

# CPCE HEALTH CONFERENCE 2016

## SHOULD ABC BE APPLIED TO THE HONG KONG HEALTH SERVICE INDUSTRY?

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**SPEED** 

# CHALLENGES

## Escalating costs in HK healthcare

- Total expenditure on health – over 5% of GDP (about half comes from Public funding)
- 2014-15 Public Expenditure on Health – HK\$57bn (13.5% of total) and expected to increase due to aging of population, higher demand from public for quality health services ...etc.

# CHALLENGES

## Escalating costs in HK healthcare

- Government's subvention to the Hospital Authority (HA) has increased by 80% over the past 10 years, HK\$49bn in 2014-15
- Existing funding model in HK healthcare may be not sustainable!

# CHALLENGES

## HKSAR GOVERNMENT INITIATIVES

- Studies, reports and proposals of various healthcare financing options were done and proposed.
- However, no single resolution was passed yet and we are still in the consultation / discussion stage...
- For example, 'Mandatory public healthcare insurance' was proposed but turned down.

# CHALLENGES

- Should the existing healthcare financing model in HK remain status quo?
- Who pay for the increasing healthcare costs? (By 2030, one in four will an elder)
- How to keep the quality of healthcare service and make sure it is money worth?

# PROBLEMS

## FROM ACCOUNTANT'S VIEW

- The existing costing system in the HK healthcare service industry cannot reflect the relation between 'health outcomes' and the 'resources used'.
- If healthcare service costs cannot be measured accurately, it will lead to a big management problem:

***“What is not measured cannot be managed or improved.”***

# PROBLEMS

- Misunderstanding of costs will make healthcare providers unable to make sustainable cost reductions.
- Poor cost measurement will lead to huge cross subsidies across different healthcare services.
- Poor measurement of cost and outcomes means effective and efficient providers go unrewarded, while inefficient ones have little incentive to improve.....

# **SOLUTION SUGGESTED**

**Kaplan & Porter (2011)**

***“The remedy to the cost crisis does not require medical science breakthroughs or new government regulations. It simply requires a new way to accurately measure costs and compare them with outcomes.”***



# **SOLUTION SUGGESTED**

## **HOW TO DO IT?**

- Activity-based costing (ABC)
- First applied to measure costs in multiple products production in the manufacturing industry, then to the services industry, and...
- ABC was proposed to be used in healthcare industry in US in the 1990s.

# **SOLUTION SUGGESTED**

## **ABC in HEALTHCARE INDUSTRY**

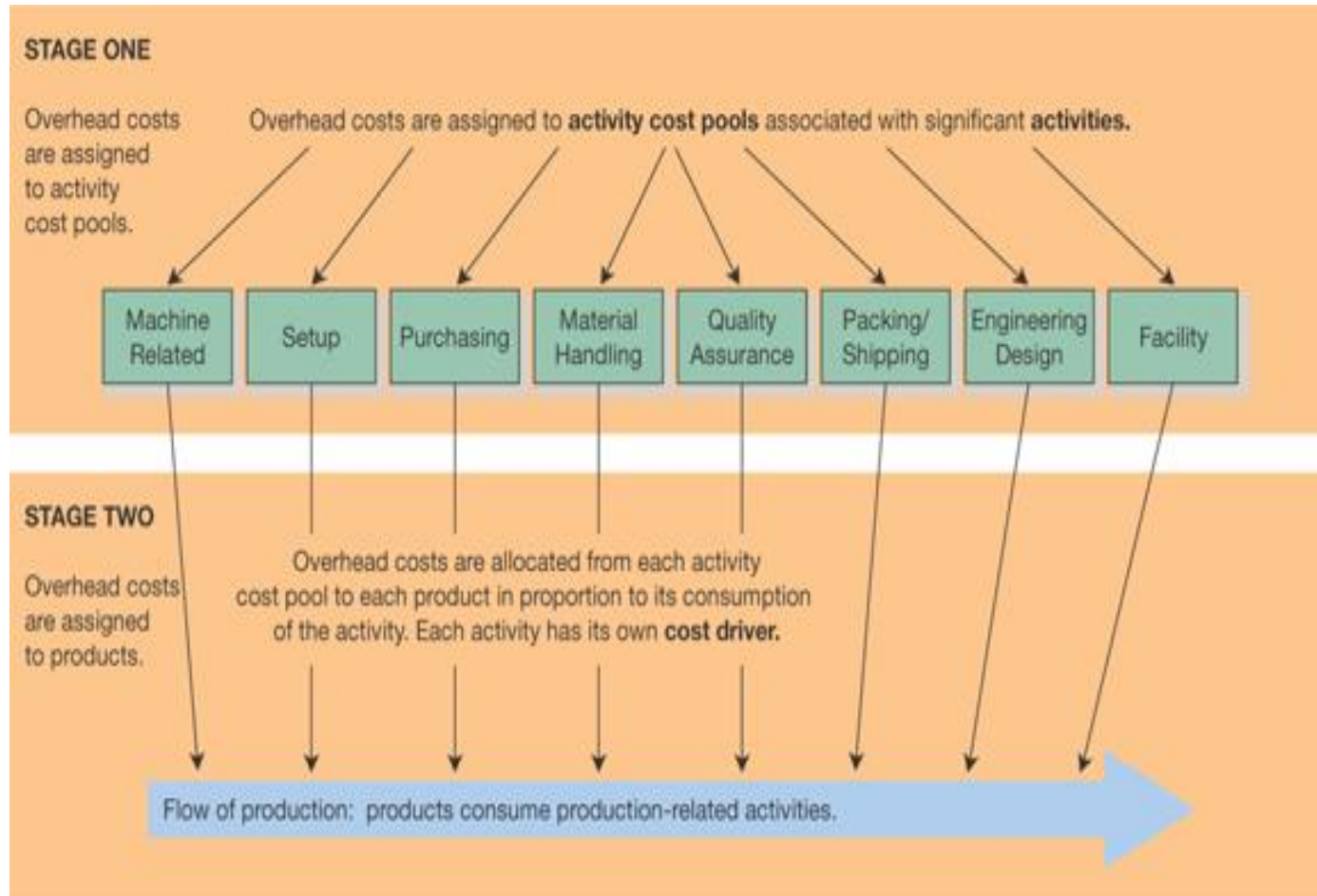
- Since proposed in 1990s, many successful cases of using ABC by both private and public healthcare providers in US.
- Other countries also started using ABC in healthcare industry and many successful cases were reported.
- However, it is a topic not yet fully discussed in HK and it is now high time for us to consider ABC in measuring costs in HK healthcare industry.....

# ABC

## BASIS OF ABC

- Direct or traceable costs are easy to measure.
- Problems arised in measuring indirect or difficult to trace costs such as 'Overhead costs', especially in multiple outputs production.
- The strength of ABC is that it can measure and apply indirect costs to individual output / product accurately.

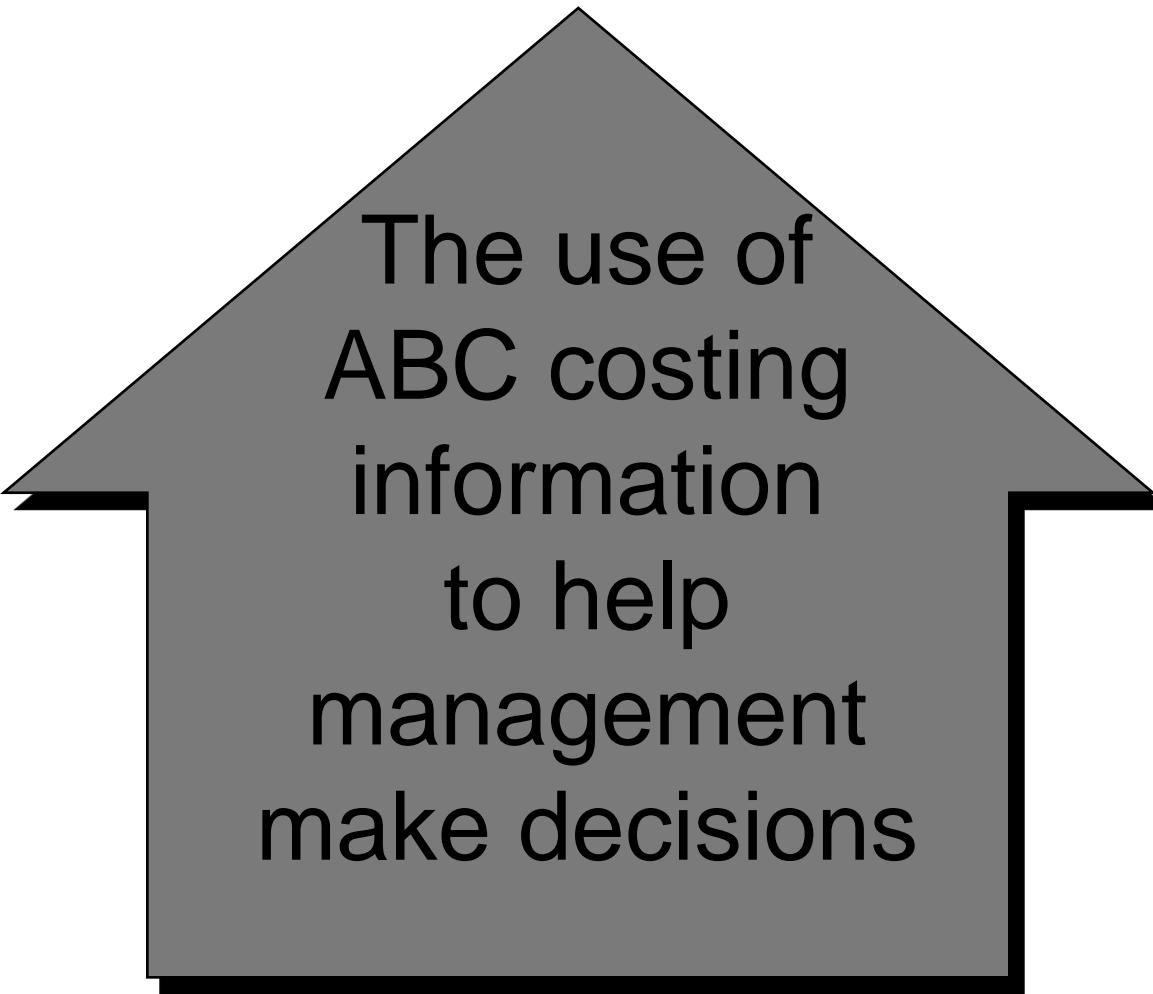
# ABC



# ABC

Examples of the application of ABC in measuring costs in healthcare services and the procedures involved can be found in various papers by Kaplan and others....

# ACTIVITY-BASED MANAGEMENT



The use of  
ABC costing  
information  
to help  
management  
make decisions

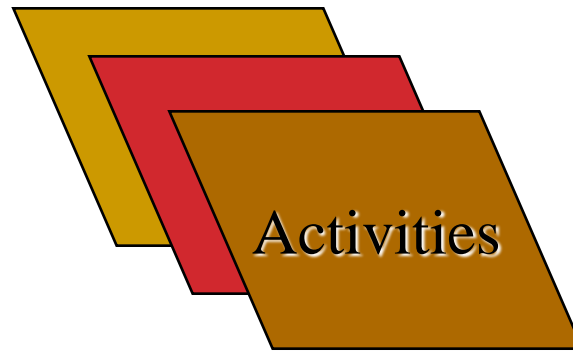
# ACTIVITY-BASED MANAGEMENT

**Activity-based costing** establishes relationships between overhead costs and activities so that we can better allocate overhead costs.

**Activity-based management** focuses on managing activities to reduce costs.



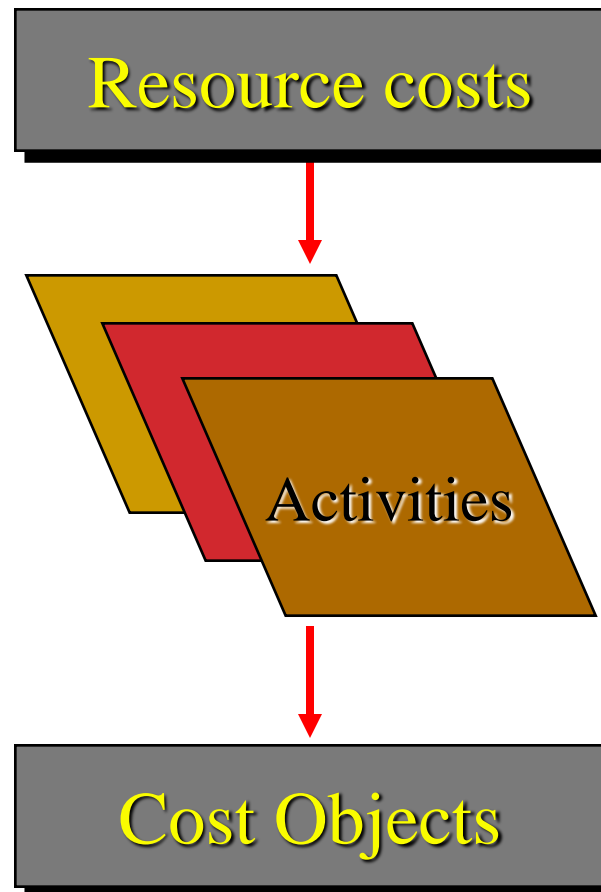
# TWO-DIMENSIONAL ABC AND ACTIVITY-BASED MANAGEMENT





# TWO-DIMENSIONAL ABC AND ACTIVITY-BASED MANAGEMENT

## Cost Assignment View



# TWO-DIMENSIONAL ABC AND ACTIVITY-BASED MANAGEMENT

## Cost Assignment View

## Process View Activity Analysis

Root Causes

Activity Triggers

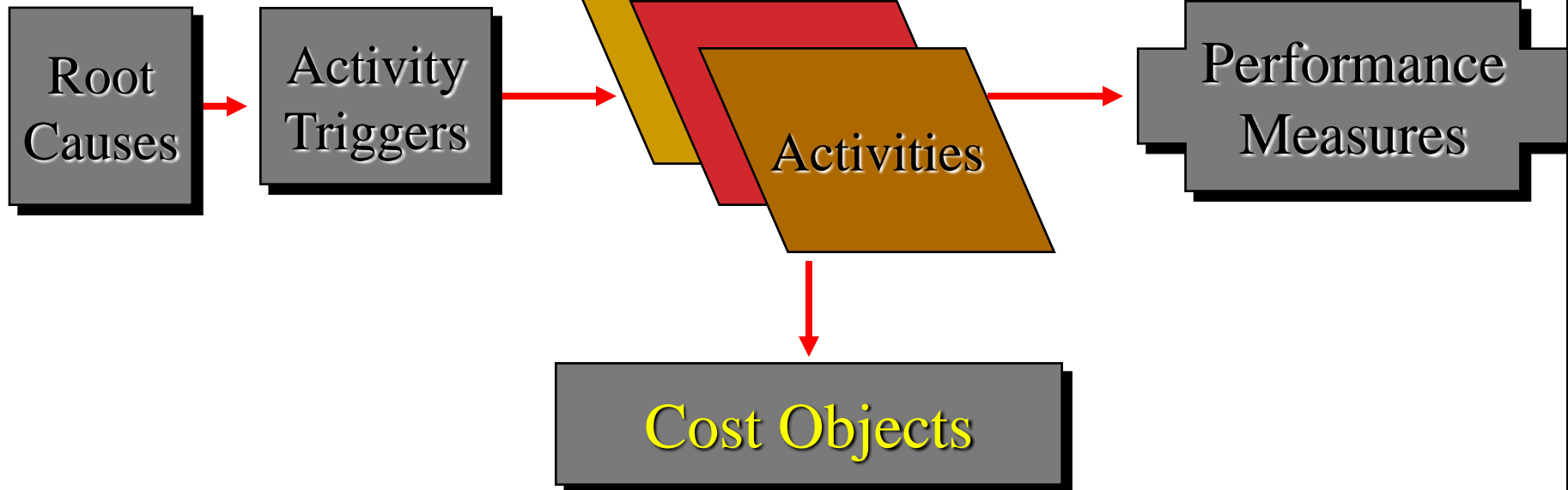


## Activity Evaluation

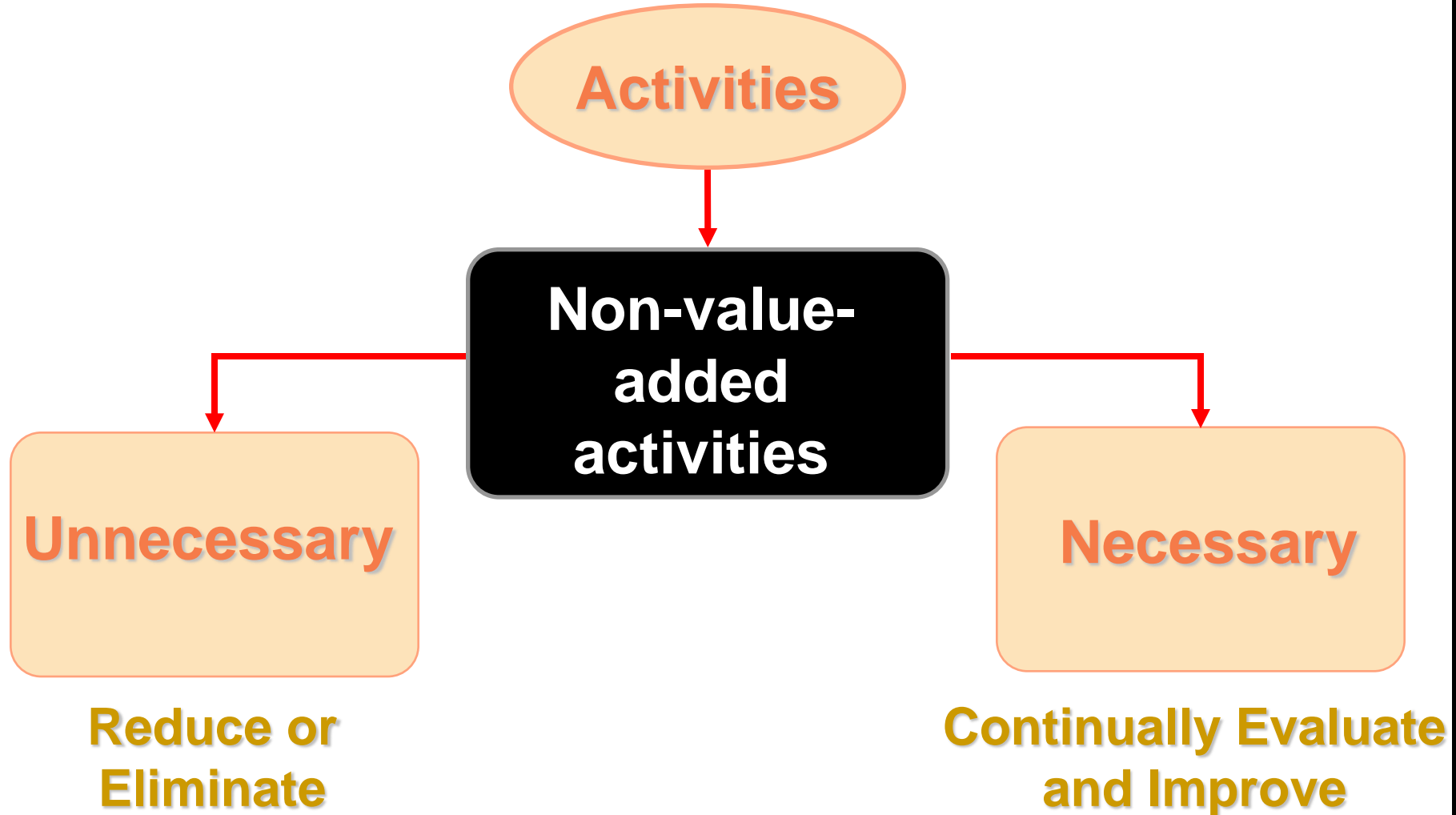
Performance Measures

Resource costs

Cost Objects

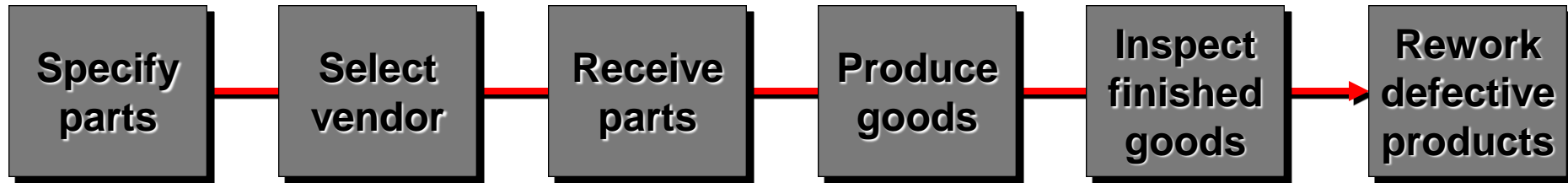


# ELIMINATION OF NON-VALUE-ADDED COSTS



# **USING ABM TO ELIMINATE NON-VALUE-ADDED ACTIVITIES AND COSTS**

- 1. Identify Activities.**
- 2. Identify Non-Value-Added Activities.**
- 3. Understand Activity Linkages, Root Causes, and Triggers.**



- 4. Establish Performance Measures.**
- 5. Report Non-Value-Added Costs.**

# SUMMARY

- ABC helps more accurately measure the costs of healthcare services delivered.
- Information from ABC helps administrators in healthcare providers better improve operations and meet the needs of different healthcare services in a more cost-effective manner.
- ABC helps to optimize the incentives and behaviors (treatment selection and cost containment) of those involved in treatment delivery.



**THANK YOU!**  
**GOOD BYE & GOOD HEALTH!**