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Theory of the Financial Management Mechanism of Public Hospitals in Vietnam

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Abstract

The refinement and innovation of financial management mechanisms in public hospitals is always a concern of the government, the health sector, the public hospitals themselves, and society as a whole, especially in this current phase. Stemming from reality and aiming to enhance the effectiveness of financial management activities in public

hospitals, this article explores the general theoretical basis of financial management mechanisms in public hospitals in Vietnam. It investigates the factors influencing these mechanisms and draws lessons from countries around the world including Japan, America, and China to provide valuable insights for Vietnam.

Keywords: Financial Management Mechanisms, Public Hospital, Vietnam

1. Introduction

Vietnam's public hospital system plays a crucial role in maintaining the health of its citizens. Over time, these public hospitals have gradually adapted to suit the evolving conditions and development stages of the country. In terms of professional services, hospitals are constantly striving to expand and improve the quantity and quality of their healthcare services to better meet the needs of the people. In financial management, hospitals have progressively taken initiative to mobilize lawful revenue sources, diversify financial resources for investment, upgrade equipment and infrastructure, create conditions for increased income for workers, and cover some of the costs of regular activities.

Despite achieving numerous results, public hospitals today still face many shortcomings and are grappling with a host of challenges in hospital management, particularly in financial management. The sources of revenue outside the budget are limited in both scale and scope, the management of expenditures is still ineffective, and wastage and leakage in revenue and expenditure management remain severe. The unwanted impacts of the market economy, coupled with uncontrolled development directions, have persisted in public hospitals for quite some time, causing societal discontent. Alongside this are the new socio-economic development conditions in Vietnam's integration and development process that have exerted and continue to exert significant pressure for reform and innovation on the development of the public hospital system, especially the financial management activities of these hospitals. Financial management activities in hospitals are an essential part of overall hospital operations aimed at achieving quality and effectiveness in public hospitals. In this context, the "hospital financial management mechanism" is a decisive factor that facilitates hospital development and enhances the effectiveness of providing medical services to society. Over time, the operation mechanism of public hospitals, including the public hospital financial management mechanism, has received special attention from society as a whole. The public hospital financial management mechanism has also undergone many changes to meet the requirements of socio-economic development at each stage. However, alongside the advantages brought about by this mechanism, there are still many shortcomings and obstacles. To enable the public hospital financial management mechanism to positively exploit its strengths, overcome its shortcomings, and bring practical benefits to the public hospital system, it is necessary to innovate to leverage the development of activities within the public hospital system.

2. The Financial Management Mechanism at Public Hospitals in Vietnam

Public Hospital Finances:

Public hospital finance involves mobilizing, allocating, and utilizing the financial resources of the hospital. It also includes the economic relationships that arise between the public hospital and other entities in society. With this perspective, finance considers aspects such as financial resources, their use, and the economic relationships formed during their creation and

utilization. People are interested in the financial resources of public hospitals and how they are used. Financial resources are essentially the financial capabilities or more specifically, the money sources that entities can exploit to achieve their goals. Actual financial resources often exist in the form of money circulating in the economy but can also be potential, intangible sources. For public hospital financial resources, we must start with the characteristics of public hospitals as state-established units and their basic mission to provide healthcare services to society. Therefore, a public hospital's financial resources include funds from state budgets and revenues from providing healthcare services based on quantity, quality, and price offered to society, as well as resources mobilized by the public hospital itself from other entities in society. Among these, revenue from providing healthcare services directly impacts hospital income specifically and hospital finance generally. Each financial source has its own characteristics and unique management and usage methods. Through mobilizing, allocating, and using these sources, economic relationships arise between various parties: hospitals, competent state management agencies, citizens (patients), insurance organizations (health insurance), and other related entities.

The Mechanism for Managing Public Hospital Finances:

Public Hospital Financial Management Mechanism: For public hospitals, in order to adjust and guide the development of hospitals in general and their financial management activities in particular, the state constructs and issues public hospital financial management mechanisms. This financial management mechanism plays a crucial role in both supporting and motivating the development of hospitals towards set goals. According to the author group, the public hospital financial management mechanism is a comprehensive set of principles, methods, and tools stipulated in the legal document system aimed at attracting and utilizing public hospital financial resources towards identified objectives. The public hospital financial management mechanism will create a legal corridor, foundation, and basis for public hospitals as well as higher management agencies to carry out financial management and supervise the financial activities of the hospital. The principles and methods of the public hospital financial management mechanism will be associated with the financial management activities of the public hospital, manifested through specific contents: mobilizing hospital financial resources; allocating and managing the use of hospital financial resources; inspecting and supervising hospital financial activities.

The Content of the Financial Management Mechanism in Public Hospitals:

The financial management mechanism in public hospitals consists of two groups: the group that attracts financial resources and the group that uses these financial resources. The group mechanism for attracting financial resources is linked to the financial resources of the hospital. Therefore, this group mechanism will include: the mechanism for allocating state budgets to public hospitals, the mechanism for health insurance payments with public hospitals, and the direct payment mechanism from users to public hospitals. It also includes a self-governing mechanism responsible for attracting financial resources for public hospitals. The financial resource attraction mechanism must ensure the

principle of reasonable exploitation to avoid loss and omission of financial resources and comply with the state's financial regimes, policies, and norms.

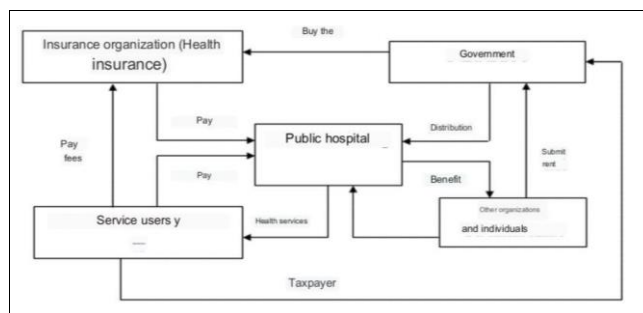


Diagram 1: Mobilizing financial resources of public hospitals

+ **Financial Resource Utilization Group:** The management and use of financial resources are closely tied to the functions and responsibilities of a hospital. The most crucial task is to ensure the provision and fulfillment of quality healthcare services for society. The use of financial resources always strives for efficiency and savings, given that resources are limited while the demand for them is infinite. Public hospitals have diverse financial resource needs, ranging from expenditures on personnel, professional operations, administration, maintenance, major repairs, medical equipment purchases, and infrastructure investments. The management and use of these resources must comply with regulations and align with the assigned objectives or tasks, with a focus on effective utilization. Organizing and prioritizing expenditures in public hospitals to ensure efficient financial operations is a requirement for promoting professional activities. As for the mechanism of using financial resources, public hospitals primarily operate on a self-governing model, taking responsibility for their financial resource utilization.

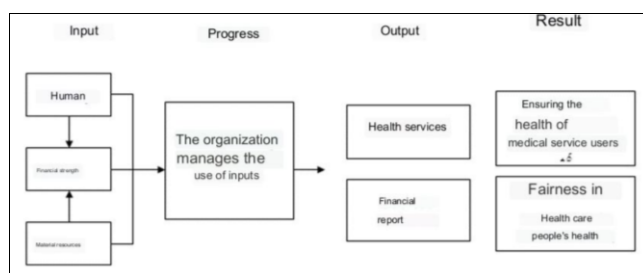


Diagram 2: The operational and financial management model for public hospitals

- The mechanism for allocating the state budget to public hospitals

The government directly allocates financial resources from the state budget to the users of health services through health insurance policies. The state provides funding from the budget to purchase health insurance cards for certain social groups as per regulations. Those who receive these cards from the state are treated fairly, just like other citizens seeking medical treatment in society. Health insurance agencies will contract with public hospitals to provide health services based on each hospital's capacity. In turn, these public hospitals focus on fulfilling their role of providing health services to society. This allocation policy encourages public hospitals to effectively implement autonomy,

gradually reducing dependence on the state budget. Public hospitals ensure the quality and quantity of their health services to maintain fair competition with other hospitals in the healthcare system.

- The payment mechanism for health insurance with public hospitals.

This mechanism mainly involves: The payment process and methods between the health insurance agency and the hospitals.

The payment process between the health insurance agency and the hospitals: Hospitals sign a health insurance medical examination contract with the health insurance agency. Then, the agency advances funds to the hospital based on mutual agreements and notifications. The hospital provides medical services according to the contract's regulations, and periodically sends a settlement report to the health insurance agency for them to carry out settlements according to the periods specified in the contract and advance for the next period.

The payment method between health insurance and hospitals significantly impacts all involved parties. This method directly influences healthcare costs and the quality of health services provided. Determining a suitable payment mechanism between parties in line with economic development conditions and social characteristics is both necessary and important. The payment method is a crucial factor in obtaining quality and effective health services from hospitals.

- The mechanism for direct payment for health services from the user of these services.

The payment mechanism for health services directly from the user is based on the price criteria of health services, divided into two categories: partial payment mechanism and full payment mechanism for health services.

The partial payment mechanism for medical services is a direct payment system from the user to the hospital for the use of these services. The principle here is that only a portion of the total medical costs are charged, so the price of these services only includes a part of the direct costs that make up these services. Therefore, the price paid by the user does not fully cover the direct and indirect costs that constitute these services, as a portion of the costs that make up the price of these services is directly subsidized by the state for public hospitals. It's important to clearly identify which costs have been covered by the state so that hospitals do not charge patients for them, and which costs have not been funded by the state must be accurately and fully calculated to ensure sufficient operational funds for hospitals. This will ensure the quality of medical services.

Full Price Payment Mechanism for Medical Services: This is a direct payment system from the users of medical services to hospitals. The principle is to cover all the costs that make up medical services. Therefore, the price of these services includes all direct and indirect costs, as well as other legal expenses needed to operate and ensure the normal functioning of the hospital. With this, hospitals will have enough resources to operate and provide medical services without needing financial support from the state budget. However, to ensure everyone in society can access these services, especially the basic ones, the state needs to have policies to assist those with low income or special difficulties, mobilize more contributions from those who can

afford them, and have practical mechanisms to exempt or reduce hospital fees for policy beneficiaries, poor and near-poor people.

- **Autonomy in the financial management of public hospitals**

The autonomy in financial management of public hospitals is understood as a mechanism where public hospitals are given the authority to decide and take responsibility for the allocation and use of financial resources to achieve the hospital's set goals.

Public hospitals in Vietnam have now been granted autonomy, the right to make decisions, and responsibility for their revenue management. Along with this, they are proactive and accountable for their expenditures as per state regulations. This is a step in the process of expanding public administrative reform with the aim of reforming the operations of public units in general and public hospitals in particular. For public hospitals to reduce bureaucracy, stagnation in management and ineffective use of state budget funds, reforms in management towards decentralization and enhancing autonomy and responsibility for financial managers as well as hospital operations are necessary. The financial autonomy mechanism helps public hospitals be financially proactive, encouraging them to generate revenue based on their characteristics and conditions. With the revenue sources of public hospitals, the autonomy mechanism is closely related to mechanisms such as budget allocation, health service pricing, health insurance payment. In addition, the autonomy mechanism allows public hospitals to be proactive in expenditures with the goal of using funds reasonably to cover operating costs, increase income for employees based on the good completion of assigned tasks and compliance with regulations and full obligations to the state.

3. Factors Influencing the Financial Management Mechanisms of Public Hospitals

Objective factors

The uniqueness of healthcare services: Healthcare services are identified as a special type of service due to their distinct characteristics compared to regular service activities, stemming from the very nature of healthcare. They directly relate to human health and are a type of service that is both a personal and public commodity. Healthcare services also embody an element of "exclusivity" and "information asymmetry" between the buyer and the provider.

Objective economic laws: The market economy has its own rules, like the law of supply and demand, competition, and value. These laws directly and indirectly impact the operations of specific economic components. Here, they influence the financial management mechanisms of public hospitals, forcing these mechanisms to gradually adapt and develop within the market economy. However, in the healthcare sector, this is an "imperfect market". The market laws for this healthcare service market also have their own unique characteristics due to the distinct features of healthcare services compared to other goods and services. These are services that directly affect people's health and lives, require high expertise, and are quite sensitive to social stability. Therefore, profit objectives should not surpass social objectives.

The responsibilities of public hospitals: Public hospitals are institutions established by the state's competent authorities

to provide healthcare services to society, ensuring the health of the people. The operations of public hospitals aim to serve social and community interests, prioritizing these over economic benefits. Public healthcare services directly impact people's health and lives, require high professional standards, and are sensitive services for social stability. Profit objectives cannot surpass social goals. In Vietnam, public hospitals are considered the "face" of the healthcare sector and a basis for evaluating public health care efforts. A portion of the resources for public hospital operations are provided by the state budget. These state-run hospitals function primarily to ensure the provision and fulfillment of quality healthcare services as per societal needs. Besides providing healthcare services, public hospitals also have a responsibility to maintain public health and must focus on fairness and efficiency in public health care. Public hospitals will gradually ensure equality in competition with other types of hospitals when providing healthcare services to society. Financial management activities are linked with the characteristics and responsibilities of public hospitals affecting hospital financial management mechanisms. Thus, factors about healthcare services and the characteristics of public hospitals will be micro factors that have a two-way impact on the financial management mechanisms of public hospitals.

The socio-economic environment: This is also a crucial group of objective factors that have a two-way impact on the operations of public hospitals, such as the construction of operational mechanisms and financial management mechanisms. Financial activities are not only influenced by the subjective management activities of individuals but also by the socio-economic environment in which they exist and operate. In managing their finances, public hospitals will have to influence the socio-economic environment and affect the activities of financial actors to ensure appropriate operations in line with objective conditions and subjective intentions to achieve management goals. At the same time, the socio-economic environment will directly impact the financial management activities of a hospital. In each different socio-economic circumstance, economic management mechanisms and financial management mechanisms need to be calculated and adjusted appropriately to ensure effective financial management in public hospitals.

Subjective factors

The state's perspective, orientation, and socio-economic development goals: The financial management mechanism of public hospitals must align with the state's views, direction, and economic development goals (macro management). The construction of financial management mechanisms for public hospitals (micromanagement) must be consistent with the state's development orientation in each phase. This is the direct basis for building economic management in general and financial management in particular. The current perspective and direction of the state is to reform national public finance towards transparency, sustainable development, and limiting bureaucracy and red tape. Therefore, the financial management mechanisms of public service units in general and public hospitals in particular are not excluded from this trend and development direction. The basic development trend of the state for service units is to innovate the operation mechanism of public service units based on increasing autonomy coupled

with self-responsibility for task implementation, organizing a financial mechanism towards healthy competition equal to other entities in providing public services to society.

People's subjective perceptions in constructing and implementing mechanisms: This is the direct influence on the financial management mechanisms of hospitals. The factor of human subjective perception in building this mechanism refers to the bodies and individuals representing the management level. In reality, no one can better identify the obstacles and difficulties in financial management activities than these managing bodies. They are also the ones who can propose solutions to improve and innovate the mechanism. The issue here is about thinking, understanding, and desire for financial management activities and financial management innovation: whether to maintain strict control, impose or create effective initiative and balance with social benefits and other interests. The problem of reforming and innovating the financial management mechanism stems from recognizing that the old financial management mechanism has existing weaknesses and difficulties that hinder financial management activities. From there, understanding is needed to find reform directions for more favorable development to achieve set goals. This is an important factor in building and proposing financial management mechanisms.

4. Experience of Other Countries on the Financial Management Mechanisms of Public Hospitals

Experience from Japan

In Japan, a mix of payment methods is used, but the primary one is the fee-for-service (FFS) system. This system is strictly regulated to encourage service provision while keeping costs under control through clear rules set by the fee schedule. The service prices are periodically adjusted based on economic conditions and policy changes. These adjustments involve changing the overall rates, adjusting prices based on volume for all services and types of medication, and then individually modifying each service category. Some service prices may decrease (as new techniques become more common), while others may increase (as the quality and scope of services expand). All changes are adjusted so that the cumulative effect matches the overall rate change. The fee schedule adjustments require negotiation and approval by a council consisting of the Finance Minister, Health Minister, leaders of specific departments; the Japan Medical Association (JMA), other public service organizations, insurance payers, service providers, and scholars. The negotiations cover amendment contents, detailed price discussions, and payment conditions. The Prime Minister of Japan makes the final decision on service price amendments. This payment method has been successful despite past failures in fund control leading to deficits. However, thanks to strict monitoring measures with specific payment conditions, these limitations have been overcome and are still being applied in Japan today.

Experience from America

In the US, healthcare services are primarily provided by private institutions, making it a classic example of a country with a self-accounting private hospital system. Besides the fully profit-driven private hospitals, there are also many hospitals owned by churches, foundations, and schools. The US hospital system mainly relies on payments from health

insurance funds, social security funds, co-payment fees for health insurance, and direct service fees. Additionally, the government directly sponsors medical research activities and doctor training. Along with the fee-for-service payment method for healthcare services, the diagnosis-related group (DRG) payment method was first implemented in the US in 1983. This method is considered to limit the misuse of medical services while ensuring quality and is being adopted or prepared for adoption by many countries. Experience shows that the US started with case-based payments and then developed into DRGs for inpatient treatment. The total number of DRGs currently used for payment in the US is 494, which are adjusted according to age, gender, complications, and discharge status. Special cases such as prolonged stays or excessive costs are considered for separate payments. When paying according to DRGs, all hospitals receive the same payment for the same diagnosis. This encourages hospitals to focus on efficiency; those not operating efficiently will have to adjust themselves.

Experience from China

The public hospital system in China consists of three service lines: Village health stations (providing outpatient services to treat common diseases, maternal and child health care, and vaccination services); township/ward/town hospitals (providing outpatient services for common diseases and simple surgeries); county, provincial, city hospitals (providing inpatient and outpatient services including complex surgeries). Public hospitals have implemented partial autonomy since the 1980s with the aim of reducing the financial burden on the government and expanding and upgrading hospital infrastructure. China has identified a new strategic direction based on strengthening the welfare function of public hospitals, promoting autonomy in public hospitals with the following contents: Enhancing the role of revenues from public sources; Strengthening the role of government in planning and supervision; Improving management and service quality; Enhancing efficiency and reducing patient costs; Separating ownership and management, strengthening governance bodies; Separating profit-making and non-profit activities of hospitals as well as other health service providers; Reforming payment methods and pricing to reduce incentives for abuse of some services; Compensation policies and preferential treatment for staff have been improved to motivate staff, in line with new directions.

5. Conclusion

Drawing from the valuable real-world experiences of developed and developing countries, along with our country's conditions and economy, and guided by the Party and State's perspectives, the existing shortcomings in our public hospital system in Vietnam can only be addressed through comprehensive reform and capacity enhancement. This will increase accountability for ensuring fairness and cost-effectiveness. However, all these innovative mechanisms need to be implemented step by step and cautiously, not hastily, with pilot testing and an accurate evaluation of the pros and cons of the reform. Only then can we expand the reform model if it has many advantages and stimulates the effective operation of public hospitals. On the contrary, if these pilot innovations do not yield the desired results, appropriate adjustments need to be made under specific conditions and circumstances.

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