Business Model and Value Creation in a Healthcare Management Setting: The Case of a Malaysian Non-Profit Hospital

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This paper explores the type of business model used by a Malaysian non-profit hospital to accommodate its social and commercial goals and to examine the role of its business model in creating value to support its complex healthcare operations. Based on a qualitative research approach of an interpretive case study nature, this paper analyses how the non-profit hospital pursues multiple goals by leveraging on its prevailing business model and the value creation that has unfolded therefrom. The findings of this study suggest that a cross-subsidisation business model has been mobilised in the non-profit hospital to accommodate the social and commercial goals simultaneously within the hospital setting. The findings further suggest that the commercial profit has been used to subsidise and support the social agenda of serving the community. However, this study acknowledges that it is not possible to maintain an equal effort in achieving the two-fold organisational goals (i.e. social and commercial). This study contributes to the management (and accounting) literature in a number of respects. Theoretically, the study has probed into the business model of a non-profit organisation to understand value creation to healthcare management. Practically, the paper has demonstrated complex organisational practices and their associated issues in the healthcare industry in Malaysia, particularly in the hospital setting, which explains the healthcare management role in directing the entire functioning and effective hospital performance.

Key words: Non-Profit Organisations, Healthcare Management, Business Model, Value Creation
1. Introduction

Non-profit organisations (NPOs) have gained much attention in the extant literature over such issues as adopting commercial business practices (Bish & Becker, 2016; Maier, Meyer, & Steinbereitherne, 2016) resulting from inadequate (or limited) funding that affects organisations’ survival. They exist in the form of self-governing private organisations that are “not dedicated to distribute profits to shareholders or directors and pursuing public purposes outside the formal apparatus of the state” (Salamon, 1994, p. 109). As NPOs do not ‘naturally’ focus on generating profit, their organisations’ survival depends mainly on donations from external donors or philanthropists (Islam, 2016). However, NPOs have been evolving from practising ‘zero-profit’ to incorporating commercial business mechanisms to generate sufficient profits for them to conveniently ‘breathe’ (Weerawardena, McDonald, & Mort, 2010). Many scholars have argued that NPOs have been seeking innovative ways of developing specific business models to ensure their longevity (i.e. sustainability) (Eikenberry & Kluver, 2004). For example, such innovative ways are being reflected in the diversity of income sources that emphasise new revenue sources (from commercial activities) in addition to contributions from philanthropists and the public (Spieth, Schneider, Clauß, & Eichenberg, 2019).

Likewise, NPOs are prominent in the healthcare industry for their significant social welfare attributes in healthcare provision. Many healthcare providers have been facing challenges in sustaining their businesses financially due to increasing pressures emerging from rising healthcare costs to meet growing demands on healthcare services, infrastructure upgrades and technology advancements (Eikenberry & Kluver, 2004). Consequently, such hospitals incorporate business-like practices to take advantage of financial success through their core functions and/or specialties. This in return may allow them to create a long-term social impact not only to the society they desire to serve, but also to their very existence.

These hospitals hence embody an “emerging” commercial goal of generating profit to sustain business, while maintaining the original social goal from the healthcare perspective. As there is no clear notion of which organisational goal is to be maximised, it has become a challenge to healthcare management to develop an appropriate business model in view of different organisational goals (Nachum, 2018). Hence, there is a need to study these issues to generate an elucidating set of findings to demonstrate how a non-profit hospital does business by evaluating the role of its business model in creating value in the presence of both social and commercial agendas in the healthcare management setting. This study therefore addresses two research questions:

*RQ1.* What is the type of business model used by the non-profit hospital to accommodate its dual organisational goals?

*RQ2.* How does the business model of the non-profit hospital create value in the healthcare management setting?
2. Literature Review

2.1 Healthcare Management

Healthcare management involves a complex process which concerns dealing with the hospital’s daily operations and unexpected issues that may arise in the course of delivering healthcare services (Ditzel, Štrach, & Pirozek, 2006). Generally, healthcare management comprises of key players with a wide range of professions such as medical, nursing, administrative, allied health and other staff (Eeckloo, Van Herck, Van Hulle, & Vleugels, 2004; Yadav, 2006). Together, they direct the entire functioning and effective hospital performance, building on the hospital’s mission, supporting and monitoring their realisation at the operational level within the hospital administration (Eeckloo et al., 2004).

An effective healthcare management requires vision, formal mission statements and clearly defined performance objectives, codes of conduct and procedures (Ditzel et al., 2006; Yadav, 2006). According to Nachum (2018), the healthcare industry strives to create value for people to extend their lives and enhance the quality of their lifestyles rather than maximising profit as the prime goal. In this regard, the provision of healthcare is deemed as a social good to reach people at all levels based on their needs but not their ability to pay (WHO, 2000). Hospitals are caught between helping the community and surviving in the market. They provide affordable and charitable healthcare services to the poor while delivering their healthcare services in a business-like setting to generate sufficient revenue and profit from patients who can afford to pay for their medical treatment.

Hence, hospitals are considered to embody more than one organisational goal. In the case of non-profit hospitals, the embodiment of the social and commercial goals is deemed as common to sustain their healthcare businesses. Therefore, the concern on organisational sustainability with multiple goals raises an important question in terms of how hospitals manage their healthcare businesses. One generic answer to this is to establish a new form of (or appropriate) business model to create values for organisations (Porter & Kramer, 2011).

2.2 Business Models in Organisations

In the extant literature, business models are commonly described as how an organisation does business (DaSilva & Trkman, 2014) through value creation and value capture (Massa, Tucci, & Afuah, 2017). The traditional view is that business models are mostly applied in the context of purely commercial organisations. While business models originally focussed on commercial value, some studies have highlighted that the sustainability and/or social welfare considerations have formed an integral part of the business models of modern organisations (Laasch, 2018; Ocasio & Radoynovska, 2016), due to the increasing interest in social and/or environment issues (Dohrmann, Raith, & Siebold, 2015; Michelini & Fiorentino, 2012).
In view of such social and/or environmental trends, it can be argued that business models are designed to realign these goals in consideration of the social and commercial impacts (Lüdeke-Freund, Massa, Bocken, Brent, & Musango, 2016; Seelos & Mair, 2007). Interestingly, prior studies have highlighted that business models should follow a clear social mission and deploy resources in a way that allows organisations to be economically self-sustaining (Seelos & Mair, 2007; Wilson & Post, 2013; Yunus, Moingeon, & Lehmann-Ortega, 2010). We argue that such configuration of resources is relevant in the non-profit setting as NPOs incorporate commercial business practices into their business models to sustain their business operations while meeting social goals, hence justifying the need to pursue (or rather combine) the social and commercial goals. By having commercial businesses that explicitly focus on social goals rather than maximising commercial profit, we argue that such self-sustaining NPOs are known as social businesses (Yunus et al., 2010).

In so doing, organisations (e.g., NPOs) may benefit from the combination and synergies of social and commercial goals (Battilana & Lee, 2014). They implement business models that regard commercial success as a prerequisite to achieve sustainability and to contribute towards their social missions (Hahn, Spieth, & Ince, 2018; Yunus et al., 2010). Such ‘intervention’ is referred to by the literature as ‘cross-subsidisation’ (Santos, Pache, & Birkholz, 2015; Yunus, 2010). According to Angeli and Jaiswal (2016), cross-subsidisation “promotes the organisational mechanism wherein affluent consumers pay relatively higher prices for a product or service compared to their under-privileged counterpart, who pays lower prices for a similar product or service” (p. 497).

Several studies have showed that the cross-subsidisation business model is applied in the healthcare setting in which the revenue earned from paying patients is used to cross-subsidise the treatment costs for the poor (or under-privileged patients) (Trong Tuan, 2012; Yunus, 2010). In so doing, Angeli and Jaiswal (2016) argued that there should be a suitable composition of wealthy and destitute patients for such practice to succeed. Specifically, hospitals charge differing rates for healthcare services (or medical treatments) depending on patients’ ability to pay. Although McMullen and Bergman Jr (2018) regard this pricing approach as price discrimination, such an approach appears to be a common practice in hospitals (particularly those with a non-profit orientation) as it blends well with their efforts to pursue more than one organisational goal (i.e. the social and commercial goals).

A business model that is built around social and commercial goals involves a process of value creation (and value delivery) and value capture (i.e. form of income received) that can be maintained in the long run (Dohrmann et al., 2015; Massa et al., 2017; Osterwalder & Pigneur, 2010). Based on the dual organisational goals in this study, the commercial value is captured through the market (i.e., market revenues) and the social value is captured through social welfare (i.e. donations) (Porter & Kramer, 2011; Schaefer, Corner, & Kearins, 2015). Geissdoerfer, Vladimirova, and Evans (2018) further noted that such a business model
“incorporates pro-active multi-stakeholder management, the creation of monetary and non-monetary value for a broad range of stakeholders and holds a long-term perspective.” (p. 403).

Nevertheless, organisations’ efforts to pursue the social and commercial goals in their business models simultaneously often result in some form of tensions due to conflicting demands and disconcerted reactions amongst stakeholders (Smith, Gonin, & Besharov, 2013). In this regard, organisations especially in the non-profit setting, often resort to balancing their stakeholders’ expectations by addressing commercial pressures without compromising social missions (Costanzo, Vurro, Foster, Servato, & Perrini, 2014; Sabatier, Medah, Augsdorfer, & Maduekwe, 2017). To analyse these issues within the context of the healthcare setting, the business model conceptualisation of Yunus et al. (2010) is adopted, owing to its rich theoretical foundation and its capacity to consider social business models to create business value.

3. Conceptual Framework

This study’s framework is based upon the social business models to explain (i), how the hospital does business to support its dual organisational goals and (ii), how the hospital’s business model creates value to support its operations. The story behind the social business concept is related to our study concerning the social and commercial goals, which is closely related to the concept of social enterprise. Such a concept refers to self-sustaining organisations that conduct commercial activities to generate income, at the same time having a primary purpose to serve society (i.e. improve wellbeing of the poor) (Yunus et al., 2010).

Yunus et al. (2010) have introduced a social business model framework comprised of three components: value proposition, value constellation and profit equation (economic profit and social profit) (see Table 1 below).

**Table 1: Components of a Social Business Model**

<table>
<thead>
<tr>
<th>Components</th>
<th>Explanation</th>
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<tbody>
<tr>
<td>Value proposition</td>
<td>Who are our customers and what do we offer to them that they value?</td>
</tr>
<tr>
<td>Value constellation</td>
<td>How do we deliver this offer to our customers? (e.g., value chain and value network).</td>
</tr>
<tr>
<td>Profit equation (value creation)</td>
<td>How value is captured from the revenues generated through the value proposition?</td>
</tr>
<tr>
<td></td>
<td>How costs are structured and/or how capitals are employed in the value constellation?</td>
</tr>
</tbody>
</table>

According to Yunus et al, the value proposition and the value constellation of most conventional business models solely focus on customers. Whereas in the social business model framework, these values encompass all stakeholders such as customers, suppliers and partners, including shareholders who understand and accept the organisations’ social goals. The blend of value proposition and value constellation will eventually create positive profit equation(s). In accommodating the commercial and social goals, profit equation is extended into two spectra – economic profit and social profit. Whilst the former refers to financial returns (or profit), the latter refers to welfare-enhancing outcomes (Haigh & Hoffman, 2014; Yunus et al., 2010).
Spieth et al. (2019) argued that value proposition and value constellation are financially interpreted in an economic profit equation to fully recover costs (i.e. revenues offset costs) to sustain organisations, rather than maximising profit like any for-profit business. Social businesses are not intended to distribute profits for shareholders (or investors), but to reinvest profits generated in the business that eventually benefit the target group of beneficiaries by offering lower prices, better quality or greater accessibility of products or services (Yunus et al., 2010). While achieving financially sustainability, Spieth et al. (2019) argued that the social profit equation is deemed crucial for organisations established with a social mandate to pursue a social mission. All components of a social business model explained above (and their interrelations) are illustrated by Figure 1 below.

![Social Business Model Framework](Source: Yunus et al., 2010)

In short, to achieve the two seemingly conflicting social and commercial goals, the concept of social business models is deemed crucial for organisations to proactively adopt an appropriate business model to achieve their organisational goals. Therefore, this business model concept offers an integrated view on the way organisations generate revenues and profits through a combination of value proposition and value constellation that generate positive (economic and social) profit equations (Yunus et al., 2010), thereby creating value that is useful for organisations to be socially and financially sustained (Geissdoerfer et al., 2018).

4. Research Methodology

4.1 Data Collection

The main source of data for our case study was interviews, supplemented by documentary reviews and observations. We employed a purposive sampling method in selecting
interviewees and applied the snowballing technique to assist this selection. For instance, we started with the Chief Finance Officer (CFO) of the hospital as the key informant and referral to recruit more interview participants relevant to the study. All interviewees who participated in this study are listed in Table 2 below.

Table 2: List of Interviewees

<table>
<thead>
<tr>
<th>Interviewees</th>
<th>Information Provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Finance Officer (CFO)</td>
<td>• Business model</td>
</tr>
<tr>
<td></td>
<td>• Fees charged to patients</td>
</tr>
<tr>
<td></td>
<td>• Revenue stream</td>
</tr>
<tr>
<td></td>
<td>• Issues and challenges faced</td>
</tr>
<tr>
<td>Welfare Department’s Manager</td>
<td>• Hospital’s social agenda</td>
</tr>
<tr>
<td></td>
<td>• Subsidisation</td>
</tr>
<tr>
<td></td>
<td>• Issues and challenges faced</td>
</tr>
<tr>
<td>Welfare Department’s Executive</td>
<td>• Procedure for processing welfare aid</td>
</tr>
<tr>
<td>Customer Service Attendant</td>
<td>• Criteria for applying welfare aid</td>
</tr>
<tr>
<td>Cardiologist</td>
<td>• Professional values</td>
</tr>
<tr>
<td>Nurse</td>
<td>• View on working priorities</td>
</tr>
</tbody>
</table>

To gain understanding of the business model adopted by the hospital, interviewees were given a set of semi-structured questions related to the hospital’s missions, strategies and their daily activities. These questions were adjusted according to interviewees’ backgrounds to provide relevant evidence. The semi-structured interview comprised two main parts (see Table 3 below). All interviews were recorded with every respondent’s permission and interview data were transcribed into word documents immediately after each interview concluded. Whenever necessary, follow-up enquiries were made via email to confirm and/or clarify our doubts on certain (unclear) information.

Table 3: Semi-structure Interview Questions

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identifying the hospital’s business model</td>
<td>• Do you have a specific model for your business?</td>
</tr>
<tr>
<td></td>
<td>• Could you please describe the business model adopted by this hospital?</td>
</tr>
<tr>
<td></td>
<td>• Why do you adopt it?</td>
</tr>
<tr>
<td></td>
<td>• Who designed it?</td>
</tr>
<tr>
<td>Understanding how value is created</td>
<td>• How do you generate income?</td>
</tr>
<tr>
<td></td>
<td>• Who is responsible for income generation?</td>
</tr>
<tr>
<td></td>
<td>• How is this income distributed, and to whom?</td>
</tr>
<tr>
<td></td>
<td>• Do you generate value beyond profit, and how? Why do you need to do that?</td>
</tr>
</tbody>
</table>

As there was a risk of depending on responses provided by interviewees and their reliability to objectively describe daily practices, we minimised the risk of bias by triangulating the narratives of interviewees with an analysis of the hospital’s internal documents to ensure accuracy of data (Myers, 2019; Yin, 2017). Such documents included annual reports,
pamphlets, the hospital’s official website etc. to enhance our understanding of the hospital’s operations and financials by confirming the information derived from interviews.

We also carried out some brief observations in the hospital to obtain understanding of the hospital environment and daily operations and how they relate to organisational goals. A brief tour of the hospital, which was accompanied by the key personnel involved in the interview, was conducted prior to the interview sessions in relation to the hospital’s facilities and services, observing how the hospital’s Welfare Department handled social welfare cases by processing the applications for welfare aid. All findings and evidences were sent to the case hospital to validate and to confirm our interpretations of evidence are accurate and meaningful.

4.2 Data Analysis

We used thematic analysis to analyse our data based on four themes emerging from our interviews (see Table 4 below). This method has been widely used in qualitative research to analyse interviews that concern examining the perspectives of different groups of actors and generating unanticipated insights that are useful for the study (Braun & Clarke, 2006; King, 2004). We started the analysis by repeatedly reading the interview transcripts to familiarise ourselves with our data. Various themes and patterns emerged as we processed the data from the case study. For the purpose of this study, we focus on how the non-profit hospital accommodates dual goals through an in-depth analysis of value creation resulting from the application of the business model.

<table>
<thead>
<tr>
<th>Research Questions</th>
<th>Emerging Issues (Themes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>What is the type of business model used by the non-profit hospital to accommodate its dual organizational goals?</td>
<td>• Business model</td>
</tr>
<tr>
<td>How does the business model of the non-profit hospital create value in the healthcare management setting?</td>
<td>• Organisational goals</td>
</tr>
<tr>
<td></td>
<td>• Profit generation and distribution</td>
</tr>
<tr>
<td></td>
<td>• Sustainability</td>
</tr>
</tbody>
</table>

Such data was interpreted based on our views on the complex healthcare management that involved human activities and the decision-making processes without assuming priori knowledge (Braun & Clarke, 2006). All quotes derived from the interviews conducted were anonymised to protect participants’ identities.

5. Findings

5.1 Background of Tanjung Hospital

Tanjung Hospital was a philanthropic institution that provided basic medical care in one of the states in the Northern part of the Malaysian Peninsula. It was established in the 19th century by a few, yet far-thinking Chinese community leaders to provide free consultations and medication
5.2 Multiple Goals within Tanjung Hospital

As an independent non-profit hospital, Tanjung Hospital enacts two organisational goals – social and commercial goals.

5.2.1 Social goal.

Originating from a charity background, Tanjung Hospital is socially obligated to serve the community by offering affordable healthcare services. This social goal is imprinted by the hospital’s mission statement put up at every corner in the hospital. To preserve the social goal running through the hospital, the hospital provides welfare aid to its patients where all social welfare matters are put under the responsibility of the Welfare Department. As its manager described:

Anything related to welfare is referred to here [i.e. the Welfare Department]. The welfare aid [will be provided] to patients for such cases as heart surgery and cancer treatment [with an allocation of] approximately RM1 million every year. We go case-by-case basis to see what kind of help we can lend to them and how much is the amount involved.

Nonetheless, the hospital has been selective in giving welfare aid to patients due to the limited allocation of welfare funds, as commented by its Customer Service Attendant:

Patients who need financial assistance [welfare aid] for their medical treatment are required to file their applications to this [welfare] department. [In order to be eligible for the welfare aid,] patients must fulfil some criteria [which include being] Malaysian citizens who receive medical treatment in the hospital and are [warded] in the common ward.

Given the criteria above, an executive at the Welfare Department mentioned that the hospital has to follow some internal control procedures such as credit and background checks (e.g., home visit) to make sure that they are genuinely eligible for the assistance. The Welfare Department will process the patient’s application for welfare aid and submit the applications to the Welfare Executive Committee for approval. Once the assessment is complete, patients will be charged at minimal rates (discounted) or even free.

It is worth noting that the hospital’s employees (or at least some of them) share the same view as the hospital to pursue the social goals. For instance, it is observed that its medical staff are committed to the hospital’s social goal to help the needy patients as it is regarded as highly relevant to their professional values. Its Welfare Department’s manager stated that the doctors are willing to waive their consultation fees if patients face financial difficulties. According to
one of its cardiologists, doctors are supposed to live up to their professional values of
prioritising patient’s wellbeing. He expressed his view as follows:

*I always tell my patients that health is more important than wealth. We are doing as
much as we can to help these needy patients without risking their lives. This is our
social reason why we exist in the first place.*

The above are showing that Tanjung Hospital is serious in advancing its social goal. All these
reflect the support that the hospital has received from its healthcare management to uphold
social correctness.

5.3.2 Commercial goal.

Tanjung Hospital has a commercial goal to obtain enough money in order to be financially
viable, as stated by its CFO. It is observed that the hospital has changed its practice from
providing free consultation and medication when it was first established to providing healthcare
services at affordable prices. Its CFO expressed the need for such change to take place as
follows:

*It is impossible to run a completely free hospital now because of the tremendous amount
of recurrent expenses. There should be some source of income to partially sustain the
running of the hospital as well as to defray charges for the non-paying patients. So, we
are now moving towards a business form and enacting a commercial objective to
generate income to support our operation.*

In this quote, its CFO implied that the hospital sees profit as an enabler for their social welfare
activities. One of its nurses commented:

*We only follow instructions from our superior [management] […] to focus more on the
Indonesian patients and the first-class patients. Because their fees will eventually give
us the money to help our poor patients. So, we need to make sure that we are giving the
best service to them as they are paying us to get good quality treatment here.*

Hence, the hospital is doing business that aims to provide quality healthcare services to the
community. It is observed that the hospital is serious in advancing its commercial goal from
the way profits are generated to sustain its business operations, so as to continue serving its
social goal.

5.3 Business Model of Tanjung Hospital

Tanjung Hospital now appears to have a wider range of income sources as compared to its early
establishment where the hospital merely received donations from the public or philanthropists.
Currently, the hospital generates income from public donations, commercial rental, parking
fees and medical charges.
Direct donations from the public is one of the main sources of income of the hospital. The hospital receives donations from philanthropists, public via online every day, and sometimes from its recovered patients. The hospital also collects rents from properties donated by philanthropists and from properties under the hospital’s trust, with rental not more than RM500 of rental per month. Recently, the hospital has upgraded and introduced paid parking facilities that produce additional income for the hospital, as stated by its CFO:

*We can generate [some] income from the parking charges imposed on our visitors and patients […] charge minimally to [at least] help us to finance our operations and [to] track the visitor’s flow in the hospital.*

Despite having a range of income sources, its CFO claimed that the flow of donations and other income is inconsistent and insufficient to cover operational expenses. Instead, she reiterated that the most stable income of the hospital is revenue from medical bills. The hospital does not entirely rely on donations, so it generates profits to sustain financially and to carry out its social means. Its Welfare Department’s manager supported this practice of self-generating income:

*We don’t receive huge amount of donations from the public now. The amount we used for welfare aid is more than the donations we get. So, we need to earn [revenue] from medical bills charged on the upper-class patients and use [this revenue] to cover our operations and subsidise the needy patients.*

As medical charges are the main source of income for Tanjung Hospital, the hospital has made various decisions on the pricing level by charging differing rates based on the patient’s financial status and their affordability. The hospital is charging the upper-class patients at higher but affordable prices to produce ‘desired’ profits that would enable charges to the lower-class patients (i.e. patients in common wards) to be sustained. Also, the hospital will impose higher charges on the medical bills covered by an insurance company, as claimed by its Welfare Department’s manager as follows:

*There are two types of patients here. One is private and another is based on insurance claims. It is fine for us to charge our patients higher if they claim from insurance. We can use this opportunity to get more revenue to help those in need.*

As Tanjung Hospital is popular among the community for its affordable yet quality medical charges, many patients would seek medical treatment at the hospital, including foreigners. The hospital has received many medical tourists, especially patients from neighbouring countries seeking medical treatment in the hospital. Although the hospital charges a comparably low price on foreigners, it still manages to increase its revenues as the medical charges on foreigners are much higher than the locals, as stated by its CFO:

*We are charging the foreigners at a higher price. This extra profit [in return] will help us to serve our local patients. Because if we do not accept the foreign patients, we will
lose [a great amount of] revenue since we charge them more than the locals. So, it’s a big chunk there.

Following the quotes on charging patients differently, its CFO emphasised that patients who could afford to pay the standard rate for their medical treatment would help to pay for poor patients who could only contribute little or none. She stated that the common wards were making losses as the patients were charged very minimally or even at no cost. For instance, patients are only required to pay a minimum of RM5 for registration to cover the nominal cost for administrative and support services. Therefore, the expenses of the common ward are covered and evened up from the charges on the upper-class patients, patients covered by insurance and/or foreign patients. Hence, its CFO expressed that the hospital is practising a cross-subsidisation business model that uses revenues from paying patients to subsidise the treatment costs for the non-paying patients.

Interestingly, despite the distinct level of charges, both its CFO and the Welfare Department’s manager agreed that Tanjung Hospital always offers quality service to all patients irrespective of their status to uphold the hospital’s roots of serving the community. It is observed that the BODs perceive patient care as the hospital’s utmost priority, while the management team works on the commercial goal to generate adequate income in order to sustain the hospital operations and to be able to serve the community needs. As such, different opinions may occur that result in tensions when making certain decisions.

Therefore, the cross-subsidisation business model implemented by Tanjung Hospital is set to ensure continued pursuit of its multiple goals within the hospital. The profit generated will be used to subsidise the social welfare means and ensure its long-term sustainability, thereby create value for the hospital.

5.4 Value Creation in Tanjung Hospital

Tanjung Hospital is concerned with the sustainability of its business. The hospital extends its focus on commercial performance to obtain enough money (value creation) for long-term financial viability. Such a view is reflected in the hospital’s annual report where the hospital has been experiencing little surplus, or even deficit in the medicine division (see Table 5). Thus, the hospital has a clear desire of increasing revenue generation in order to survive in the long run.

<table>
<thead>
<tr>
<th>Table 5: Financial Performance in the Medicine Division</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2016</strong></td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
</tr>
<tr>
<td><strong>Operating Expenditure</strong></td>
</tr>
<tr>
<td><strong>Surplus/(Deficit)</strong></td>
</tr>
</tbody>
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(Source: Adapted from Annual Report of Tanjung Hospital, 2017)
Commercial profits are getting more emphasis in Tanjung Hospital. As indicated earlier, the hospital has a wider range of income sources to generate more money for the hospital’s sustainability. For example, the hospital has imposed carpark charges (previously free-of-charge) to obtain additional income. Furthermore, the hospital focusses more on full-paying patients (i.e. first-class patients, patients with insurance coverage and foreign patients) so as to be able to charge higher medical bills to generate more income for the hospital. The hospital’s desire to increase revenue generation is enforced through such practices to ensure value is created for long-term financial viability.

As stated by a majority of interviewees, value creation is not only to demonstrate strong financial performance to meet financial obligations, but also to continue being relevant socially. Profit generated is used to cover the hospital’s operation and welfare matters as practised in the cross-subsidisation business model. Financial performance has been regarded as a strong contributor to social performance in the hospital. The hospital also generates value beyond profit where it maintains as many healthcare services as possible close to the community’s affordability so that the community can access quality healthcare services at an affordable price.

6. Discussion

This section explores the way the case hospital does business and creates value through its business (in terms of business model) to meet the demands of social obligations and financial sustainability. The findings supported the view of Trong Tuan (2012) and Yunus (2010) as Tanjung Hospital employs a cross-subsidisation business model to accommodate both the social and commercial goals.

This business model illustrates the hospital’s strategy of cross-subsidising between paying patients and free or subsidised patients. As one of the interviewees mentioned, “[We] use the revenue from medical bills charged on the upper-class patients to cover our operations and subsidise the needy patients”. In this quote, it is observed that the hospital has profit to sustain its business operations and continue upholding its charitable attributes of providing affordable healthcare simultaneously. Clearly, both the social and commercial goals are aligned to achieve sustainability (Laasch, 2018; Ocasio & Radoynovska, 2016) through the cross-subsidisation business model (Trong Tuan, 2012).

We extend business researchers’ argument on the business model (i.e. built around the social and commercial goals) by showing that the hospital’s cross-subsidisation business model involves a process of value creation (value delivery) and value capture that can be maintained in the long run (Dohrmann et al., 2015; Massa et al., 2017; Osterwalder & Pigneur, 2010; Geissdoerfer et al. 2018). In the following discussions, we will examine this process in two parts: (i) how value is captured from the way income is received in the hospital and (ii), how value is created to fulfil the hospital’s dual organisational goals.
Based on the business model employed by Tanjung Hospital, the hospital generates revenue and profit from full payment on upper-class patients and charging higher rates on patients with insurance and foreign patients. The commercial/market source of income is complemented by commercial rental and parking charges that contribute to the revenue of the hospital. The existing business model literature has recognised such business practice of earning revenue through commercial activities as the way value is captured through the market (Porter & Kramer, 2011; Schaefer et al., 2015).

Conversely, it is observed that the hospital still receives donations from the public and philanthropists as one of the main income sources of sustaining the hospital. This form of income is perceived as value capture through mission (Porter & Kramer, 2011; Schaefer et al., 2015). However, donations are rather received in smaller amounts and having inconsistent flow (cf. Fitzgerald & Shepherd, 2018; Parks, 2008). As commercial income is said to be the most stable income of the hospital and it is employed as an input of the cross-subsidisation practice, we argue that value is mainly captured through market development.

The profit generated will eventually create value for the hospital to sustain its business operations. In other words, value is created when the hospital obtained enough money (or generated profit) for long-term financial viability. It is observed that commercial profits are getting more emphasis in Tanjung Hospital and are enforced through commercial activities such as gaining margin from full-paying patients and imposing parking charges.

Furthermore, it is observed that value is created beyond profit, as evident from the cross-subsidisation business model to accommodate the hospital’s social and commercial goals. Based on our findings, the cross-subsidisation practice simply means being able to survive so that the hospital can continue serving its social mission by making use of profit earned to help the poor. The hospital also maintains the prices for healthcare services close to the community’s affordability to ease patients’ access to quality healthcare services at an affordable price. Driven by the commercial success of such an offering, the hospital can deploy profits earned to provide greater opportunities of healthcare services to patients in need through the combination of dual organisational goals. It can be argued that the more people the hospital enables, the more commercial and social values can be achieved.

Likewise, the use of the cross-subsidisation business model is supported by the literature where such a business model adheres to a social goal as the primary purpose and deploys resources (i.e. profit) in a way that allows organisations to be self-sustaining (Seelos & Mair, 2007; Wilson & Post, 2013; Yunus et al., 2010). Hence, the existing business model literature has recognised such a business model which concerns considering commercial activities to raise money to support its business and welfare activities as an example of social business models (Yunus et al., 2010). Similar to the insights from Yunus et al. (2010) on social businesses, we argue that Tanjung Hospital is a self-sustaining hospital that conducts commercial activities to generate income, while at the same time, it upholds to its primary purpose (or vision and mission) to serve the society.
By employing a social business model (i.e. cross-subsidisation), value proposition and constellation encompass all stakeholders rather than limiting itself to customers (full-paying patients). These values are financially interpreted in an economic profit equation of using revenue generated from the hospital’s commercial activities to fully recover costs of operations instead of maximising profit. Indeed, the findings show that Tanjung Hospital intends to generate profit based on its increasing focus on commercial activities. However, the act of profit generation is merely concerning reinvesting the gained profit in the hospital’s operations, to support welfare activities and sometimes for the hospital’s development purpose. The main purpose of the hospital having commercial profits is to be financially sustainable, not aiming to maximise profit with its commercial activities. Likewise, the evidence found in the annual report of the hospital, which reported minimal profit (or fluctuations with deficits), has indicated that the hospital is not looking to maximise profit. Thus, this finding is consistent with the economic profit equation as proposed in the social business model framework which reiterates the purpose of economic profit as a means to recover costs (Yunus et al., 2010).

As discussed earlier, the hospital’s social goal of providing affordable healthcare services has placed much focus on value created for the society. Such value represents a social profit equation of welfare-enhancing outcomes (Haigh & Hoffman, 2014; Yunus et al., 2010) in addition to a conventional business model framework that only concerns commercial profit. Hence, it is worth noting that the hospital’s value creation from the social and commercial activities are interdependent between each other. On the one hand, commercial profit is regarded as a means of meeting social goals (Hahn et al., 2018). With the money available at the disposal of the hospital, the hospital can help more people in return. On the other hand, social benefits link transactions with direct value generation within its value chain (value constellation) (Spieth et al., 2019).

As reflected by one of the interviewees, “We have vendors who are kind enough to charge us at lower prices for [some] medical supplies because of our nature [charitable hospital], [they] help us to improve our expenses and subsequently charge the patients lower prices.” In this quote, we argue that the hospital’s social commitment of providing affordable healthcare services demonstrates an attempt to shape the hospital’s value chain (or value constellation) in accordance with its mission. Spieth et al. (2019) argued such a situation as a means to empower partners (in this case, medical suppliers) and to contribute the social value of community development. This in return seems to reflect a better financial performance of the hospital in which expenses are reduced to obtain more profits to achieve social goals.

In short, the cross-subsidisation business model well exemplifies business strategies on the value creation of business models that must ensure financial returns in order to be socially and commercially sustainable. However, it is not necessary for organisations to give equal weight between the social and commercial mechanisms. This is because the combination of competing organisational goals in the business model design often results in various tensions (Smith et al., 2013). By introducing business mechanisms into NPOs, it raises issues of power imbalances.
which are rarely considered within the extant literature. Our findings are consistent with the view that managers of any NPOs has commonly agreed that they face the most pressing challenges to maintain financial sustainability of their organisations without threatening their ability to pursue their social mission (Costanzo et al., 2014; Sabatier et al., 2017).

The hospital’s efforts to achieve financial stability while meeting the social goal to provide affordable healthcare seem to be conflicting with one another. The social goal assumed by the hospital remains as the main driving force of the hospital’s actions and impact. It could be argued that the hospital’s commitment to its social role would limit the hospital’s commercial potential. For instance, the BODs are reluctant to increase the medical charges on patients to achieve sound profits (e.g., to cover increasing healthcare expenditures) to avoid financially burdening the patients. This evidence extends the understanding of Yadav (2006) that managers face difficulties in managing hospitals for the hospital’s sensitivity in dealing with life and death, hence it is regarded as not possible to compromise the well-being of patients for profit.

Furthermore, it can be understood that the hospital’s desire to generate more revenue to be profitable through the high price of medical charges on certain patients is conflicting with its social goal because this may affect patients’ affordability and drifting away from its goal of providing affordable healthcare. However, the discrimination in pricing is known as a complementary and commonly accepted approach as a means of pursuing dual organisational goals (social and commercial) (McMullen & Bergman Jr, 2018). The hospital always tries its best to maintain the medical charges at a lower range to avoid causing burden to its patients. Irrespective of patients’ financial ability, the hospital treats all patients equally by providing them with quality yet affordable medical services. Therefore, we extend our arguments by presenting some evidence that the cross-subsidisation business model employed is a response to the competing social and commercial goals.

In conclusion, the business model concept provides an adequate perspective to capture the complex strategies and operations for aligning differing goals behind organisations’ activities (Moizer & Tracey, 2010; Spieth et al., 2019). More importantly, it is a frame of reference to provide a premise on how multiple goals influence an organisation’s practices and is eventually reflected in the business model designs to create and capture values. This study hence brings some contributions to literature and practices.

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