



The Malaysian Medical Association's Position Paper on Decentralization of the Public Healthcare System through the Corporatization of Public Hospitals

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ABSTRACT:

Operating as a regulator, policymaker, payer, and service provider within Malaysia's public healthcare system, the Ministry of Health faces challenges of over-congestion and under-delivery. This paper elaborates on the potential benefits of corporatising public hospitals to decentralize the healthcare system. It analyzes the healthcare reforms of pioneering Asian countries, focusing on their strategies to prevent system fragmentation. The main challenge lies in overcoming traditional funding mechanisms. The proposal suggests that corporatised hospital management could diversify funding through public-private partnerships and full-paying patients beyond subsidized schemes. Anticipated improvements in healthcare outcomes would benefit patients while reducing the financial burden on the government. Although promising, ensuring equity and preventing legal loopholes require active stakeholder involvement in developing a robust regulatory framework and maintaining accountability. Careful execution must be evaluated and reassessed to prevent manipulation of healthcare fee caps, which could become a liability for our rakyat.

Keywords: healthcare system, healthcare financing, corporatization, decentralization.

INTRODUCTION

The current structure of the Ministry of Health (MOH) for the Government of Malaysia poses challenges to effective healthcare delivery. The concentration of roles within the MOH—regulator, policymaker, payer, and service provider—creates conflicts of interest and hinders effective governance. While this structure may have been suitable in the past, it struggles to meet the demands of a growing, middle-income nation.

In Malaysia, healthcare is delivered through two main sectors: the public sector, funded by taxpayers, and the private sector, where services are often paid for through private health insurance or out-of-pocket payments. (Balqis-Ali et al., 2021) While dichotomous, these sectors operate in synergy to provide comprehensive healthcare services to the population.

Although Malaysia has achieved Universal Health Coverage, ensuring timely access to essential healthcare services for all, disparities in access persist across different regions. (Lo, 2018) Rural and underserved areas often lack adequate healthcare infrastructure, leading to inequitable access to quality medical care for vulnerable populations.

The quality of care in public hospitals is inconsistent, with overcrowded wards, understaffed departments, and a lack of specialized services contributing to suboptimal patient outcomes. (Bahadori et al., 2017) Resource constraints, including tight budgets, shortages of essential supplies, outdated equipment, and inadequate facilities, directly impact patient care and place immense strain on



healthcare workers. (Dzulkefly, 2019) Financial sustainability is another critical issue, as the system's heavy reliance on government subsidies is not sustainable in the long run due to rising healthcare costs and limited budget allocations.

The regulatory framework also reflects structural gaps. While MOH regulates private healthcare facilities and services under the Private Healthcare Facilities and Services Act 1998 (Act 586), including consultation fees, the regulation of private health insurance falls under Bank Negara Malaysia (BNM). This division leaves the MOH with limited oversight over critical areas such as service coverage and cost escalation. Separating MOH's functions, allowing it to focus on policymaking and regulation, while granting public hospitals greater autonomy in budgeting and staffing, could improve governance, enhance quality assurance across both public and private facilities, and strengthen the Ministry's role as a health system steward.

Realizing the challenges facing the healthcare system in Malaysia, the Ministry of Health has introduced The Health White Paper, outlining a broad vision for the future (Ministry of Health for the Government of Malaysia, 2023). This paper proposes the decentralization of the public healthcare system through the corporatization of public hospitals as a potential solution to the Ministry of Health's challenges, an approach aimed at reducing conflicts of interest, enhancing efficiency, and improving the long-term sustainability of Malaysia's healthcare system.

PROBLEM STATEMENT

Malaysia's public hospitals play a vital role in providing healthcare to its citizens. However, they face significant challenges that hinder their ability to deliver efficient and high-quality care. Key issues include:

Resource Constraints

Public hospitals often struggle with tight budgets, leading to shortages of essential supplies, outdated equipment, and inadequate facilities. These issues directly impact patients' quality of care and strain healthcare workers.

Talent Management

Qualified healthcare professionals are crucial for a functioning healthcare system. However, current government regulations regarding salary, hiring, training, and promotions can be inflexible compared to private hospitals and other countries. This can make attracting, training, and retaining top talent difficult, leading to an ongoing [talent drain](#). (Ismail, 2023)

Operational Inefficiencies

The current management structure is often riddled with bureaucratic red tape and inefficient administrative processes. This results in [long](#) patient waiting times, delays in medical procedures, and overall reduced efficiency in hospital operations. (Ipsos, 2023)

Quality of Care

The quality of care in public hospitals varies significantly. Issues like overcrowded wards, [understaffed departments](#), and lack of specialized services in some facilities contribute to suboptimal patient outcomes. (Aliman, 2019)

Financial Sustainability

The heavy [reliance](#) on government subsidies may not be sustainable in the long run due to rising healthcare costs and limited budget allocations. (Mohd-Tahir et al., 2015) This financial dependency limits hospitals' ability to innovate and improve services.



Equity and Access

There are disparities in access to healthcare services across different regions. Rural and underserved areas often lack adequate healthcare infrastructure, leading to [inequitable access](#) to quality medical care for vulnerable populations. (Mohd-Tahir et al., 2024)

POSITION

These challenges raise serious concerns about the long-term sustainability and effectiveness of Malaysia's current public healthcare system. This Paper proposes exploring the [decentralization of the public healthcare system through the corporatization of public hospitals](#) as a potential solution. (Boo, 2022) However, the potential impact on accessibility, affordability, and the quality of care for all Malaysians needs careful consideration.

Definition:

- 1) Corporatization here is defined as a type of restructuring where public healthcare facilities become semi-autonomous entities. This means they gain greater control over management and finances, while remaining under public ownership. Note: corporatization is not privatization, which involves selling hospitals to private entities. Essentially, corporatized hospitals operate more independently than traditional public hospitals but still have some level of government oversight.
- 2) Hospital autonomy refers to the level of independence hospitals have in making decisions. This can range from low autonomy, where the government or a central authority makes most decisions, to high autonomy, where hospitals have significant control over their operations and finances. Each type of hospital autonomy can be differentiated by [five criteria](#) for evaluating hospital performance which include efficiency, quality of care, public accountability, equity, and resource mobilization. (Chawla & Govindaraj, 1996)

Appendix 1: The table provides a comparative comparison of types of hospital autonomy in hospital governance.

| Aspect | Full centralization with low autonomy | Partial autonomy | Full decentralization with high autonomy |
|----------------------|---|---|--|
| Strategic Management | Decision decided by the owner Direct control | Decisions decided jointly by the owner & Hospital Management. Governed by a Management Board appointed by the owner | Decision decided by hospital Management Board forms independently |
| Administrative | Management by owner | Management by hospital Management, the owner still has influence | Independent Management under the direction of the board |
| Purchase | Centralized purchasing The owner decided on the total expenditure | Combination of centralized purchasing | Hospital Management controls the whole purchasing |
| Financial Management | Fully funded by the owner, the owner has full control | Subsidize by owner & owner funds through other sources under control of Board Management | Full financial autonomy Overall management of funds under the control of Board Management |
| Resource Management | The staff is appointed by the owner, and regulatory control is by owner | Staff are hired by Board Management & work under the rules of Management Board & must obey owner's instructions | Staff are hired by the Management Board and regulated under the Management Board |



Rationale:

Granting greater autonomy through the corporatization of public hospitals offers a range of potential benefits, including increased efficiency and accountability. Currently, public hospitals operate under a complex web of regulations from various government bodies, which can limit their flexibility in decision-making. A corporatized structure would empower these hospitals with greater operational independence. This translates to streamlined processes, fewer bureaucratic hurdles, and a nimbler approach to responding to patient needs.

Corporatization also grants these institutions more control over their finances. This can reduce their reliance on government funding, allowing them to invest strategically in staff training and advanced medical equipment. The potential benefits of this financial autonomy include shorter wait times, improved patient outcomes, and an overall enhancement in the quality of care delivered.

Appendix 2: Key gains for the government, public, healthcare workers, and the corporatised entity

| Government | Public/Patient |
|---|---|
| <p>Improved equity in healthcare financing, as it reduces the burden on government expenditure with more efficient management practices in public hospitals.</p> <p>The government can redirect its resources to other critical areas.</p> <p>The reallocation of resources can lead to a more sustainable healthcare system and better overall health outcomes.</p> | <p>Continued access to high-quality subsidised services, maintaining affordability and accessibility.</p> <p>Improved customer responsiveness aligns healthcare services with consumer expectations inducing better communication, faster service, and an overall enhanced patient experience.</p> <p>Increased access to objective measures of good quality clinical service, ensuring patients receive the best possible care based on standardised metrics and guidelines.</p> |
| Healthcare Workers (HCWs) | Corporatised Entity |
| <p>Increased opportunities in an open labour market that recognizes HCWs' specialised skill-sets.</p> <p>HCWs can seek positions that best fit their expertise and interests.</p> <p>More fulfilling work environment as corporatised hospitals are more flexible and adaptable to patient needs.</p> <p>Greater empowerment and involvement in quality improvement and decision-making processes.</p> <p>Contribute more effectively to the improvement of healthcare services, leading to better outcomes for both patients and healthcare providers.</p> | <p>Greater flexibility in attracting and retaining well-qualified healthcare professionals.</p> <p>Tailor hiring packages to attract top talent, offering competitive salaries and benefits as well as setting the terms of employment to reward effective performance and address underperformance effectively. This flexibility extends to the use of available resources, enabling hospitals to allocate resources according to their specific needs and priorities.</p> <p>The hospital gets to develop formal or informal relationships with other providers, enhancing care delivery through collaborations and partnerships.</p> |



Objectives Of Corporatization:

Divorcing the Ministry of Health from its dual role as service provider and regulator can lead to a more efficient and effective healthcare delivery system. This separation allows for:

- 1) **Enhanced Standards:** The Ministry can focus on setting and enforcing professional and technical standards for healthcare services, ensuring quality care within the system.
- 2) **Financial Accountability:** Hospitals operating more independently now will be held directly responsible for their finances. This will foster a culture of fiscal discipline and cost control, leading to more efficient resource use.
- 3) **Reduced Burden on Government:** By streamlining the Ministry's responsibilities, the government can relieve the significant financial and administrative burden of directly managing healthcare providers.

Overall, this separation of roles empowers the Ministry to act as a strong regulator while allowing hospitals to operate with greater autonomy and a focus on financial sustainability. This move is not without precedence; the [National Heart Institute](#) had undergone the process of corporatization and established itself as a commercially viable, publicly owned center of clinical excellence. (Virk et al., 2020)

Comparison With Other Countries (Appendix 3)

This paper examines five countries – Singapore, Hong Kong, India, Thailand, and China – have implemented corporatization in their public healthcare systems. Key improvements observed across these countries include:

- 1) **Operational Efficiency:** Autonomy in management decisions has led to streamlined processes and reduced bureaucratic delays.
- 2) **Financial Viability:** Reforms in funding and billing systems have balanced financial sustainability with affordability, ensuring accessible healthcare.
- 3) **Quality of Care:** A focus on quality assurance and research has elevated the standards of medical care and innovation.
- 4) **Resource Allocation:** Strategic allocation of resources has optimized the utilization of funds and enhanced service delivery.
- 5) **Management Practices:** Better management practices and performance-based incentives have improved accountability and staff motivation.

These examples provide valuable insights into how corporatisation can address various challenges public hospitals face and improve overall healthcare systems.

Challenges of traditional funding streams and the need for change:

Public hospitals in Malaysia rely heavily on [government funding](#), typically allocated through the Ministry of Health [budget](#). (Mukhriz et al., 2022) (Malaysia National Health Account Section Planning Division, 2022) This traditional model faces [limitations](#). (Ku Abd Rahim et al., 2020) Budget constraints arise from competing priorities within the government's overall budget. Additionally, bureaucratic inefficiencies and delays in decision-making hinder timely resource allocation. This heavy reliance on government funding limits hospitals' ability to innovate and explore new approaches due to a lack of financial autonomy.

If Malaysia chooses to pursue the path of corporatization for public hospitals, granting greater autonomy to individual institutions can address these challenges. This approach can be further bolstered by



exploring alternative funding sources and innovative financing models. However, it is crucial to provide initial support to these hospitals, ensuring a sufficiently long runway for them to establish themselves under the new model.

Several [potential](#) approaches can help public hospitals diversify their revenue streams and reduce dependence on government funding. (Yu et al., 2008) Introducing insurance schemes, both mandatory and voluntary, could expand healthcare coverage and generate additional revenue for hospitals. [Public-private partnerships](#) offer another avenue by attracting private investment for infrastructure, equipment, and service delivery initiatives. (Rodrigues, 2023) Healthcare financing reforms focused on value-based reimbursement models incentivize efficient delivery of high-quality care. Hospitals can also generate additional income through fee-for-service arrangements, medical tourism programs, retail pharmacy services, and facility rentals. Seeking grants and donations from philanthropic organizations, development agencies, and individuals can further supplement funding for specific projects and community outreach programs. A mechanism to [jointly fund](#) healthcare services by the federal and state governments can be explored. (Australia Government, n.d.) Finally, catering to [full-paying patients](#) allows hospitals to [generate revenue](#) beyond government-subsidized care. (Mohd Fadzil et al., 2023) (*Full Paying Patient Services (FPP)*, 2020)

We stress that corporatization does not translate to lifting limits or caps on healthcare service fees in Malaysia. Maintaining a reasonable and affordable price for the rakyat is necessary. However, this does mean that hospitals should be allowed to seek alternative revenue streams.

Stakeholder involvement is Essential

A comprehensive review of corporatization requires input from various stakeholders. This includes government ministries (Health, Finance, Public Service Department, etc.), regulatory bodies (Medical Council, Pharmacy Board, Nursing Board, Dental Council, Board of Counselors, etc.), healthcare professionals (clinicians, administrators, support staff), and the public (patients, caregivers, with special attention to vulnerable populations). Town hall sessions nationwide can effectively capture this diverse range of perspectives. Certain legislations must be examined by the Attorney General's Chambers, whose advice has to be sought after.

Regulatory Framework and Accountability

A robust regulatory framework is essential to ensure proper checks and balances, as well as accountability throughout the process.

A single regulatory authority (Public Hospital Corporatisation Committee) should be set up to oversee the corporatisation process by developing and enforcing regulations, ensuring compliance with legal requirements, and safeguarding the interests of the stakeholders. This authority should be accountable to Parliament, which provides oversight throughout the process. To ensure transparency and accountability, independent auditors must audit, review, and assess the effectiveness of the corporatisation process and identify irregularities and areas for improvement. A clear legal framework outlining the rights and responsibilities of all parties involved in the corporatisation process, including laws governing the transfer of assets, employment rights, and patient care standards will facilitate the process. Lastly, accountability mechanisms must be set in place to hold decision-makers and stakeholders accountable for their actions, which includes regular reporting, performance reviews, and mechanisms for addressing complaints or grievances.

A well-designed regulatory framework is essential for ensuring proper checks and balances and accountability in the process of corporatisation of public hospitals. This framework should be transparent, participatory, and responsive to the needs of patients, healthcare providers, and the public.



CONCLUSION

This paper argues that corporatization of public hospitals, implemented thoughtfully and strategically, presents a promising path towards a more efficient, sustainable, and high-quality decentralized public healthcare system for all Malaysians. Granting public hospitals autonomy over human resources and finances is a critical but challenging step towards improved governance and performance. (Geyndt, 2017) Further research and open discussions are necessary to refine the details of this approach and ensure its successful implementation.

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Appendix 3: A summary of 5 countries' experience

Singapore: Pioneering Corporatization

In the early 1990s, Singapore embarked on a major restructuring of its public hospitals, transforming them into autonomous, corporatized entities. This initiative aimed to enhance efficiency, improve patient care, and ensure financial sustainability. Hospitals like Singapore General Hospital (SGH) gained autonomy to make operational decisions, leading to streamlined processes and reduced bureaucracy. This autonomy also facilitated rapid implementation of quality improvement measures and innovations in patient care. Corporatization included reforms in hospital funding and patient billing systems, balancing financial sustainability with affordability. **Singapore's unique approach to healthcare financing is pivotal in its reform, with their 3Ms: Medisave, MediShield, and MediFund. Fund depletion is avoided by utilizing only the income from the endowment fund, Medifund, to subsidize financially needy citizens after they have exhausted their obligatory savings account, Medisave, sourced from tax revenue. (Graham & Bilger, 2017)** Subsidies were tailored based on patients' financial status, ensuring healthcare remained accessible while promoting efficient use of resources. Finally, the autonomous status of hospitals enabled a stronger focus on quality assurance and research, with SGH becoming a leader in medical research in Asia.

Hong Kong: Streamlining Service Delivery

In 1990, Hong Kong established the Hospital Authority (HA) to oversee all public hospitals. The HA was designed to manage hospitals as corporate entities, with the goal of improving service delivery and operational efficiency. The HA introduced better management practices with clear accountability frameworks, setting hospital performance targets. This corporatization significantly improved operational efficiency and patient care standards. Additionally, the HA implemented integrated service



models that streamlined patient care across various levels, from primary to tertiary care. This holistic approach improved patient outcomes and reduced service duplication. Finally, the HA implemented strategic resource allocation, ensuring funds were directed where they were most needed, leading to better resource utilization and enhanced quality of care.

India: Public-Private Partnerships for Growth

Apollo Hospitals, established in 1983, is a prime example of successful corporatization in India. While not a purely public entity, its model has significantly influenced public healthcare delivery through Public-Private Partnerships (PPPs). Apollo Hospitals set new benchmarks in healthcare quality in India, offering advanced medical treatments and technologies previously unavailable in the country. By operating as a corporate entity, Apollo Hospitals introduced efficient management practices and scaled its operations across India, improving accessibility to high-quality healthcare. Apollo's success has spurred numerous PPP initiatives, where the private sector collaborates with public healthcare systems to enhance service delivery. These partnerships have improved public hospitals' infrastructure, management practices, and patient care.

Thailand: Specialization and Infectious Disease Management

Thailand's Bamrasnaradura Infectious Diseases Institute (BIDI) exemplifies successful corporatization within a specialized healthcare context. BIDI operates with a high degree of autonomy, allowing it to specialize in infectious diseases and respond rapidly to outbreaks, which was crucial during the SARS and COVID-19 pandemics. The institute's corporatized model has led to better resource management and patient care, enhancing Thailand's capacity to manage infectious diseases effectively.

China: Decentralized Management and Performance-Based Incentives

Guangdong Province in China has been at the forefront of pilot reforms aimed at corporatizing public hospitals. Hospitals in Guangdong were granted more managerial autonomy, which improved efficiency and reduced bureaucratic constraints. Introducing performance-based incentives for hospital staff improved service quality and patient satisfaction. Finally, financial reforms allowed hospitals to manage their budgets more effectively, leading to better resource allocation and sustainability.

Conclusion:

The experience of these five countries suggests that corporatization can be a viable approach to improve efficiency, enhance quality of care, and promote financial sustainability in public hospitals. However, it is crucial to consider the specific context of each country and develop a corporatization model that addresses its unique challenges while ensuring equitable access to quality healthcare for all citizens.

Formal Conclusion (to present):

This paper supports the decentralization of healthcare in Malaysia through the corporatization of public hospitals. Corporatization, as defined in this context, refers to restructuring public healthcare facilities into semi-autonomous entities that retain public ownership while gaining greater control over their management and finances. This approach offers a promising solution to the myriad challenges faced by Malaysia's public healthcare system, including resource constraints, talent management issues, operational inefficiencies, variable quality of care, financial sustainability concerns, and inequitable access to services.

By granting hospitals greater autonomy, we can expect significant improvements in operational efficiency, as hospitals will be able to streamline processes, reduce bureaucratic delays, and implement quality improvement measures more rapidly. Financial autonomy will enable hospitals to manage their budgets more effectively, invest strategically in staff training and advanced medical equipment, and reduce reliance on government funding. This financial independence can lead to shorter wait times, improved patient outcomes, and an overall enhancement in the quality of care delivered.



The separation of the Ministry of Health's dual roles as service provider and regulator will further enhance standards and financial accountability, fostering a culture of fiscal discipline and cost control. This allows the Ministry to focus on setting and enforcing professional and technical standards, ensuring quality care within the system, while hospitals operate with greater autonomy and a focus on financial sustainability.

Comparative analysis of corporatization in other countries such as Singapore, Hong Kong, India, Thailand, and China reveals key improvements including enhanced operational efficiency, financial viability, improved quality of care, optimized resource allocation, and better management practices. These examples provide valuable insights into how corporatization can address various challenges faced by public hospitals and improve overall healthcare systems.

However, successful implementation of corporatization requires careful consideration of potential impacts on accessibility, affordability, and the quality of care for all Malaysians. Ensuring stakeholder involvement, establishing a robust regulatory framework, and exploring alternative funding sources are critical steps in this process.

In conclusion, corporatizing public hospitals in Malaysia, through the decentralization of healthcare, presents a viable pathway to overcoming current systemic challenges and advancing the nation's healthcare system to better serve its population.



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