation where the client lacks the knowledge regarding the service needed from the providers, the client is significantly more dependent on referral and word-of-mouth recommendation in selecting a physician.

Physicians, patients and administrators from health-management organisations all agreed that the physicians’ capabilities, their relationship with the patients and other colleagues are important assets. This professional competence and expertise becomes the backbone of his/her relationship capital. These two complementary assets, which are advantages unique to the physicians as professionals, enable the practice to build up its patient base, reputation and revenue, which in turn allow the physician or the practice the freedom of choice and the flexibility to respond to the environmental threats in various ways.

References


Appendix A

Table A1: Average composition of patients of private general practitioners

<table>
<thead>
<tr>
<th>Years in private practice/type of professional fees</th>
<th>Fees-for-service self finance</th>
<th>Capitated rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>G. P &gt; 10 yrs</td>
<td>77%</td>
<td>13%</td>
</tr>
<tr>
<td>G. P 6-10 yrs</td>
<td>68%</td>
<td>32%</td>
</tr>
<tr>
<td>G. P &lt; 6 yrs</td>
<td>31%</td>
<td>67%</td>
</tr>
</tbody>
</table>

Table A2: Physicians' inter-practice relationships

<table>
<thead>
<tr>
<th>Practice</th>
<th>Perceived Relationship with Competitors</th>
<th>Contractual Relations with Managed Care Organisation</th>
<th>Contractual Relation with industry partners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physicians with 6-10 Years</td>
<td>-Cooperative 12/19  -Competitive &amp; Threatening 7/19  -Both cooperative &amp; Competitive 10/19 *</td>
<td>10/19</td>
<td>Upstream 0/19  Downstream 0/19</td>
</tr>
<tr>
<td>Less than 5 years</td>
<td>-Cooperative 2/11  -Competitive &amp; Threatening 9/11  -Cooperative &amp; Competitive 3/11*</td>
<td>4/11</td>
<td>Upstream 0/11  Downstream 0/11</td>
</tr>
</tbody>
</table>

* some physicians gave more than one reason

Table A3: Trend in volume of patients from 1995-2000

<table>
<thead>
<tr>
<th>Physicians</th>
<th>Increase in volume of patients</th>
<th>Decrease in volume of patients</th>
<th>Patient base not affected</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5 (18%)</td>
<td>22 (77%)</td>
<td>3 (5%)</td>
</tr>
</tbody>
</table>

Table A3.1 Reasons for the decline in the number of patients

<table>
<thead>
<tr>
<th>Reasons for Decline of Business</th>
<th>Physicians</th>
<th>12/22 doctors</th>
</tr>
</thead>
<tbody>
<tr>
<td>More new comers</td>
<td>1/22</td>
<td>1/22</td>
</tr>
<tr>
<td>Seek alternative / substitute</td>
<td>7/22</td>
<td>7/22</td>
</tr>
<tr>
<td>Patients resort to public sector physicians</td>
<td>13/22*</td>
<td>13/22*</td>
</tr>
<tr>
<td>Fewer foreign patients</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* some physicians gave more than one reason

Table A4: The importance of maintaining relationships with industry practice

<table>
<thead>
<tr>
<th>Practice</th>
<th>Upstream Partners</th>
<th>Downstream</th>
<th>End-user: patients</th>
<th>MCO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physicians with 6-10 Years</td>
<td>Not important 19/19</td>
<td>Not important 19/19</td>
<td>Not Important 10/19</td>
<td>Not Important 2/19</td>
</tr>
<tr>
<td>Less than 5 years</td>
<td>10/11 not important</td>
<td>10/11 not important</td>
<td>3/11 not important 8/11 important</td>
<td>important 8/11 not important 3/11</td>
</tr>
</tbody>
</table>