



## THE POSSIBILITIES OF INCREASING THE COMPETITIVENESS IN HEALTH CARE INDUSTRY

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**Abstract.** The main indicators of the health care industry in Latvia do not show competitive results in comparing with other European countries. What kind of indicators are important in evaluating health care industry's development and market structure, what are the causes and effects, this is essential theme. Topical is to do research on how the theory research of competitiveness in combining with a health care industry's analysis research can indicate the possibilities of increasing the competitiveness in health care industry in Latvia.

Aim of the research is by doing the research of competitiveness theoretical aspects and health care industry's analysis to indicate the possibilities of increasing the competitiveness in health care industry in Latvia.

In order to achieve the research aim, qualitative and quantitative research methods are used. The competition environment of private health care sector is researched. The research base constitutes of private health care companies of Latvia that provide with ambulatory services.

Main results and findings show the necessity of change in health care industry by focusing on the value for patients. The main health care industry's indicators of Latvia are below the average of European countries. Latvian private health care companies are taking into consideration only few main indicators influencing the company's competitiveness, but it is important to evaluate factors which are significant for patients. These conditions require companies to think about continuous improvements and development. Private health care companies in Latvia do not have united standards with criteria indicating how to recognize the better services and how to compare them.

**Key words:** *competitiveness, companies, strategy, health care, market structure*

**JEL code:** I110, L190

### Introduction

One of the government responsibilities is to provide its inhabitants with available health care services, but the financial fund for health care services per one inhabitant in Latvia is one of the smallest in European Union and this does not stimulate the development of the health care industry of Latvia.

In the framework of current health care budget, the state is able to provide health care services, covered by state funding, in a limited amount despite the structural reforms in industry when optimization events occurred. So the health care system in Latvia does not work effectively enough and is not so

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patient centric as it used to be. One part of patients have no choice as to pay for health care services by themselves. According to this, private health care sector has a significant role.

The main indicators of the health care industry in Latvia do not show competitive results in comparing with other European countries. What kind of indicators are important in evaluating health care industry's development and market structure, what are the causes and effects, this is essential theme.

Topical is to do research on how the theory research of competitiveness and health care company strategy in combining with a health care industry's analysis research can indicate the possibilities of increasing the competitiveness in health care industry in Latvia.

During recent years, the demand for private health care services in Latvia has not been growing because of the decreased population and low solvency. The number of health care companies has increased in the result of hospital restructuring and changes in system so that the patients have been redistributed among the companies.

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In order to analyse the competitiveness and health care industry of Latvia different author works and institution data are researched. The novelty of the theme is to look at factors which are important for patients.

The private health care companies are dealing with difficulties because of too dynamic changes in environment when they are not able to balance their capabilities with change in insufficient demand. This all increases the competition for private health care companies and they need to tailor to this changing environment and should think strategically smarter to compete in a longer run. The focus on patient's needs and factors that are more valuable for patients can be also a key to competitiveness improvements.

## Competitiveness in health care industry

In order to be competitive in the market, the factors influencing competitiveness should be analysed and the company which is able to balance its capabilities in the market can be more competitive. Competition promotes new solutions, values. Every private health care company is involved in competition environment, some are more, some less, but the approaches that companies use to be better in the market and be more competitive are different. Health care organizations started to use strategic management concepts only for the past 25 to 30 years (Swayne, Duncan, Ginter, 2006) and lots of the methods adopted by health care companies were developed in the business sector.

The competition fundamentally is a mechanism (Oļevskis, 2007) that transforms the seller and buyer's chaotic interaction into an arranged process and determines productivity of commercial activity. Competition also puts companies to work for products and services at better price. Competitiveness can be defined as an ability to compete in a certain market, ability to compete for beneficial conditions. Patient's choice can be an important contribution to company's competitive advantage.

According to authors (Fornaciari, Callens, 2012) the competition rules can maximise the consumer welfare by promoting efficient use of resource. As well as promoting high output, low price, different services, high quality, innovation etc.

Health is an important investment and driver for development, and important results of the development. Investment in healthcare is crucial to successful development of modern societies (World Health Organization, 2011).



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Through measuring financial, human and technical resources (European Commission, 2011), the healthcare providers can combine these data with managerial choices, it is possible to assess and measure the performance of healthcare providers and the whole system.

The authors (Does, Niemeijer, Heuvel, 2013) indicate that health care quality performance indicators are inadequate to inform the public to make the right choices in Netherlands. This shows the importance of the health care questions globally.

Globally the health care industry systems are not very successful because of the increasing costs in the industry. The speed of information turnover and social network channels has created an environment where patient knows more about health care processes and has a wider choice of health care providers. This emphasizes the patient's centric role in the composition of health care industry's competition environment.

The authors (Porter, Teisberg, 2006) in United States of America have come to fact that in order to reform the health care, the competition in the field itself needs to be reformed first. In order to reform the competition, first of all the strategies should be transformed, pricing approaches and measurement practises. They have also shown that value based competition in health care industry has a significant impact, because improves the value to customers.

The core aim of the new European health policy (World Health Organization, 2011) – Health 2020 – is to promote and strengthen the innovative ways of working across the sector and agency boundaries for health and well-being. The leading professor of competitive strategy Michael E. Porter and Professor Elizabeth O. Teisberg have stressed the importance of value based competition and value of health care delivered.

In 21<sup>st</sup> century medical technology is often delivered with 19<sup>th</sup> century organization structures (Porter M. E., 2011), management practices, there should be taken into account that creating positive-sum competition on value is integral to health care reform in every country.

The recent findings show that despite the fact that health level is improving globally; there still are relevant inequalities between the regions. This indicates the incompleteness in health care systems and inefficient use of the available resources and knowledge. Health care system ought to be adjusted to the changing environment, the increasing uncertainty, the social and demographic factors, as well as to changes in the value system.

Power and authority in health care is not concentrated in the hand of government alone (World Health Organization, 2011), because health is the responsibility of the whole society and all market players who have a critical role in governance for health.

The future trend shows (OECD, 2011) that the extent to which public spending on health may be affected will depend on the relative priority allocated to health and demonstrated benefits in terms of better health outcomes, there will be growing pressures on health institutions and health care providers to demonstrate efficiency how the resources are allocated and spent.

Further, the activities of private health care companies that contribute significantly to the health care system are more reflected, because they are adding value by measuring the progress of their activity, by investing in technologies, by implementing innovation, by improving their efficiency, patient satisfaction level, and overall performance through competing for better position in the market. This may lead to improvements of health care system and well-being.

In the situation when the available resources for company growth and development are limited, health care companies should try to use their limited resources in a more efficient way. That is why managers should try to find new and better ways of analysing their company and to come to solutions. However, measuring the performance is a complex process, not only in the health care system, but also in a health care company. Patient is not only the company's contribution but also the result of this process. One of the ways to provide benefits to patient's health is through focusing on values that are important for patients.



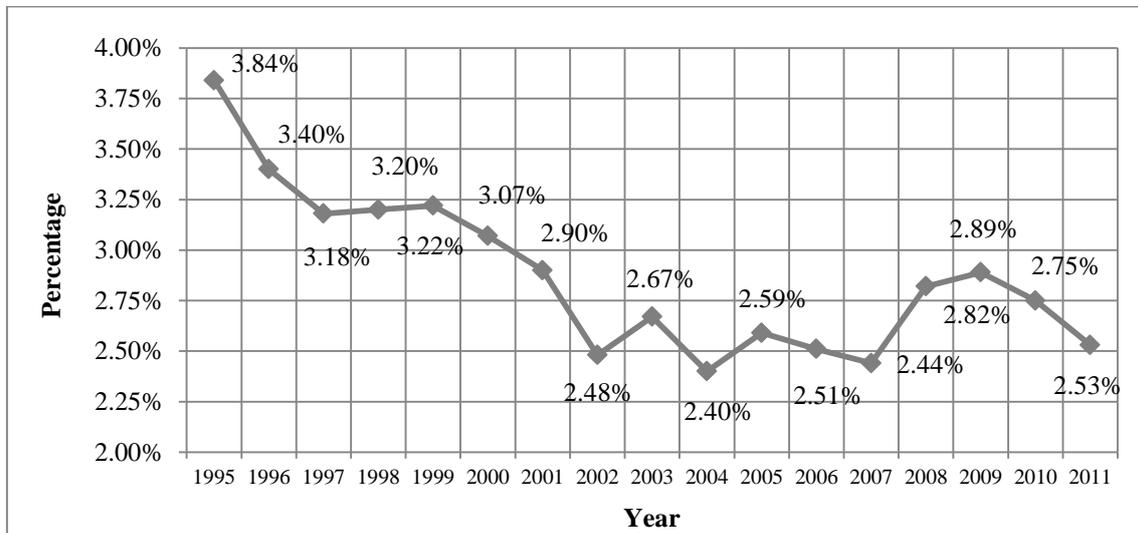
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The entrance and exit of the Latvian health care market is not completely free due to special knowledge, education, training, specialized licence. The demand in health care industry in general can be described as inflexible, because a patient does not have a very wide spectrum of choice for the price level. Furthermore, in the case of health problems there usually are no alternative solutions or substitute services in health care, because not all health care companies can provide the necessary type of service. There will be always question how worthy is the health and appropriate health care service.

According to Global Competitiveness index 2012-2013 (World Economic Forum, 2012), based on its 4<sup>th</sup> pillar Health and Primary education, Latvia is ranked as 48<sup>th</sup> among 144 economies by infant mortality, deaths / 1 000 live births, but according to life expectancy Latvia is ranked as 70<sup>th</sup>. These figures indicate the necessity of improvements in health care. According to Euro Health Consumer index 2012 (Health Consumer Powerhouse, 2012) according to special indicators in each 5 sub-discipline category: patient rights and information, waiting time for treatment, outcomes, range and reach of services, and pharmaceuticals, Latvia is ranked as the 31<sup>st</sup> among 34 countries. The results can be evaluated negatively because in this list only Romania, Bulgaria and Serbia have worse results. The results show that there is not sufficient orientation towards satisfaction of patient's needs. In comparison Lithuania and Estonia rank respectively the 26<sup>th</sup> and 18<sup>th</sup>. These figures do not indicate that Latvian health care industry is strong in comparison with other countries.

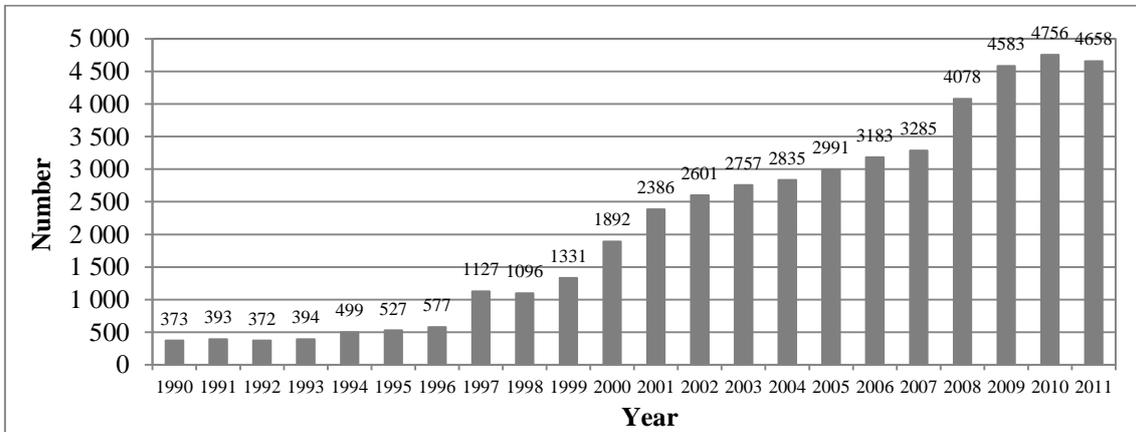
The Figure 1. shows the weight of human health and social work gross domestic product of Latvia, as it can be seen the human health and social work gross domestic weight has decreasing tendency from the period of 1995 to 2011 which can be explained with the government priorities, structural reforms, budget and other related factors.



Source: author's calculation based on GDP data at current prices of Central Statistical Bureau of Latvia

Fig. 1. **Gross Domestic Product of Human Health and Social Work at Current Prices in Latvia from 1995-2011, Weight in %**

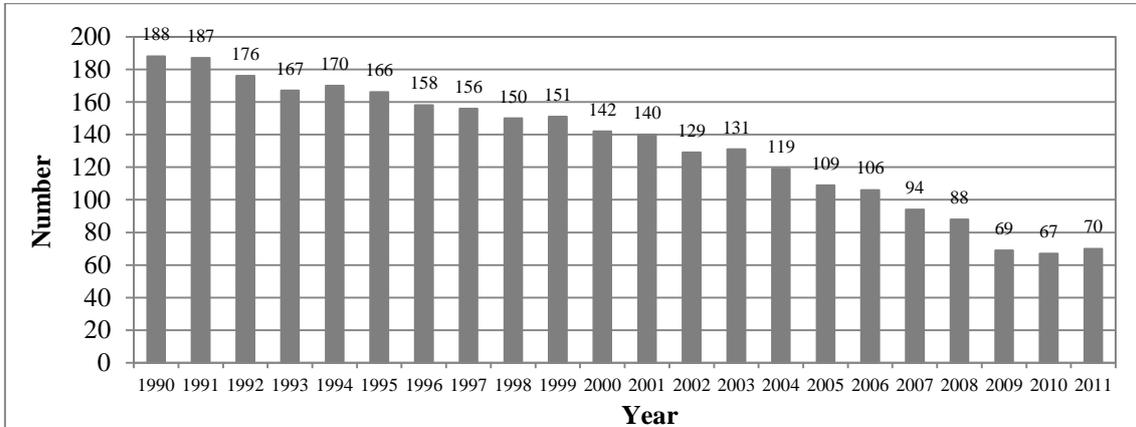
The number of health care institutions providing outpatient services in Latvia has increasing tendency and this also reflects the private health care sector development. The situation is reflected in Figure 2.



Source: author's construction based on data of Central Statistical Bureau of Latvia

**Fig. 2. The Number of Health Care Institutions Providing Outpatient Services – Total in Latvia from the 1990-2011**

The number of hospitals in Latvia during the years of 1990-2011 has decreasing tendency due to structural reforms in health care industry. The results can be viewed in Figure 3.



Source: author's construction based on data of Central Statistical Bureau of Latvia

**Fig. 3. The Number of Hospitals in Latvia from the 1990-2011**

According to Pearson Correlation coefficient there is close relationship between the number of hospitals in Figure 3 and the number of health care institutions providing outpatient services – total in Figure 2, because the correlation coefficient between them is minus 0.979982154 at a close range to minus 1, which means negative correlation when increase in one variable results in decrease in another variable. This allows to make conclusion that the number of health care institutions providing outpatient services increased due to hospital restructuring in Latvia and this also developed the private health care company sector in Latvia. As a result the competition in private health care sector intensified and this has influenced the whole competition environment of health care industry in Latvia.



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As a result, it can be concluded that the development stage of Latvian health care system falls behind the average development of health systems in other European countries. The growth rate is slow in the industry and health care service availability is not provided in the highest quality in the whole country. Although, it should be also mentioned that while using the limited funding that health care has in Latvia in comparison with other European countries, the health care industry operates positively.

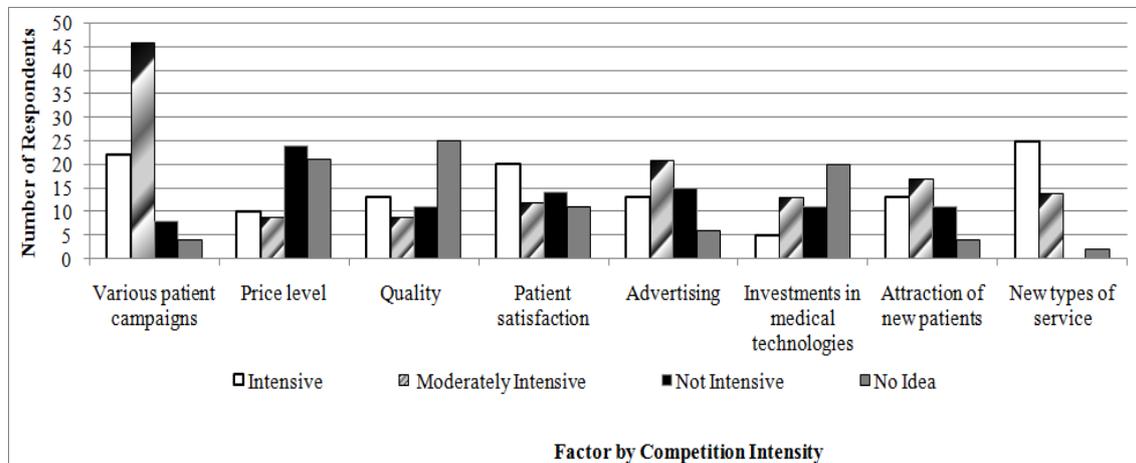
The author came to conclusion that factors that influence health care industry are related with economic situation effects, the number of competitors, the influence on price policy, patient solvency, patients' information level about health care providers, services.

In conclusion, level of development in health care industry in Latvia cannot be evaluated positively, but increase of the competition pressure has indicated improvement and this shows perspective in health care sector in the future.

In order to find out the important factors influencing competitiveness from the perspective of private health care company's patient, the survey has been carried out. The aim was to find out factors what are more important in choosing the private health care company from the patient point of view.

The majority of patients evaluate the private health care sector competition in Latvia as intensive 26% and moderately intensive 32%, however 23% of the respondents reply that in their opinion, there is no intensive competition. This can be explained by subjective factors, because patients are interested in more intensive competition due to possible competition benefits provided. 19% have no idea about the competition intensity.

The results of Figure 4. reflect what are those factors that allow making conclusions about the competition level in industry. The most often marked factor is various campaigns for patients. The second most answered factor is price level and the third is quality. Those respondents who answered that in health care industry the competition is intensive also think that new types of services in the industry can be a factor that influences the competition.



Source: author's calculations based on survey data by the author

Fig. 4. Factors Influencing Private Health Care Industry's Competition Level in Latvia from the Patient Point of View

When categorizing factors in four groups, the survey results, reflected in Table 1, disclose that the first priority from the patient point of view in evaluating financial factors is for profitability ratios, the second priority to net turnover, from internal organization patients mostly appreciate medical equipment and technical support and interest in providing qualitative service. The priority from personnel learning and



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growth is for personnel educational level and precise identification of patient's problem, but as the second priority is availability of health care services.

Table 1

## The Most Important Factors of Competitiveness Divided by the Balanced Scorecard Group

Group	First Priority	Second Priority
Financial	Profitability ratios	Net turnover
Internal Organization	Medical equipment and technical support	Interest to provide qualitative health care service for patient
Personnel Learning and Growth	Personnel education, qualification level	Investments in staff training and development
Customer Relationship	Precise identification of patients' problems	Availability of health care services

Source: author's calculations based on survey data by the author

Finally, by focusing on factors which are significant for patients, the health care companies can increase their competitiveness due to better value giving for patients and this can lead to higher competitiveness of the health care industry.

## Conclusions, proposals, recommendations

1. The necessity of change in health care industry is needed. The focus should be on the value for patients, for instance, their needs, factors that are important for them in order to improve their health.
2. The speed of information turnover and social network channels have created an environment where patient knows more about the health care processes and has a wider choice of health care providers. These are aspects that intensified the competition between the market players.
3. The Latvian health care industry's indicators do not show very competitive results in comparison with other European countries.
4. The number of health care institutions providing outpatient services in Latvia increased due to hospital restructuring in Latvia and this also developed the private health care company sector in Latvia. As a result the competition in private health care sector intensified and this has influenced the whole competition environment of health care industry in Latvia.
5. Important factors influencing health care company's competitiveness are related with precise identification of patients' problems, availability of health care services, personnel education, qualification level, investments in staff training and development, medical equipment and technical support, interest to provide qualitative health care service for patient, profitability ratios, net turnover according to patient point of view.
6. Health care companies should regularly carry out surveys about factors which are significant for patients in order to find out aspects that are important for patients.
7. It is recommended for health care companies to evaluate factors which are significant for patients and focus on them. This can increase the patient flow to health care company as well the competitiveness of the health care company and lead to higher competitiveness of the health care industry.
8. Through concentrating to factors which are more important for patients also the criteria's of how to recognize the better services and how to compare them can be pointed out. These criteria can be used when evaluating health care providers.



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