



Unleashing the “X factor” in public sector healthcare

Creating income-generating enterprises to deliver efficiency and increased value in the health economy

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Executive summary

Public sector healthcare organizations are expected to meet their basic remit of providing healthcare for the good of the public with finite funds from the public purse. However, they are uniquely placed to offer more to the local health economy. For them to fulfill their full potential, management teams of these healthcare organizations need to consider and invest in income generation enterprises. This move can be made justifiably by adhering to key principles and following a rigorous process to select income generation ideas. By making this bold move, healthcare organizations will meet the basic expectations of public healthcare provision. They will then go on to inspire action within themselves and their local health economies to deliver increased benefits to the people they serve.

1. Income generation serves the public good

The main purpose of public sector organizations is generally considered to be serving the public good.¹ This purpose is usually contrasted with the purpose of private sector organizations – to maximize profits and shareholder value.² Although government resources are finite and the public need continues to grow, expectations on the public sector are not diminishing. Public sector organizations are still expected to provide services to a very high standard.³ This situation is particularly evident in public sector healthcare, in which demands on the system have continued to outpace investment/spending,⁴ but patients still expect healthcare services to deliver improved health outcomes.⁵ This conundrum calls for rethinking how public sector organizations should fulfill their duties.

To deliver services that meet the expectations of the people they serve, public sector healthcare organizations need to consider income-generating activities, seeing these initiatives as supportive of serving the public good. There are three reasons why income generation should be seen as a key pillar in the fulfillment of the obligation of public sector healthcare organizations; diversification of revenue sources, creation of a mind-set that pursues efficiency, and improvement of the quality of care.

Diversification of revenue sources

Governments usually generate revenue through taxation (e.g., income tax, value-added tax) and non-taxation activities (e.g., borrowing, fees, fines, investment returns, commercial activities).⁶ Although the needs of citizens continue to increase, there is usually very low appetite for increased taxation, fees, fines and sovereign debt. Investment returns are not guaranteed year on year, and commercial activities are subject to market dynamics, which can have a positive or negative impact on income. This means government funding of healthcare cannot be expected to keep up with the year-on-year increase demanded by growing needs. This concern is particularly

important, as healthcare is usually one of the biggest areas of government spending in both developed and developing countries.^{7,8} It means public sector healthcare organizations need to seek other sources of revenue to ensure they can continue to meet or exceed the expectations of the public.

Creation of a “resource optimization” mind-set

In addition to increasing the resources available, some thought has to be given to how those resources can be used more efficiently. Generation of income provides the opportunity for public sector organizations to practice resource efficiency and see the results in the return generated. It also provides the opportunity to benchmark performance versus the private sector in operational efficiency. This thinking and know-how can be spread to parts of the organization that are not tasked with income generation, to help them achieve and measure resource optimization in other ways.

Improving the quality of care

In some cases, evolution of healthcare technology can lead the public to expect much higher standards of care. For example, availability of chimeric antigen receptor therapy (CAR-T) for treatment of blood cancers has significantly improved the outcomes of qualifying patients⁹ and, without doubt, raised public expectations. Usually, public sector healthcare funding cannot keep pace with the financial investments needed to provide expensive treatments such as CAR-T therapy. In such cases, income generated by public sector healthcare bodies can be used to supplement government funding to enable patients to receive an improved quality of care that government funding alone would not be sufficient to provide.

1 Public sector management Theory, critique and practice D McKeivitt and A Lawton Pg 59
2 Agus et al. An exploratory study of service quality in the Malaysian public service sector International Journal of Quality & Reliability Management 24(2):177–190 February 2007
3 What do people want, need and expect from public services http://www.2020publicservicetrust.org/downloads/30_What_do_people_want_need_and_expect_from_public_services.pdf Accessed Sept 2019
4 Briefing: The Health and Care of Older People in England 2015 <http://www.cpa.org.uk/cpa/docs/AgeUK-Briefing-TheHealthandCareofOlderPeopleinEngland-2015.pdf> Accessed Sept 2019
5 Lateef F. Patient expectations and the paradigm shift of care in emergency medicine J Emerg Trauma Shock. 2011 Apr–Jun; 4(2): 163–167
6 Revenue (IMF) <https://www.imf.org/external/pubs/ft/gfs/manual/pdf/ch5.pdf> Accessed Sept 2019
7 UK budget 2018 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/752202/Budget_2018_red_web.pdf Accessed Sept 2019
8 A look at the key figures in Nigeria's 2019 budget <https://www.pulse.ng/bi/finance/a-look-at-the-key-figures-in-nigerias-2019-budget/yj8pvs> Accessed Sept 2019
9 CAR-T cell update: Therapy improves outcomes for patients with B-cell lymphoma <https://medicalxpress.com/news/2018-12-cart-cell-therapy-outcomes-patients.html> Accessed Sept 2019

2. Follow the income generation principles

Because income generation is a necessary pursuit, but not the core purpose of public healthcare organizations, it is important for some key principles to underpin the manner in which they pursue it. These principles will ensure that income generation remains in its rightful place as public sector healthcare organizations seek to achieve their core objectives. These principles can be grouped into three categories: (a) do no harm (b) do good (c) do better.

Do no harm

In pursuing income generation, public sector healthcare organizations should not expose themselves to harm or inordinate risk of any nature, such as financial and reputational risk. The income generation activity should be in keeping with the general ethos of the healthcare organization. In addition, the activity should not harm the ecosystem in which the healthcare organization exists. For example, the public sector healthcare organization should not act in a way that would diminish opportunities for private sector actors in a particular field. Instead, the organization should seek to fill gaps in provision and build platforms to unlock opportunities for the health economy.

Do good

Certain good standards of governance and corporate practices are expected from public sector healthcare organizations. These need to be upheld and applied to their income generation enterprises. For example, the way income generation is incentivized has to be transparent and drive behaviors that benefit both the income generation enterprise and the core operations of the organization. In addition, the enterprise should be strategically aligned with the core objectives of the healthcare organization. It must not be used to pursue divergent goals that may be interesting but do not fit with the core objectives of the organization. Furthermore, the enterprise should be integrated into the core operations as much as possible; e.g., the support functions of the core operations (HR, IT, finance, etc.) should provide the same function to the income generation unit, and income generated should be used (and seen to be used) to benefit the wider healthcare organization.

The First Health cluster in the Eastern Province (E1) is a group of 21 public sector hospitals and 130+ primary healthcare clinics in the eastern part of Saudi Arabia. E1 was formed in 2018 as part of the Ministry of Health's transformation program to separate healthcare provision from regulation. E1 provides comprehensive and integrated health services to the population of the Eastern Province and will be assessed against specific indicators. E1's objectives include enhancing health facilities, service effectiveness, service efficiency, and boosting healthcare integration and sustainability.

Income generation by the hospitals in E1 is an important consideration for the group as it works to achieve its objectives. Best-in-class principles and processes will be adopted to fully maximize the value of the hospitals in the group to the health economy of the Eastern region.

Do better

Because public sector healthcare organizations exist for the public good, income-generating enterprises should not be content to stop at income maximization. Organizations should aspire to go beyond income generation and have a bigger impact on the health economy or general population. For example, an income generation enterprise could seek a reasonable financial return on investment while increasing the overall industry standards in the space where it operates. This improvement in industry standards can serve as a new mark of excellence in the industry and inspire others in the market.

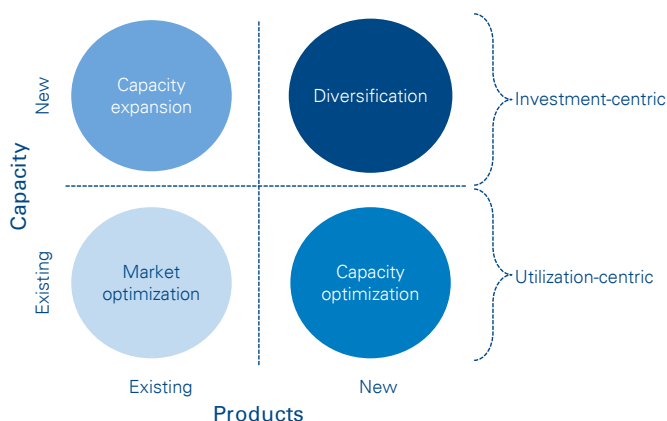
One way of ensuring that public sector healthcare organizations "do better" in their income generation activities is to insist on a broader definition of return on investment (ROI) in the business case prepared to secure investment for the income generation activity. The business case should show how the income generation activity will achieve a reasonable financial return but go further to create a broader positive impact on the health economy.

3. Generate income-producing ideas

The process of income generation usually begins with ideas that can be monetized if they pass a set assessment process. To guide the idea generation process, many tools and frameworks have been developed over the years. These tools may require some adjustments for use in the public sector because income generation is not the main goal of the public sector healthcare organization, as it would be in the private sector.

The Ansoff Matrix is arguably one of the most widely used strategic management frameworks because it is a simple and robust tool for idea generation. However, given that capacity utilization is a key element in the public sector, the matrix can be adapted to introduce this as the primary axis.

Figure 1: Ansoff Matrix adapted for the public sector



Source: Arthur D. Little analysis

This adapted matrix encompasses two dimensions that need to be considered: what products/services to offer and the capacity requirements to provide those products/services. Maximization of existing capacity requires utilization-centric ideas, while creation of new capacity requires investment-centric ideas. In this adapted model, ideas can potentially serve any of four purposes – market optimization, capacity optimization, capacity expansion, or diversification.

Market optimization

To achieve market optimization, a public sector healthcare organization could look for ideas that would generate income based on the existing product/service offerings served by the existing capacity. With products/services and capacity unchanged, the opportunities for income generation lie in either

market penetration or market development. Ideas that serve this purpose contribute to improved resource utilization (e.g., manpower, space, equipment), especially if there is excess capacity.

Capacity optimization

To achieve capacity optimization, a public sector healthcare organization could look for ideas to generate income based on new product/service offerings that could be served using existing capacity. This could be accomplished by, for example, introducing changes to existing products, offering joint programs with other organizations, or leasing idle building spaces to third parties.

Capacity expansion

Capacity expansion ideas generate income by delivering existing product/service offerings using expanded capacity. Capacity expansion is usually required with increased volume growth, increased workload, etc. As such, ideas in this category require investment in additional resources to increase capacity. Capacity expansion ideas carry more risk due to the higher required investment and potential for underutilization of capacity.

Diversification

Diversification ideas generate income by introducing new product/service offerings and acquiring new capacity/resources. This can be accomplished by, for example, acquiring a new business, forward/backward integration opportunities, and intellectual property exploration. Ideas that fall under the diversification category can open up exciting new spaces for public sector organizations. However, they also carry a high level of risk because they can lead to diversion from core strategic objectives into unfamiliar territory, and they usually require higher levels of investment.

4. Go through the assessment stage gates

Once ideas are generated, they need to be carefully assessed to ensure they fit with the strategic direction of the healthcare organization. Ideas should go through three stages (gates) of scrutiny before investment is considered: the competency test, the income generation scorecard, and the business case assessment.

Gate 1: The competency test

Public sector healthcare organizations occupy an important place in society and are trusted by the people and communities they serve. This means great care has to be taken to ensure products and services are only provided if the organization is able to offer them at the highest standards. The competence assessment framework enables the healthcare organization to thoroughly analyze an idea to make sure it can implement it. In this framework, competence refers to the skills and systems required to deliver an outcome.

First, the competencies needed for the idea to be operationalized should be listed and the key competencies highlighted. For the key competencies, the minimum level needed should be stated as “high”, “medium” or “low”. This classification must be based on the arbitrary judgement of an expert in the particular field of practice. The existing organizational competence should then be matched with the minimum level required to produce a product or deliver a service. Where the organization falls short of the competence requirement, the expert can advise on how easy or challenging it would be for it to quickly acquire that capability.

The idea can proceed if the minimum required competency is met or exceeded for all the key competencies. If the minimum criterion is not met for any key competence, the idea can proceed only if the feasibility of acquiring the necessary (level of) competence is “high”. “Feasibility” refers to the means to achieve the required competence. The means may be organizational clout, time, finances, etc.

Gate 2: The income generation scorecard

At the second gate an idea is briefly assessed to decide whether it meets certain criteria, and if it is worth investing a lot of time and effort to develop a detailed business case. The scorecard has three sections: context, customers (clients), and commercials.

Context

The context of an income-generating idea refers to the broader construct that the income-generating enterprise will fit into. Normally, the PESTEL framework is used to carry out a broad analysis of the political, economic, social, technological, environmental and legal structures that will influence the enterprise. From this analysis, it needs to be ensured that the political and economic climate will not be hostile to the income-generating enterprise. Also, the idea must be shown to be in keeping with social trends and technological advances. Finally, it is helpful to make sure the endeavor would not cause harm to the environment and could be carried out normally, without breaking the law.

The impact potential of the idea on the strategic objectives of the healthcare organization is very important. As the organization exists to serve the public good, this must be outlined specifically in the strategic objectives of the public sector healthcare organization. It is important to ensure that the income generation enterprise supports the strategic objectives of the healthcare organization.

All income-generating enterprises require support initially but are expected to become independent over time. It is important to examine an income generation idea for sustainability to ensure that it does not become a burden to the parent organization – and therefore a drain on public resources.

Customers (clients)

Income generation ideas should come from the need to address challenges in areas where solutions are non-existent or inadequate. This is particularly important for public sector healthcare organizations because their main remit is not to generate income, but to serve the public good. Organizations should therefore carefully assess the unmet need to ensure that their entry into any space is justified.

To generate income, there must be people willing and able to pay for a product or service, as well as to access it. In some cases, there may be willingness and ability to pay, but poor customer accessibility. For example, a mobile physiotherapy service for children of working mothers may be provided by available hospital physiotherapists, but during working hours. This idea may use spare capacity of the hospital physiotherapy department but as the service is only available during working

hours, the mothers may not be willing or able to leave their jobs to access it.

If an income-generating idea focuses on a particular market segment, it is important to assess the size and growth of just that market segment, rather than the whole market. In some cases, a service or product may appear to be applicable to a large market, but when looked at carefully, it may really cater for only a segment of that market.

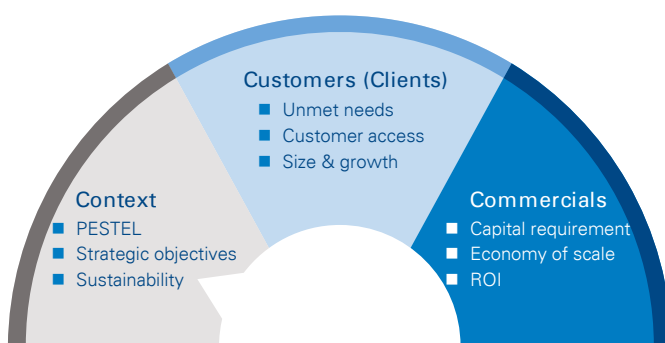
Commercials

The commercials or financial numbers of an income-generating idea have to be looked at carefully to ensure that the healthcare organization is content with the financial risk. The capital requirements of the enterprise must be examined to make sure they are reasonable and can be afforded at minimal risk, in both the short term and longer term as the enterprise grows and expands.

Economies of scale may not apply to every income generation idea, as some enterprises may plan to focus strictly on the strategic reasons they were created. However, the question of economies of scale should be considered, as it could reveal that a small but necessary future expansion would demand changes so significant that the whole idea would have to be looked at in a very different light. For example, one hospital’s home-delivery service for in-patient discharge medication may utilize the spare capacity of the hospital logistics department. However, if this has to be rolled out to all the hospitals in the group, it may require investment in a car depot, new drivers, new insurance, etc.

Return on investment (ROI) is a key matrix for any income generation endeavor. Although a public sector healthcare organization will not look at ROI in the same way a private sector organization will, there should be a financial reward to

Figure 2: The income generation evaluation scorecard



Source: Arthur D. Little analysis

the organization for the risk taken. The healthcare organization’s management must decide on the acceptable minimum ROI. In addition, some consideration should be given to the wider ROI that the enterprise will deliver to the healthcare economy.

Each section of the scorecard has three sub-sections, and each sub-section is given a score from A to F, with “A” being excellent and “F” being very poor. These scores then reflect the score of the section, and the three section scores are considered before an overall score is awarded for the idea. An idea should proceed to business case development if all sub-sections have scores of no less than a “C” and the overall score is at least a “B”.

Gate 3: The business case assessment

Once an idea has met the requirements of the income generation evaluation scorecard, a business case should be developed to provide a critical, in-depth assessment of the idea. A well-prepared business case enables a public sector healthcare organization to understand and potentially shape a commercial proposition early in the planning process. It also assists decision makers and stakeholders in understanding the key risks, issues and rewards associated with investing in an income generation enterprise.

In the public sector context, the “five case model” proposed by the UK’s HM Treasury¹⁰ provides decision makers with a comprehensive basis for assessing and planning to deliver the best social value for money. There are five aspects to the five-case model: the strategic, economic, commercial (procurement), financial and management cases.

The strategic case

The strategic case should be developed to give reasons for the selected idea from a strategic standpoint. It must demonstrate quantitatively how the idea fits with the strategic direction of the healthcare organization. The strategic case is expected to provide quantitative analysis to show how the high degree of congruence between the outcomes of the income generation enterprise and the strategic objectives of the healthcare organization justifies investment of public funds.

The economic case

The economic case should be developed to quantifiably demonstrate how investing in the income generation idea is a great way of achieving the best value to society. The economic case should include, where possible, benefits appraisal, risk assessment and sensitivity analysis studies.

10 The green book Central government guidance on appraisal and evaluation https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/685903/The_Green_Book.pdf Accessed Sept 2019

The procurement case

The procurement case should be developed to demonstrate that the proposed income generation idea can have a viable procurement process and a well-structured deal between the public sector healthcare organization and its service providers. The case should outline (as applicable) the charging mechanism, implications of key contractual arrangements, and accounting treatments proposal.

The financial case

The financial case should quantify and demonstrate the affordability and funding of the income generation idea, including the support of stakeholders and customers as required. The case should outline the capital/funding and revenue requirements, as well as impact on the financial accounts of the healthcare organization.

The management case

The management case should be developed to demonstrate strong governance of the income generation enterprise. It should show the robust arrangements that will be in place for delivery, monitoring and evaluation of the income generation enterprise, including feedback into the organization's strategic planning cycle. The case is expected to show details of approval processes and reporting structures.

While all five cases are important, the healthcare organization should decide what weighting to give to each in its investment consideration. Factors such as the organization's maturity and overall strategic direction could help determine how to weigh each case. For example, if, in a particular period, the healthcare organization is aiming to achieve full risk and governance compliance as a primary goal, the management case could be given a higher weighting than the others, and a higher bar of expectations set for approval.



5. Invest to unleash the “X factor”

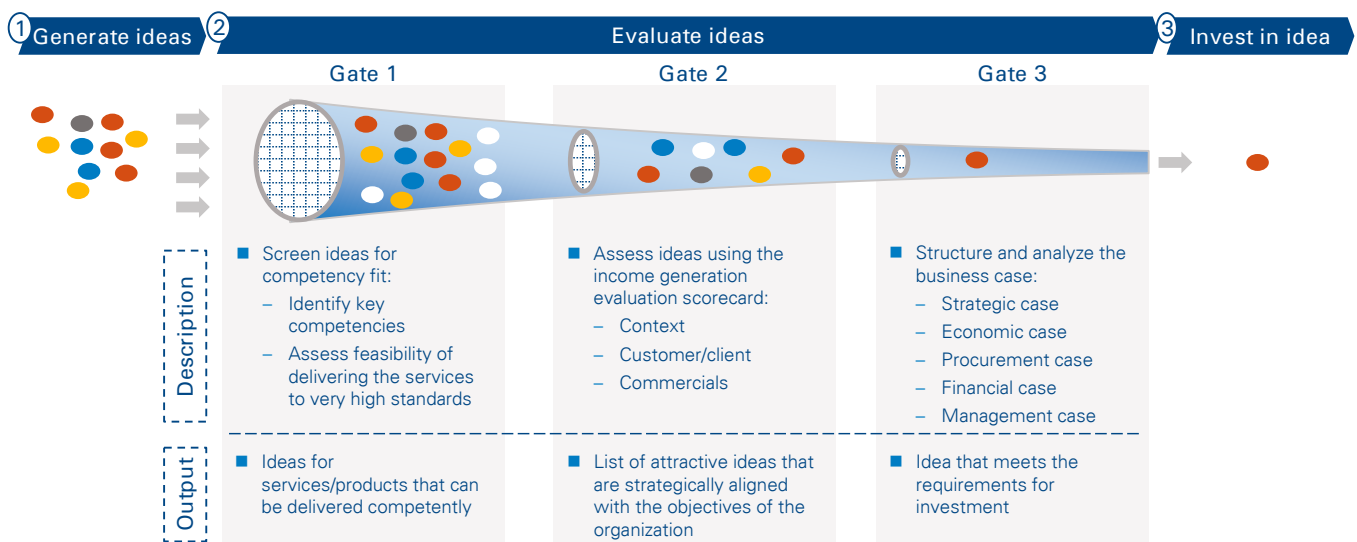
Once a public sector healthcare organization has generated ideas for income generation, carried out a competency assessment and put the idea through the three stages of scrutiny, the management team can confidently invest in the idea.

Fortune favors the bold

While income generation is not the reason public sector healthcare organizations exist, their management teams can boldly, shrewdly and strategically invest in income-generating enterprises to trigger a set of reactions within themselves and the wider health economy. This will lead to increased benefits to the public and enable the healthcare organization to serve the public better than if it stuck rigidly to a narrow remit of only providing services that could be funded from the public purse.

For income generation enterprises to fully maximize their potential and continue to perform well, the income generated must be redeployed (and shown to be) in the health economy from which it was generated. This has the twin benefit of maintaining financial sustainability while inspiring people to exercise innovative thinking within the local health economy. This potential to inspire should not be underestimated, because therein lies the “X factor” that public sector healthcare organizations uniquely possess in their health economies. This can be unleashed to deliver increased value to society and the nation at large.

Figure 3: The steps to finding and investing in income-generating ideas



Source: Arthur D. Little analysis

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Arthur D. Little

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