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Premises and Economic Efficiency of Commercialisation of Public Hospitals

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Indebtedness of public healthcare providers, particularly hospitals, has been one of the crucial problems faced by the Polish healthcare system from the onset of the system transformation. Over the years, a number of measures have been taken with the aim of changing this situation, i.e. improving the financial efficiency of public hospitals, with particular emphasis on achieving operational profitability and capability to independently and timely pay the amounts due by such entities to their creditors. In the 1990s, such efforts focused primarily on hospital debt repayment, but they did not lead to elimination of the underlying causes of their adverse financial situation. In subsequent stages of the restructuring procedures, attention was paid to inadequate management of hospitals, and it became increasingly more obvious that the defective legal structure of independent public healthcare establishment [*samodzielny publiczny zakład opieki zdrowotnej - SPZOZ*] under which majority of hospitals operated was largely the cause of non-rational management of resources by such entities. Criticism of said legal form has led to a conviction that the only solution to the problem of indebtedness was to radically change the legal status of such entities, i.e. to carry out their commercialisation by transforming them into companies operating under the commercial law, as this was a structure which had long been used in the economy, featuring a number of organisational advantages when compared to SPZOZ. However, the available professional literature and hitherto effects of the public hospital commercialisation indicate that this type of restructuring has not brought the expected results and the transformation itself, albeit offering a number of opportunities and implementing a stricter and more rigid financial policy for the commercialised entities, is not an effective solution of the problem of non-profitability of hospitals.

The purpose of this dissertation is to develop and verify a model of economic efficiency of commercialised public hospitals. The research problem is to identify the conditions for changes of the financial and economic performance of said healthcare providers with regard to the fact of transformation of an entity operating as SPZOZ into a capital company, and assessment of the effectiveness of the mechanism of transformation as a stimulator of

activities which lead to a more rational cost policy and more effective use of resources of the healthcare provider, as well as increased possibilities of generating revenue offered by the new legal form.

The dissertation relies on financial data obtained from 17 public hospitals transformed into commercial law companies in the period of 2012-2013. The financial data were sourced from the financial statements of said entities and databases such as the National Court Register and EMIS (Emerging Market Information Service). A detailed financial analysis of the analysed entities was made, in particular taking into account their assets, capitals, financing structures, as well as revenues, costs and financial results in the context of the changed legal form. Additionally, to evaluate the financial condition of analysed hospitals before commercialisation and afterwards, a model based on the financial ratios developed by the Ministry of Health was used, additionally taking into account ratios for the entire healthcare sector, which formed a kind of benchmark for the entities being analysed.

Achievement of the primary goal was preceded by accomplishment of the following partial goals:

1. Identification of the prerequisites for commercialisation of public hospitals.
2. Evaluation of the economic efficiency of commercialised hospitals.
3. Development of recommendations for public authorities and founding bodies of public hospitals regarding more efficient use of the resources owned by said entities.

The dissertation presents two research hypotheses, the outcome of which, using theoretical methods of financial analysis and practical verification, determines the reasonableness and accomplishment of the primary objective. These are as follows:

1. Commercialisation of public hospitals affects their economic efficiency.
2. Commercialisation of public hospitals leads to their operational and financial restructuring.

The dissertation is of theoretical and practical nature, it relies on certain aspects of corporate finance, financial analysis and management, and one of its tools consists of the guidelines on evaluation of financial performance of independent public healthcare establishments prepared by the Ministry of Health.

The dissertation consists of five chapters. Chapter one delineates the problems and specificity of the Polish healthcare system. It presents the historical background of the healthcare system and its evolution. The sources of financing medical services in Poland were described and the organisational and legal conditions for operation of healthcare providers were defined, taking into account the most important legislation. Also, the structure of service

providers operating on the healthcare market was presented broken down into the form of ownership, i.e. public and private entities. Additionally, the influence of the economic and legal environment on the financial situation of public healthcare providers was described.

Chapter two presents an analysis of the public debt of public hospitals in Poland and defines the causes thereof, including the lack of profitability. Factors which affect the profitability of a public hospital were characterised in view of the specific system adopted in Poland. Next, the Polish hospitals' debt was described in detail, including the structure of their liabilities. Additionally, barriers resulting from legal and organisational solutions were defined, which may limit the efficiency of measures intended to improve the financial situation of public healthcare establishments.

Chapter three contains a detailed description of corrective and restructuring measures within Polish public hospitals. To start with, the notions of restructuring, commercialisation and privatisation were defined in the context of SPZOZ and the difference between them was emphasised. Next, the course of aid measures, measures aimed at debt repayment and restructuring was described, broken down into the following periods: 1990-2009, 2009-2011 and the period after 2011. The detailed legal solutions were described and so was the evolution of the approach to ownership changes and corrective measures taken in this respect. The chapter also presents the results of pro-efficiency efforts made in said periods with respect to Polish hospitals, and a review is made of other countries' experience in this regard.

Chapter four is a practical assessment of the effectiveness of commercialisation of 17 hospitals - independent public healthcare establishments transformed into commercial law companies under the act on healthcare activity. The scope of the analysis also includes such economic and financial aspects of the analysed hospitals as the assets they own, their capital, revenues, costs, financial result. A detailed analysis was made of each of the asset and capital, as well as elements which affect the financial result depending on the legal form - to this end, nominal values and average values of financial data were examined over the period of three years preceding commercialisation and three years following commercialisation of such entities. Additionally, the above financial data were juxtaposed over a time span of several years until 2018 so as to estimate the durability and stability of the improved financial situation of hospitals which operate as companies.

Chapter five is an attempt at creation of a synthetic model for assessment of the financial situation of the analysed hospitals with account being taken of the criteria adopted by the Minister of Health. It was assumed that the ratios developed by the Ministry of Health and the desirable values thereof are a reliable tool which may be used comprehensively, while also

being relatively simple and accessible to determine the financial condition of public healthcare providers. In this chapter an analysis is presented of several aspects of the financial situation of the analysed hospitals such as net profit margin, operating profit margin, return on assets, financial liquidity - current and quick ratios, receivable and liability turnover ratio, and debt. The data were additionally compared with the results of the entire healthcare sector. As the above model of evaluation is based on assigning a score to each ratio, the scores of the analysed entities were totalled, consequently showing the synthetic picture of effectiveness of commercialisation of the analysed hospitals in the aspect of their financial condition.

In conclusion, the dissertation presents findings of the analysis. The research hypotheses were rejected. The research findings indicate that commercialisation of public hospitals does not guarantee improvement of their financial performance, and consequently does not affect the economic efficiency of such entities. Commercialisation does not prove to be a sufficient impulse for managers of such entities or their founding bodies to implement pro-efficiency measures. There is no evidence to prove that commercialisation of public hospitals was an effective model of operational and financial restructuring. A short-term debt restructuring and a temporary improvement of the financial result may be one of the results of the transformation, but they follow primarily from the legal conditions of the commercialisation which involves provision of financial aid to the transformed entities in the form of subsidies for debt repayment. A change of the legal form may lead to an increased value of revenues, but it is not a tool of effective change of the size and structure of costs.

Transformation of independent public healthcare providers into capital companies is not a remedy for the problem of financial collapse of public hospitals in Poland. It turns out that the financial problems of such entities are not rooted in the ineffective legal form (SPZOZ) but are of a systemic nature. Therefore, it is not the legal form but proper supervision and management based on rational economic assumptions that may form the method of improvement of the financial situation of Polish public hospitals. It is not just an observation but also a recommendation for decision makers in the Polish healthcare system: it is necessary to create such conditions of financing medical services and such organisational and legal environment for the currently existing independent public healthcare establishments that would enable covering the costs of treatment with income from the services provided and that would also motivate the managers of public healthcare providers to implement real pro-efficiency measures which ensure rationalisation of the costs, while also guaranteeing adequate quality of services and their quantity sufficient to satisfy the needs of a given community.