DNV Healthcare in China
- Making Healthcare Healthier -

BI Norwegian School of Management
Fudan University
International Marketing
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This thesis is conducted as a part of the undergraduate program of BI Norwegian School of Management. This does not imply that the methods applied, the results represented, nor conclusions drawn, are verified by BI Norwegian School of Management, or Fudan University.
EXECUTIVE SUMMARY

This thesis presents the findings from an explorative research study of the Chinese healthcare market, with specific focus on the accreditation, certification and consulting market. The research has been conducted for DNV Healthcare (DNVHC), a division of Det Norske Veritas (DNV).

DNV has been present in China since 1888, however DNVHC are new to the Chinese market and have at present time not conducted actual sales of their services in China.

METHODOLOGY

The authors of this thesis have used literature and findings from articles as secondary data. These articles are summarized in the appendix; summary compendium 1 and 2. For their primary data findings they have conducted a series of interviews, using an explorative design.

The interviewees include DNV staff, DNVHC staff, doctors, hospital administrative, lawyers and professors.

FINDINGS

The findings in this thesis indicate that there is a growing demand for better healthcare in China, as the current system is not functioning as well as it should. The Government has taken steps towards improvement, by launching a pilot reform in 2009. The likelihood of success will be higher if the government brings in a third party to overview the success or failure of the pilot reform and implement suggestions for improvement.

Findings show that there is lack of knowledge about accreditation and certification within the healthcare system. And where there is knowledge the necessary funds are often lacking.
ACKNOWLEDGEMENTS

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The authors would like to thank all of the interviewees for sharing their knowledge and expertise.

Last, but not least the authors would like to thank their fellow students for their valuable comments and insight.

Shanghai, May 2010

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## TERMS AND ABBREVIATIONS

### Abbreviations

**ACHS:** The Australian Council on Healthcare and Standards  
**AQSIQ:** The Administration of Quality Supervision, Inspection and Quarantine  
**B2B:** Business-to-Business  
**CHEI:** China Health Economics Research Institute  
**COO:** Chief Operations Officer  
**CoPs:** Conditions of Participation  
**CRO:** Contract Research Organizations  
**CSR:** Corporate Social Responsibility  
**DNV:** Det Norske Veritas  
**DNVHC:** Det Norske Veritas Healthcare (Hereby in China)  
**DNV SC:** Det Norske Veritas Sustainability Centre  
**EQAICC:** Environment & Quality Assurance International Certification Center  
**EQuIP:** Evaluation and Quality Improvement Program  
**FDA:** The State Food and Drug Administration  
**FFS:** Fee-For-Service  
**GDP:** Gross Domestic Product  
**IMO:** International maritime organization  
**ISO:** International Organization for Standardization  
**IT:** Information Technology  
**MOFCOM:** The Ministry of Commerce  
**MoH:** The Ministry of Health  
**MoU:** Memorandum of Understanding - A legal document outlining the terms and details of an agreement between parties, including each parties requirements and responsibilities. The MoU is often the first stage in the formation of a formal contract. A MoU is far more formal than a handshake and is given weight in a court of law should one party fail to meet the obligations of the Memorandum  
**NHS:** National Healthcare Services  
**NIAHO:** National Integrated Accreditation for Healthcare Organizations  
**PE Specialist:** Physical Environment Specialist  
**PR:** Public Relations  
**R&D:** Research and development  
**SAC:** Standardization Administration of China  
**SFDA:** The State Food and Drug Administration  
**UN:** United Nations  
**WHO:** World Health Organization  
**WOM:** Word-of-Mouth
Explanations

Accreditation and certification: A process where a third party confirms that a component, product, plant or system complies with specified requirements. Most often the certification confirms compliance with national or international standards, but also other requirements may be specified.

Consulting: the practice of giving expert advice within a particular field

Healthcare Industry: specifically about the hospital accreditation and healthcare consulting

Guanxi: Guanxi describes the basic dynamic in personalized networks of influence, and is a central idea in Chinese society.

One Child Policy: One-child policy was introduced in 1979 to reduce China’s burgeoning population. A couple was allowed to have one child. If that child turned out to be a girl, they were allowed to have a second child. They were not allowed to have any more children after the second child.

Risk Management: The process of determining the maximum acceptable level of overall risk to and from a proposed activity, then using risk assessment techniques to determine the initial level of risk and, if this is excessive, developing a strategy to ameliorate appropriate individual risks until the overall level of risk is reduced to an acceptable level.
THESIS OUTLINE

The thesis is based on the principles of Framnes’ double funnel.

Background

Introduction  DNV & Industry  Methodology  Theory

Analysis

Internal  External  Customer  Competitors

Strategic Foundation

SWOT  SPD  CFS  Goals

Strategy

STP  Marketing mix  Relationship marketing

Conclusion & Recommendations

Figure 1: Thesis outline
1.0 INTRODUCTION

1.1 Background for Thesis

The aim of this thesis is to provide DNV Healthcare (DNVHC), an operating unit of Det Norske Veritas (DNV), with information about the Chinese healthcare industry and analyze opportunities for DNVHC, to establish themselves as a main player. This thesis will also function as diploma thesis for the authors attending a bachelor program in International Marketing at Fudan University and BI Norwegian School of Management.

The authors were given the assignment by supervisor Mr. Jinsong Gao, from DNV Sustainable Development Center (DNV SC) in Beijing. DNV SC has seen promising opportunities in the Chinese healthcare industry, and established DNVHC in China for this purpose. DNVHC wishes to expand into the Chinese healthcare consulting and accreditation business. Mr. Gao wanted to provide DNVHC with information, and the authors wanted to write the thesis for a well-established Norwegian company situated in China.

DNV is a classification society with the objective of "Safeguarding life, property, and the environment".¹ DNV provides services for managing risk as well as certification in various industries, here setting standards for quality and management systems.²

DNV has been present in China for over a century, mainly doing accreditation in the shipping business, but the Chinese healthcare market is relatively new to DNVHC. DNV does have extensive experience within healthcare sector in the U.S. and the U.K.³, and is now entering the Chinese health sector. DNVHC has recently established cooperation with the government⁴, who is aware of the fact that the health sector in China needs improvements to ensure the wellbeing of its population⁵. Additionally, it will benefit DNVHC to go into this sector hand- in-
hand with the government as governmental regulations are of high importance.

“….health care as both a social and a private good emphasizes the importance of effective government regulation as a precondition to a properly functioning health care market.”

DNVHC wants to obtain general information about the healthcare industry in China and have a main focus on the healthcare reform, to analyze main players, industrial structure and trends in this industry. DNVHC want the authors to analyze the services they provide in order to map what products and services that could be attractive to the Chinese healthcare market. The final project report should include recommendations for actions that will be most suitable for DNVHC to take.

1.2 Problem definition

1.2.1 Research aim

The purpose of this research is to explore the health industry in China, especially regarding hospital accreditation and healthcare consulting. Whether DNVHC should expand into this market, and what services they should offer the potential target groups.

1.2.2 Research question

“In which areas of the Chinese healthcare market should DNVHC penetrate, and what types of differentiated services should DNVHC offer the market in order to create value and profit?”

1.2.3 Research limitations and difficulties

The authors have been asked to focus on potential customers by their contact person, Mr. Gao. DNVHC might already have their strategy planned; however

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6http://content.healthaffairs.org/cgi/content/full/23/6/222?ijkey=2bfdee78592d4b8b4986a16d26789ba45ba1a415
7Suggestions and research objectives from Jinsong Gao
DNVHC wanted the authors to present a research project that can give them a possible different view.

Due to limited capacity and time the authors were not able to arrange personal meetings with DNVHC in Beijing. This may have lead to some limitations and invalidity in the internal analysis.

2.0 DET NORSKE VERITAS AND THE INDUSTRY

2.1 Det Norske Veritas (DNV)

DNV is one of the world's leading risk management service organization founded in 1864. Together with Germanischer Lloyd, China Classification Society and American Bureau of Shipping, DNV is one of the major companies in the classification society business. DNV has its headquarters in Høvik, just outside Oslo, Norway. Located in 100 countries with 300 offices, DNV constitutes a strong network of superior technical expertise, risk management methodologies and industry knowledge to help customers securely and responsibly improve business performance. Important industries where the company operates include ship transport, energy, aviation, automotive, finance, food, healthcare and information technology. It also conducts research in several fields where it operates.

![Diagram of Core Competencies](http://www.amc.edu.au/system/files/dnv.pdf)

**Figur 2: Core competencies**

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8 [www.dnv.no](http://www.dnv.no)
9 Bronder et al. (2007:7)
11 [www.dnv.com](http://www.dnv.com)
2.2 ORGANIZATIONAL CHART

Figure 3: Organizational chart for DNV

DNV’s organization is structured in four geographical divisions, an independent business unit called Sustainability and Innovation Division, and a Governance and Global Development Division.

2.3 DNV China

DNV opened its first office in China in 1888, dedicated to promote the safety of navigation. Through continuous innovation, capacity development, quality and safety standards it has led the development of related industries. DNV currently has 36 offices and 900 employees in China.

As an independent foundation, DNV has assisted many of China’s central governmental bodies, SOEs and private sector companies in setting up and implementing sustainability standards and practices. Key DNV services include project risk management, wind power development support, energy efficiency, corporate social responsibility, and sustainable financial instruments.

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13 Provided by DNV
14 Interview with Anders Swerke 20.04.2010
DNV has set up a strategic business unit in Beijing called Sustainable Development Center. This center is linked to the sustainability and Innovation Division, and it is an independent unit. The center is valued as a strong competitive point in China, and they have free will to conduct any business related to sustainability that they see as value-creating for DNV. This is where healthcare business in China is based. The Beijing center aims to provide the Chinese government and business, decision support regarding major projects to promote sustainable development.

Figure 4: Organizational chart for DNV SC

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17 Interview with Anders Swerke 20.04.2010
18 www.dnv.com.cn
19 Provided by DNV
2.4. DNV Sustainable Development Center (DNV SC)

DNV SC is a business unit created in Beijing in 2009 under DNV. The focus of DNV SC is to facilitate the sustainable development of China, which continues to advance as the world’s fastest developing economy.20

More broadly, DNV SC will provide services to support three aspects of long-term development; social, economic and environmental, which are also at the core of DNV’s purpose: “To safeguard life, property and the environment”.

“…….DNV Sustainability Centre is the best platform for DNV as a group to expand our customer-service focus here to more of a country-service focus for China.”

*Per Marius Berrefjord, Managing Director of DNV Sustainable Development Center.* 21

2.5 DNV Healthcare (DNVHC)

The mission of DNVHC is to make healthcare healthier, with the goal of making healthcare safer and more effective by helping their customers improve quality, manage risk and to maintain performance sustainable over time.22

The government has introduced a new healthcare reform and wishes to enhance and equal the healthcare supply in Mainland China. DNVSC has established cooperation in the healthcare field with the government after signing a MoU-agreement.23 According to this research agreement, DNVSC will together with the China Health Economics Research Institute (CHEI) establish a “Healthcare Risk Management Research Center”.

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22http://www.dnv.com/industry/healthcare/
2.5.1 Healthcare Risk Management Research Center

The DNVSC-CHEI joint research institute will focus on China national healthcare reform strategy and hospital management from a risk management perspective.  

Healthcare Risk Management Research Center will focus on these three areas:

1. To create the No.1 think-tank in the field of risk management in healthcare system advising the national and provincial governments.
2. To provide advisory services for Chinese healthcare policy making and management practices.
3. To contribute to the development of Chinese healthcare accreditation standards.

2.5.2 Services and products

In China, DNVHC will focus on offering Risk Management Consulting in the healthcare sector, and hospital accreditation. The accreditation business will be based on international standards while consulting will focus on facilitating and improving quality and management systems.

2.5.3 Customers

DNVHC has identified two main segments in the Chinese healthcare industry. The segments are government and hospital, including both private and public hospitals. When entering China, the government should always be taken under consideration. The authors will through this thesis give a suggestion to what target segments DNVHC should concentrate on.

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25Meeting with Jinsong Gao 18.03.2010
26Meeting with Jinsong Gao 18.03.2010
3.0 METHODOLOGY

3.1 Research approach

The authors will help DNVHC acquire valuable information in compliance with the problem definition. The authors have functioned as an objective and neutral third party with no prior link or knowledge about DNVHC. This will limit foregone conclusions that might have occurred if employees of DNVHC would have conducted this research.

The most suitable design has been chosen to ensure efficient and correct data collection, as well as identify which data will be necessary. The design should explain how to get needed information and how to further analyze the collected data.

3.2 Research design and method of use

The research design that has been applied in this study is explorative design.27 The authors have decided to take a qualitative approach. This design implies that there is little or no prior knowledge about the defined research field.28

The authors base the research on primary and secondary data. Secondary data consists of information gathered from external and internal sources, and readings. Primary data would be information collected from interviews, focus groups and observations.29

Using an explorative design, the authors have chosen to use interviews as main method for collecting primary data. The interviewees will be asked a set of questions that are set, but it will also be room for additional questions that might be natural to ask as the interview progresses. It will be possible to conduct follow-up interviews if it is seen as necessary.

27Silkøset (2007:37)
28Maylor, Harvey and Blackmon (2005:220)
Qualitative interviews has been viewed as a good tool to use for exploring the Chinese healthcare market, and this method is also well suited for describing the perspective people have about this market. Findings in the interviews can give the authors an indication of who the target groups should be and what strategy to implement.

3.3 Collection of data

Qualitative data consists of both primary and secondary data. Secondary data is data that is already written about the relevant subject. Advantages regarding secondary data are that it is less time consuming and less costly, and it can also be used to support findings from primary data.

3.3.1 Secondary data

Secondary data consists of information gathered from reading articles about the research area. Information used was collected by other sources such as academic books and from internal sources such as DNV’s annual reports and their own webpage. Internet was used to find relevant information concerning the health industry. The online library resources of BI Norwegian School of Management, EFACTIVA were used to collect relevant articles. The authors also used external sources such as reports about healthcare from consulting firms like KPMG and IBM.

3.3.2 Primary data

This is data collected especially for this thesis. The information is collected by conducting interviews with people relevant within healthcare industry and also people who have knowledge about doing business in China. The authors have interviewed DNV employees and others that have direct connection with DNVHC in their Sustainability Development Center in Beijing. Some of the interviews were conducted through e-mail and telephone due to the fact that some of the interviewees were not in Shanghai nor available to meet the authors face-to-face.

29Gripsrud, Olsson and Silkoset (2004:59-61)
Main topics addressed in the interviews were:

- Doing business in China
- Views on the healthcare industry in China
- The new healthcare reform in China
- Services in healthcare market – hospital accreditation and healthcare consulting
- Opportunities and problems in the Chinese market
- Importance of government
- Who the customers could be and how to reach them
- Competitor issues

3.3.3 List of interviews

- Vidar Andersen, Financial advisor at DNB NOR Shanghai with responsibility for all their Nordic clients
- Donald Wyatt, Attorney with his own business in Shanghai, China
- Dag Tørvold, CEO of NEMKO Group
- Pia Polsa, Assistant Professor at Hanken School of Economics, Finland. Currently a visiting lecturer at Fudan University in Shanghai, China
- Jinsong Gao, General Director DNVHC, Beijing
- Jerry Ning, MD, DNVHC
- Gao Fei, DNVHC
- Flora Yang, DNVHC
- Ken Garnett, DNVHC’s UK expert
Sareeta Ngairangbam, International Business Coordinator, The Australian Council on Healthcare Standards, Hong Kong

Christina Yan, HR-department, Hospital Administration at Pudong New Area People’s Hospital in Shanghai, China

Jumei Miao, Liaison office at Shanghai United Family Hospitals and Clinics

Attending Doctor, Shanghai, Huashan public Hospital

Anders Swerke, Head of Maritime Service Center, DNV Shanghai

3.4 Criticism of method and collection of data

It is important that both the primary and secondary data collected for this thesis are reliable and valid. Any data findings should therefore be critically evaluated. Reliability can be referred to as *repeatability*. This meaning that the findings would be consistent if one conducted the same research multiple times. Validity refers to how accurately the study has been carried out, if it measures what it is intended to measure. A study cannot be valid without first being reliable. This is a qualitative research study, and the issue of reliability will then be on how the authors perform under the interviews and registration of the information collected from the interviews.

Ensuring reliability when conducting primary data, the interviews will be recorded to guarantee that no information will be left out. The recordings will be deleted after contracting out the findings to prevent information leakage. Follow-up interviews will also be natural to conduct for further examining of the data findings. When conducting interviews the authors will also make sure that there will be at least two interviewers present in order to minimize possible information loss.

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30 Maylor, Harvey and Blackmon (2005:158-159)
For validity, there should be special attention on internal validity. Meaning that the most appropriate research design, in this case qualitative design has been chosen. The design of the interviews should also be considered regarding validity. Too general questions must be avoided as well as leading questions. The interview outline will be emailed to the thesis supervisor for comments and direction. This will rule out any unnecessary questions and the answers will be more precise and clear.

The secondary data gathered is mainly from the Internet in form articles, reports and other publications. The Internet is a rather cheap and easy source to use, however choosing the information should be carefully done as credibility varies. Factors defining this depend on the author, purpose of use, and the time it was published.\(^{31}\) The authors presume that the academic books used as secondary information in the study are both reliable and valid sources. Information given to the authors directly by DNVHC is also assumed to be both reliable and valid as it comes directly from the company.

### 3.5 Research problems

Due to a time limitation, the authors have decided to mainly focus on personal interviews as primary data. In the process of choosing interview subjects, the authors will choose interview subjects based upon how well they represents the context and not the population the authors need to generalize the findings to.\(^{32}\) Some interviews were not possibly to conduct through face-to-face meetings and this limits the chance of acquiring relevant information instantly.

The authors have experienced that Chinese people tend to answer what they think the interviewer want to hear. The Chinese interviewees might not be as truthful as they do not want to leak sensitive information. Probability for misunderstandings might have occurred when interviewing local Chinese as their English compared with Western standards is not at the same level. As an interviewer, the authors have had to rephrase some of the questions.

\(^{31}\)Maylor, Harvey and Blackmon 2005

\(^{32}\)Maylor, Harvey and Balckmon (2005:266)
4.0 THEORY INTRODUCTION

This chapter gives an overview of theories and models used in the thesis.

4.1 Analytic Frameworks

4.1.1 Service Product Evaluation

When operating in an unstable market, DNVHC need to look for the strategies that will better suit a developing country, and analyze the product values from a slightly different perspective. Products are classified into five different levels; Core benefit, generic, expected, augmented and potential product.

![Diagram of Five Product Levels](http://www.provenmodels.com/files/ef97cc7473755cf368f66d26fa9d7894/five_levels_of_marketing.gif)

Figure 5: Five Product Levels

In developed countries, brand positioning and competition take place when the product is defined as an augmented product. This level of product tries to create more value than what the customers expect. In less-developed countries it is mostly the expected product level that people find most valuable. The valuable products DNVHC offers will be qualified as service products. To further create value, it is important to deliver the expected results from DNVHC’s services.

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33[http://www.provenmodels.com/files/ef97cc7473755cf368f66d26fa9d7894/five_levels_of_marketing.gif](http://www.provenmodels.com/files/ef97cc7473755cf368f66d26fa9d7894/five_levels_of_marketing.gif)

34Kotler, Keller and Lu (2009:286)
Services have four influential characteristics that need to be considered into the marketing plan:\(^35\):

- **Intangibility**: Services cannot be seen, tasted, felt, heard, or smelled before they are bought, which to a certain degree create uncertainties. As a result, buyers will look for tangible signs or evidence for the service quality, and often judge the quality from the place, people, equipment, communication, material, symbols, and price. The mission of the company is therefore to “tangibilize the intangible”.

- **Inseparability**: Services are often produced and consumed simultaneously, this unlike physical goods. It will be necessary to be aware of the provider-client interaction, which is of high importance in service marketing.

- **Variability**: Who, when and where are critical factors that determine the quality of the service. DNVHC can utilize the quality control of variability by recruiting the right people, as well as monitoring customer satisfaction through suggestions and feedback. In this way, DNVHC can learn at the same time as they are providing services.

- **Perishability**: The services cannot be stored as a product, and DNVHC should know about the steadiness of the demand. Fluctuation demand can cause problems and uncertainties in the supply side.

### 4.1.2 Internal analysis

**Resource based view**

The aim of internal analysis is to analyze the company’s resources, capabilities, and core competencies, in order to build a strong competitiveness. Resources can further be divided into tangible and intangible. Intangible recourses are of higher importance and a more potent source of core competencies than tangible recourse, because they are less visible and more difficult for competitors to understand, purchase, imitate or substitute.\(^36\) **Capabilities** exist when the resources can be integrated to achieve specific tasks.\(^37\)

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\(^{35}\)Kotler, Keller and Lu (2009:318-321)

\(^{36}\)Hitt, Ireland and Hoskisson (2007:50)

\(^{37}\)Hitt, Ireland and Hoskisson (2007:59)
Internal analysis in general can provide DNVHC with information about its strengths and weaknesses, and provide the information needed to build competitive advantage within the firm. A competitive advantage will not always stay sustainable. It is only a matter of time before its core competencies will be duplicated.\(^{38}\)

When the company knows what they can do from internal analysis, and what they might do from external analysis it enables them to develop vision, mission and the right business strategy. Through the internal analysis a firm can become aware of its own resources, capabilities, and core competencies, in order to identify their strengths and weaknesses.\(^{39}\)

![Diagram: Resources & Capabilities to Competitive Advantage]

- **Valuable**
- **Rare**
- **Costly to Imitate**
- **Organized to Exploit**

**CA will be sustained if:**
- other firms’ costs of imitation are greater than benefit of imitation
- the firm is organized to exploit advantages

**Figure 6: Visualization of the Resource Based View**

**VRIO-framework – a Summary of Internal Analysis\(^{40}\)**

The company’s resources and capabilities can be integrated in the VRIO-framework. This framework can help DNVHC identify their core competencies and the importance for the organization. In order to lead to a competitive advantage the resource or capability should be *valuable, rare, inimitable* and

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\(^{38}\)Hitt, Ireland and Hoskisson (2007:50)  
\(^{39}\)Hitt, Ireland and Hoskisson (2007:69)  
\(^{40}\)Bronder et al. (2007:22)  
Hitt, Ireland and Hoskisson (2007:61)
organized. Valuable resources allow the firm to neutralize threats or exploit opportunities in its external environment. A rare resource is possessed by few competitors. When evaluating this criterion, it is important for DNVHC to analyze how many rival firms who have the same capabilities. Inimitable resources are costly to imitate for DNVHC’s competitors, any resource is possible to imitate if given enough time and capital. Costly to imitate capabilities can be historical conditions, organizational culture, and social complexity. A resource is organized if DNVHC is able to actually use it.

“The risk of discovering the core competence of a company is that the company may put too much focus on this specific resource and forget to identify other possible alternatives. However, because the core competence often is based upon knowledge, which increases as it is spread throughout the company, a core competence becomes more valuable the stronger it is employed in the organization.”

Bronder et al. (2007:22-23)

4.1.3 External analysis

PEST-analysis

PEST analysis is a great tool to define the environment in which DNVHC operates in. The factors in this analysis are:

- Political factors that include government regulations, legal issues and rules which DNVHC must follow.
- Economical factors such as financial growth within the country, inflation rates and other factors that influence the purchasing power of potential buyers.
- The demographic and cultural aspects of the external macro-environment define the social factors.
Technological factors include level of R&D activity and the rate of technological change. Technological factors can influence outsourcing decisions and lower entry barriers.\(^{41}\)

Porter’s Five Forces

Michael Porter’s Five Forces is a tool used to analyze the attractiveness of an industry or a segment. The authors have chosen this tool, in order to highlight the attractiveness of the healthcare industry and to further create a competitive strategy for DNVHC.\(^{42}\)

![Figure 7: Porter's Five Forces](image)

An organization can minimize its risks and strategically position itself in the market by identifying the five competitive forces. The five forces are:\(^{43}\)

- Threat of New Entrants: High entrance barriers and low exit barriers, meaning that few new firms can enter while poor-performing firms easily can exit, makes the segment attractive. When entry and exit barriers are high, the profit potential is high, but firms are facing more risk because poor-performing firms stay in. When entry and exit barriers are low, firms

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\(^{41}\) http://www.quickmba.com/strategy/pest/
\(^{42}\) Hitt, Ireland and Hoskisson (2007:33)
easily enter and leave the industry. The worst scenario is when entry barriers are low and exit barriers are high, meaning that firms can easily enter the industry and find it hard to leave during bad times.

- Bargaining Power of Suppliers: The bargaining power of suppliers tends to be significant when a limited number of suppliers operate in several different industries. Suppliers can become a competitor when integrating forward.

- Bargaining Power of Buyers: If the buyers bargaining power in a segment grows or becomes strong, the segment would be unattractive. Buyers can become a competitor by integrating backward.

- Threat of Substitute Products: Potential substitutes for a firm’s product, makes the segment it is linked to, unattractive. Prices of a product and profits from a segment can be limited by substitutes. Firms have to closely monitor price trends in substitutes.

- Intensity of Rivalry among Competitors: A segment already containing numerous, strong or aggressive competitors, is unattractive. The segment is even more unattractive if the segment is stable or declining, the fixed costs are high, the exit barriers are high, or the competitors have high stakes in staying in.

Porter’s Five Forces will also provide the authors useful inputs when conducting a SWOT-analysis.

**Competitor analysis**

Porter’s Five Forces gives an idea of the competition situation; the authors can further identify the competitors giving DNVHC the opportunity to achieve competitive advantages. DNVHC can defend itself and be able to use its competitors’ ideas and strategies to their own benefit.44

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43 Kotler, Keller and Lu (2009:228)  
44 Zigler and Paulsen (2004:74)
Customer analysis

Buyer behavior in the business-to-business (B2B) market is to contribute the organization with more value. Risk is something the purchase groups want to eliminate. The risks are divided into objective risk and subjective risk. The subjective risk includes incomplete information, and other subjective factors that influence the purchase group. In B2B these risks include uncertainty and consequences. Uncertainty can be divided into external and internal uncertainty. External uncertainty is the uncertainties from the environment and surrounding. Internal uncertainty is the lack of ability to judge or evaluate the results from actions.

When buying a product the evaluation of the products can be done differently for a search product, experience product, or credence product. Service products are generally high in experience and credence qualities, where there is more risk involved, and even more difficult to evaluate.

![Figure 8: Continuum of Evaluation for Different Types of Products](image-url)

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45 Biong and Nes (2003:74)
46 Biong and Nes (2003:88)
47 Kotler, Keller and Lu (2009:318-319)
48 Kotler, Keller and Lu (2009:319)
It is important to eliminate risk from buying decisions, and identifying decision-makers that are involved. The number of decision-makers varies depending on: 1) the risk involved, 2) if it is first-time purchase, 3) time pressure, and 4) decentralized organization.\\footnote{Biong and Nes (2003:78)}

**SWOT Analysis**

The authors have chosen to use the SWOT analysis to identify the important underlying factors that are essential to know when developing a strategy to reach DNVHC’s goals. This analysis will enable DNVHC to take advantage of its strengths, improve its weaknesses, develop opportunities and be better prepared for potential threats.

The SWOT analysis is an analytical tool that identifies and analyzes a firm’s external and internal environment. The SWOT analysis scans and evaluates a firm’s strengths, weaknesses, opportunities and threats.\\footnote{Kotler, Keller and Lu (2009:44)}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{swot_diagram.png}
\caption{SWOT}\\footnote{Storås et al. (2008:29)}
\end{figure}
The firm has to monitor and identify the associated marketing opportunities and threats in the macro environment forces and the microenvironment actors. Marketing opportunities is an area of buyers’ needs and interests that the firm profitably can satisfy. Environmental threats are posed by external trends or development, and can lead to lower sales or profit if the marketing actions are defensive. Firms do not necessarily have to correct all its weaknesses, nor should it triumph all its strengths.\(^5\)

After an accomplished SWOT analysis, the firm can develop specific, hierarchically, quantitatively, realistic and consistent goals.\(^6\)

The SWOT analysis has a tendency to misplace factors into categories which they necessarily do not fit in. What has been seen as a threat might turn out to be opportunities.\(^7\)

### 4.2 Strategic Frameworks

#### 4.2.1 Segmentation, Targeting and Positioning – STP

**Segmentation**

The market segmentation for DNVHC will basically be towards B2B market, since the potential buyers all belong to organizational level and not end-consumer. They should therefore focus on segmentation methods related to business markets.

DNVHC should segment the market in China in order to find the same group of customers who share a similar set of wants from the healthcare market. Those potential markets can be recognized through indentifying the preference markets, which are homogenous, diffused or clustered.\(^8\) Homogeneous preferences have one and same customer group, diffused preferences have customers scattered throughout the space that indicates great variance in customer preferences, and clustered preferences can have several preference clusters within the segmentation market.

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\(^5\) Kotler, Keller and Lu (2009:44)  
\(^6\) Kotler, Keller and Lu (2009:45)  
\(^7\) Bronder et al. (2007:25)
For DNVHC, a *sequential segmentation* can be beneficial. They should first perform a macro-segmentation analyzing which markets to serve, and then a micro-segmentation in which they distinguish their target based on price, service or quality.\(^{56}\)

**Targeting**

After identifying the segmentation market, DNVHC should decide how many and who to target. The choice of targeting groups should be distinguished through the needs within the segmentation groups.

Within the types of business customers, there are segments that are price-oriented, solution-oriented, gold-oriented and strategic-value. These groups require different types of selling approach.\(^{57}\)

The five key criteria within segmentation that should be considered to further target the right groups are: *measurable, substantial, accessible, differentiable, and actionable*.\(^{58}\) In order to decide which market segments that can be most attractive and valuable, the overall examination of the five criteria’s can be used.

The market segments can be targeted in five different ways:

- **Single-segment concentration**
  - Concentrated marketing where the company can gain thorough understanding of the chosen segment’s need. The company will have a high return on invest because of the low costs involved. The downside of this concentration is the risk of relying on single segment if buying patterns change.

- **Selective specialization**
  - The company selects a number of segments that are attractive and appropriate. This strategy has the advantage of diversifying the firm’s risk.

- **Product specialization**

\(^{55}\)Kotler, Keller and Lu (2009:195)  
\(^{56}\)Kotler, Keller and Lu (2009:205)  
\(^{57}\)Kotler, Keller and Lu (2009:172)  
\(^{58}\)Kotler, Keller and Lu (2009:206)
This approach is to specialize in selling a product to several segments. A firm can manage to build a strong reputation in the specific product area. The risk involved will be that the product may be supplanted by a new and better technology.

- **Market specialization**
  - Concentrates on providing many needs of one specific group. This in turn gives the firm a strong reputation in serving this group and becomes a channel for further products that can be needed.

- **Full market coverage**
  - The idea is to serve all customers with all the products that might be needed. The company tries to implement full market coverage, either through differentiated or undifferentiated marketing.

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**Positioning**

“Positioning is the act of designing the company’s offering and image to occupy a distinctive place in the mind of the target market”  

Positioning can be implemented and developed from three factors: segmentation, core strategy and differentiation.

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**4.2.2 Relationship Marketing**

The aim is to give an examination on how the marketing strategy can be utilized through organization structure. The challenges for making a good marketing plan is to decide what organization strategy to use, and how to evaluate the benefits from using either transactional or relationship marketing. DNVHC has to take the disadvantages into consideration and bear this in mind when operating in the Chinese healthcare market.

The authors want to analyze the different marketing terms based on DNVHC’s targeting groups, dig deeper into the terms of relationship marketing and transactional marketing. This is considered to be an important part for DNVHC in
order to minimize the costs and improve the financial results.\textsuperscript{61} Barbara Jackson

B. defines two types of customers; Always-a-share and Lost-for-good customers.\textsuperscript{62}

<table>
<thead>
<tr>
<th>Transactional marketing</th>
<th>Relationship Marketing</th>
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<tbody>
<tr>
<td>Always-a-share</td>
<td>Lost-for-good</td>
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Always-a-share customers tend to buy standardized products or services with little or no adaptation. The competition is much fiercer within this group due to low specific investment. Lost-for-good customers focus on more customized products or services. The second types of customers are hard to win back once they are gone.

\textit{Transactional marketing}

Transactional marketing is about delivering the rational, or functional, basic table-stakes components of value delivery.\textsuperscript{63} The parties involved are not committed to anything more than the transaction itself, and tend to be short-term related. The use of this market strategy is also based on the theory that \textit{competition} and \textit{self-interest} are the driving forces for buyers’ evaluation of product value.\textsuperscript{64}

\textit{Relationship marketing}

The purpose of cooperation is to create added value to both parties. DNVHC needs to use relationship marketing for customers that define the service product as highly customized with high involvement and investment, as well as having long-term interests. This target group is relatively more loyal than the transactional group, and it is more difficult for other competitors to attract the

\textsuperscript{61}Biong and Nes (2003:132)
\textsuperscript{62}Biong and Nes (2003:133)
\textsuperscript{63}http://searchcrm.techtarget.com/answer/Relationship-marketing-vs-transactional-marketing-for-building-customer-loyalty
same customers. The core activities will also be measured through *relationship* and *cooperation*, where the customer can be linked towards DNVHC. Good relationship marketing emphasizes the importance of service quality to be consistent over time, by using the right activities.

The downside of relationship marketing can be the lack of credibility and value for having a relationship. Opportunistic behavior can also occur when the parties are holding back vital information or when the incentives of having a relationship are not being fully presented in the beginning.

### 4.2.3 Niche Marketing

“A niche is a more narrowly defined customer group seeking a distinctive mix of benefits.” In order to identify a niche segment, a marketer should divide a segment into sub segments. This means distinguishing a part of a segment that share a distinctive set of needs. For DNVHC this can mean choosing to target their accreditation or consulting services towards a specific sub segment of the healthcare market.

### 4.2.4. Marketing Mix

The authors have used Marketing mix, to define what part of the marketing tools that will be most important for DNVHC to focus on, in order to successfully market their service
“The four Ps represent the seller’s view of the marketing tools available for influencing buyers.”

- **Product:** Product variety, quality, brand name, services.
- **Price:** Payment period, discounts, credit terms.
- **Promotion:** Sales promotion, advertising, public relations, direct marketing, personal sale.
- **Place:** Locations, assortments, channels.

Regarding service marketing three additional Ps are implemented, *people, process* and *physical evidence*. These, together with the traditional marketing mix create the service marketing mix.\(^{70}\)

### 5.0 PRELIMINARY RESEARCH

#### 5.1 Overview of the healthcare sector in China

The central government stopped providing free medical services in the early 1980s, which made healthcare a fee-for-service industry. From that period and up to now, there is still a lack of governmental support or a reliable, affordable insurance network.\(^{71}\) There is clear evidence from the previous market reforms that the economy has been a boon for the country, but similar reforms in the healthcare system have unfortunately created unequal access to healthcare due to rising costs.\(^{72}\) Not only has it been more costly to receive the healthcare service, but there is also a lack of trust towards the healthcare system in China.\(^{73}\)

The majority of healthcare in China include non-profit state-owned and local-government-run hospitals, health centers and clinics, as well as private for-profit clinics. Foreign investors are not allowed to operate wholly as foreign-owned healthcare institutions, but have a permission to hold up to 70 percent of the equity share.\(^{74}\) The aim of public hospitals is to cover healthcare service for

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\(^{69}\) Kotler, Keller and Lu (2009:13)  
\(^{70}\) Blythe (2006:109-111)  
\(^{71}\) Dudek, Chen and Zhang 2004  
\(^{72}\) Diep 2008  
\(^{73}\) Interview with attending doctor 18.01.2010  
\(^{74}\) Dudek, Chen and Zhang 2004
everyone within every field, whereas private hospitals often are specialized and most of the times only serve a limited number of patients.\textsuperscript{75} Not only does it exist differences between hospitals, but there is also a considerably clear gap between services provided in rural and urban areas. This unbalanced situation might be a result of unequal income level in the respective cities and towns, as seen from the healthcare report provided by Economist Intelligence Unit (2009).

In 2004, there were approximately 67,000 hospitals throughout China, where 15,000 of them are at or above country level.\textsuperscript{76} The Ministry of Health has stated that they have the desire to revamp the hospital accreditation system, and move up the existing healthcare system. This system is mainly divided into three major levels: I, II, and III.\textsuperscript{77}

From the Healthcare and Pharmaceuticals forecast (June 2005), it was stated that the expenditure on healthcare is likely to continue to increase in China, as a result of rising standards of living.\textsuperscript{78} This will give DNVHC increased opportunities to establish themselves in the healthcare industry, as the government seems to continuously pay more attention to the Chinese healthcare. DNVHC should strongly consider the importance of an ageing population. The population group aged over 65 is expected to rise from 6.1% in 1995 to 9.3% in 2015.\textsuperscript{79} There will be a growing demand for healthcare service throughout China, which will be an excellent opportunity for DNVHC to further implement strategies in the governmental interests.

One important dilemma the Chinese healthcare system could be facing is whether the government should implement a more regulated and inflexible system to cover the whole population, or have an expensive medical care but high-quality system.\textsuperscript{80}

\textsuperscript{75}Interview with attending doctor 18.01.2010
\textsuperscript{76}Icon Group International, Inc. 2004
\textsuperscript{77}Icon group International, Inc. 2004
\textsuperscript{78}Healthcare and Pharmaceutical forecast 2005
\textsuperscript{79}Healthcare and Pharmaceutical forecast 2005
\textsuperscript{80}Diep 2008
5.2 How will the market develop?

Insurance problems have been a big issue. The government has improved the situation with several insurance reforms. There is still a problem when it comes to this area, and insurance schemes are voluntary. Large groups of the rural population still do not have any insurance coverage. Underlying problems here is that the low-end citizens cannot afford the insurance program unless the government can provide coverage, which then basically makes the scheme non-voluntary.

In order to reform the hospital pricing system, the government needs to develop funding that can possibly cover the gap between costs and subsidiaries, otherwise they should allow higher fees. Overuse of drugs could be solved by possible establishing independent pharmacies in order to take out the targeted profit from drug sales. Lastly, an effective monitoring and control system needs to be built up.

“Private medical practice needs closer monitoring to ensure compliance with regulations”

“....health care as both a social and a private good emphasizes the importance of effective government regulation as a precondition to a properly functioning health care market.”

Problems within the private sector are that there is lack of personnel to supervise and monitor the management, and also there are no sufficient punishment system regarding violation of the regulations.

There should be equitable access of the services for the greater of the population. If the better off in the society can have their needs met by for-profit private
institutions, the government should then focus on using the public health sector mainly for serving the less fortunate in the country. They must create better funding programs for the whole public health industry.\(^{86}\)

"China basically needs a revitalized, ethos-driven, self-organizing, and self-regulating medical profession, one that is dedicated to raising clinical standards and championing patient quality and safety." \(^{87}\)

Trends show that an even larger percent of private providers will emerge, and it is a definite challenge that the government must address issues of how to provide decent healthcare for the whole population. DNVHC has here an opportunity for providing its services in order to assist in reforming China’s healthcare industry.

### 5.3 Healthcare reform

The healthcare industry in China has gone through many reforms, and the money spent on healthcare has also increased from US$1.7 billion in 1980 to US$208 billion in 2008.\(^{88}\) The Chinese government remains low in healthcare spending by international standards.

In 2005, the government covered only 18% of the total healthcare expenditure. In comparison, the government in UK covered 87%, Japan 82% and South Korea 53%. Additionally, a considerable part of the population remains uninsured. In order to improve the healthcare situation, the government unveiled a set of reform plans in November 2008 in a report entitled Healthy China 2020.\(^{89}\) The plans focus on improving healthcare at the grassroots level.\(^{90}\)

On April 6\(^{th}\) and 7\(^{th}\) 2009, the government published two further papers, with this reform lasting until 2020.\(^{91}\) More specific plans have also been set for the next three years. The three year plan contains of five major goals\(^{92}:\)

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86 Article compendium 2
87 Lim et al. (2004: 233)
88 Healthcare and Pharmaceutical forecast 2009
89 Healthcare and Pharmaceutical forecast 2009
90 Sinclair 2009
91 Healthcare and Pharmaceutical forecast 2009
The government to enhance the management and supervision of the operation of medical institutions, the planning of health service development, and the basic medical insurance system.

Public hospitals to receive more government funding and be allowed to charge higher fees for treatment. But they will be eventually banned from making profits through subscribing expensive medicines and treatment, which is a common practice at present.

Central and local governments to increase investment in the public health sector, grassroots-level clinics, subsidies for public hospitals, and basic medical insurance systems.

Governments to increasingly regulate the pricing systems of medical services and medicines, with particular control on the price of basic services at non-profit hospitals and essential medicines those hospitals use.

Supervision of medical institutions, health insurance providers, and pharmaceutical companies and retailers to be strengthened. Governments will also tighten monitoring of drinking water and food safety, and safety in workplace.

One of the aims in this plan is to cover more than 90% of citizens’ health insurance. One major objective of this reform is to prevent government-owned hospitals from relying on payments from patients. There were also reported more than 90% of hospitals’ income comes from charges for providing services and medicines.

Another problem related to the reform could be the lack of enthusiasm among local governments. RMB850 billion plans to be spend on the reform. Officials say that only 40% will come from the central government. Provincial and lower-level authorities may not show interest in giving resources into something that do not produce immediate benefits.
5.3.1 Hospital Management

One main challenge for hospital reform is the role of managers in the hospitals. There is unfortunately no clear distinction in the responsibilities between government agencies and state-owned hospitals, as hospital administrators are appointed state officials.93 Many CEO’s of state-owned hospitals are state official, and they do not have any professional experience within management. DNVHC will have an immense opportunity to increase the overall standard of Quality Management in the hospitals.

“Being a hospital CEO is difficult; being a public hospital CEO is more difficult; being a public hospital CEO during the transition of public hospitals is even more difficult when the concepts and directions of healthcare reform are unclear and undefined”94

5.4 Healthcare agencies

The different parties regarding healthcare system95

- The ministry of Health (MOH): overall responsibility for regulating China’s healthcare system.
- The State Food and Drug Administration (SFDA): Oversees the research, production, and distribution of pharmaceuticals.
- The Administration of Quality Supervision, Inspection, and Quarantine (AQSIQ): drafts rules and regulations on certification and accreditation, safety and quality licensing, hygiene registration, and qualification assessment.

5.5 What Does DNVHC Offer in the U.S?

The NIAHO℠ (National Integrated Accreditation for Healthcare Organizations) is DNVHC’s hospital accreditation program in the U.S. “NIAHO℠ is a healthcare

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93 Chan 2009
94 Chan 2009
95 Dudek, Chen and Zhang 2004
standard that improves quality and business integration, builds sustainable performance, improves effectiveness and has a proven success “

There are two sets of standards forming the basis of DNVHC’s Integrated Accreditation. The program is based on the CMS Conditions of Participation (CoPs) and the ISO 9001 Standard. ISO 9001 enables the organization to reach maximum effectiveness and efficiency that leads to improved clinically and financially outcomes. In order to assure if the hospital is ready for an ISO 9001 Compliance/Certification Audit, the first contract for accreditation services are signed for a three year period.

Hospitals can be accredited by DNVHC after the first survey without being in compliance with ISO 9001. After the first survey, the hospitals have up to three years to become compliant with ISO 9001.

DNVHC has three classifications of their surveyors:

- **Generalist Surveyors** is not a physician or registered nurse, but have a clinical or nonclinical hospital background:
  - Ancillary/support services resources review (laboratory, medical imaging, rehab, etc.)
  - Medical staff and human resources review
  - Medication management
  - Quality management review

- **Clinical Surveyors** is either a physician or registered nurse:
  - Emergency Department
  - Operational review activities
  - Patient care unit visits

- **Physical Environment/Life Specialists** have facilities and safety background:
  - Equipment (biomedical engineering)

96 [http://www.dnv.com/industry/healthcare/hospital_accreditation/why_we_need_a_new_accreditation_alternative/](http://www.dnv.com/industry/healthcare/hospital_accreditation/why_we_need_a_new_accreditation_alternative/)
Physical environment (aspects and review of management plans, and life safety tour)

There will always be two surveyors on site for small hospitals and three to five for larger hospitals. A Generalist will take part in the survey team for larger hospitals. The Survey team will always consist of either a physician or registered nurse, and a PE specialist. The PE Specialist will follow the entire survey. The hospital will receive a preliminary report when the survey is completed and a final report from DNVHC within ten days after the completion.  

The hospital accreditation program schedule:

Year One: NIAHO\textsuperscript{SM} Accreditation and Introduction to ISO 9001
Year Two: NIAHO\textsuperscript{SM} Accreditation and ISO 9001 Pre-assessment Survey (The pre-assessment is an analysis to show the hospital where it is currently compliant with ISO and any gaps that need to be addressed to become ISO 9001 compliant.)
Year Three: NIAHO\textsuperscript{SM} Accreditation and Stage One ISO 9001 Surveys (Stage One is designed to confirm hospital readiness for an ISO 9001 compliance/certification audit.)
Year Four: NIAHO\textsuperscript{SM} Accreditation and ISO 9001 Compliance/Certification Audit.
Year Five: NIAHO\textsuperscript{SM} Accreditation and ISO 9001 periodic audit.
Year Six: NIAHO\textsuperscript{SM} Accreditation and ISO 9001 periodic audit.

5.5.1 ISO 9001\textsuperscript{101}
ISO 9001 specifies requirements for a quality management system. Organizations have to demonstrate its ability to provide products that satisfy customer, statutory and regulatory requirements. The organization must continuously aim to enhance customer satisfaction through effectiveness and improvement of its own systems.

ISO 9001 are generic and can be applicable to all organizations, regardless of type, size and product provided.

\textsuperscript{100}http://www.dnvaccreditation.com/pr/dnv/document/faqs-011110.pdf
5.5.2 Accreditation and Certification

“Certification is a process where a third party confirms that a component, product, plant or system complies with specified requirements. Most often the certification confirms compliance with national or international standards, but also other requirements may be specified.”

Accreditation measures if a product, plant or system is in compliance with specified criteria. Accreditation can be done by the company themselves or a third party.

Certification and accreditation are two critical processes important to ensure quality. Focus should be on attaining quality and develop means to measure and assess the effectiveness of both practices and services. Quality assurance assesses quality and includes planned and systematic actions that management consider necessary to provide confidence that the product or service satisfies any specific requirements for quality.

5.5.3 Ethical Dilemma

Due to ethical matters, accreditation and consultancy services cannot be provided to the same business segments. Reason for this is that it would be unethical for DNVHC to provide consulting services with the advice of also purchasing certification from same company.

5.6 The healthcare industry in China

5.6.1 Healthcare consulting in China

The consulting industry in China has existed for more than 10 years, however, if you compared the industry with other parts of the world, consulting business in
China is still considered to be something immature. In fact, the industry is not widely recognized or understood in the country.\textsuperscript{106}

Consulting firm within healthcare industry gives you advice on how to improve the current situation, as well as to try to eliminate the errors and increase efficiency. Health care payment and delivery systems are changing rapidly, which in return cause high demand for consultants to help healthcare organizations to change through alliances, innovation, management care, access strategies and quality improvement.\textsuperscript{107}

Several foreign consulting firms have already established themselves within Chinese healthcare market, as they see great opportunities within consultancy particularly. Consultancy services include business operation, technology/market development, management, pharmaceutical, medical device, contract research organizations (CRO), hospital, e-healthcare business, as well as information technology.

5.6.2 Hospital Accreditation in China

Accreditation in healthcare industry leads to the certification achieved after passing a clear standard, either national or international. ISO 9001 is an international standard and considered to be the most important within quality management system. The International Organization for Standardization (ISO) operates on international level, where they state “to be really efficient and effective, the organization can manage its way of doing things by systemizing it”.\textsuperscript{108}

\begin{flushleft}
\footnotesize
\textsuperscript{106}http://www.pincn.com/vocation/Articles/200806/633494843609687500.html
\textsuperscript{107}http://www.careers-in-business.com/consulting/mcfacts.htm
\textsuperscript{108}http://www.iso.org/iso/iso_catalogue/management_standards/benefits.htm
\end{flushleft}
5.6.3 What are the main differences between consulting and accreditation for DNVHC?

One should separate these two topics from each other and not confuse them as one single business. Consulting service is often tailor-made according to needs of the client while accreditation service is likely to be standardized. 109

In addition, it is more expensive to provide customer with consulting, as this business is more time-consuming and needs to be individualized. In other words, consulting focuses on quality of service provided, while accreditation from DNVHC focuses more about quantity and the amount of services that can be sold. 110

6.0 PRIMARY DATA FINDINGS

Information in this chapter is subtracted from interviews conducted. The authors have chosen to present the findings according to issues discussed in the interviews. 111

6.1 Doing business in China

Donald Wyatt portrays doing business as much different from the West. The Chinese business society is made up by a web of connections. Both Wyatt and Pia Polsa argue that there are insiders and outsiders in the Chinese society. Most of the time foreigners will only be alumni and not classmates. Relations can be created, but never at the same level as if you are relative, classmate or share the same hometown. Foreigners will always be considered as an outsider and will never reach the same level of guanxi as what the Chinese among themselves share. With this in mind, literature written about guanxi and creating relations in China can be interpreted wrongly. The literature focuses on what you have to do in order to get guanxi, but this is never enough if you want to create a deep relationship. However, the books should be read to show general interest in China.

109 Meeting with Jinsong Gao 18.03.2010
110 Meeting with Jinsong Gao 18.03.2010
111 Appendix: summary of interviews
Vidar Andersen says there are no major differences in doing business in China compared with the West. Although guanxi is important, times are changing. Anders Swerke also argues that there are often more similarities than differences even if there are cultural dissimilarities. Swerke thinks that one should just treat people as fairly and honestly as one would have done at home. Swerke thinks that the Chinese are doing business differently with each other. When Chinese are dealing with foreigners, they do not expect them to do business the Chinese way. Have something good to offer, be persistent and never try to cheat anyone is both Swerke’s and Wyatt’s advice.

6.2 Views on healthcare in China

All interview objects acknowledged the fact that the healthcare system in China has its problems. Major problems discussed in the interviews are lack of efficiency, lack of resources, and not enough sufficient funding for both the population and the public hospitals. Too many patients and not enough doctors result in long waiting time and short amount of time for each patient. High medical fees are also a major issue.

Interviews conducted with the hospitals were at the respective hospital and there were definite problems with efficiency and management. Christina Yan stated that management is not an issue at focus in the hospitals. To be in the hospital management does not mean that you have a major in management or experience within managing a hospital. Factors depending on if you get promoted are based on how good of a doctor you are.

6.3 The new healthcare reform in China

Mostly every interviewee was familiar with the new ongoing healthcare reform. Yan says it will firstly be a pilot program before implementing it to the whole country. The hospitals interviewed have not seen any improvements yet from this recent reform. They did not see any changes as a result of previous reforms either.

The thought behind the reform is good, and the government can succeed if they really aim to implement it. It will take time and great support. Several
Interviewees have stated that bringing in help from a third party can be a good idea.

Even if the reform is a positive thing, the government must keep in mind that other problems might occur while and after implementation. Both Yan and Andersen state that the new reform might reveal hidden problems. Andersen also points out that the health system is complex, and no country has a perfect health system. The health system is the most common to be criticized and complained upon on in every society. If the reform would be relatively successful, there will always be complaints and people who are not fully satisfied with the system.

6.4 Services in healthcare market – hospital accreditation and healthcare consulting

None of the external interviewees were familiar with DNVHC, but some did know about DNV. DNV is a client at DNB Nor and Andersen was familiar with DNV looking into healthcare business in China. Polsa also knew about DNV regarding shipping and classification.

The hospitals did not know about DNVHC or DNV, neither did they see any need for international standards as everything is government ran. The public hospitals do not deal with such responsibility or decision-making regarding such issues. They see that such consulting or accreditation might bring benefits for the hospital or the healthcare system in general, but it is up to the government to make the choice.

6.5 Opportunities in the Chinese healthcare market

With the new reform, there are great opportunities for DNVHC as their services can provide value for the government in accordance with the new healthcare reform pilot. This reform plan is in Andersen’s view the world’s biggest project ever, and DNVHC can play a major role by taking part in the project. Everyone will have an interest in participating in order to gain financial revenue for themselves, but the benefits will only be a small piece of the cake.
There is competition between the public hospitals, and having international standards might help them differentiate themselves. The hospital alone lack of sufficient funding to pay for such services. The situation today is that money is mainly being used on purchasing expensive high-tech medical equipment instead of prioritizing developing hospital management and standards.

6.6 Who the customers could be

The government would be the first choice of target for the healthcare business in China. This based on the fact that the government has the dominant power in the healthcare industry in China. DNVHC must have good relations with the government in order to approach the hospital level. According to CEO of Nemko Group, Dag Tørvold, government relations are of great importance. Without good relations it will not be possible to do any kind of business in China.

DNVHC’s choice of participating in the reform naturally makes the government a main customer group. Other customers suggested by the interviewees are private and public hospitals. Private hospitals are an easy target due to easy access.

6.7 Competitor issues

Andersen mentions KPMG, McKinsey and Boston Consulting Group as some potential competitors for DNVHC. These companies also work within healthcare and might also have an interest in taking part in the reform. Andersen also brings up the issue of indirect competitors, i.e. companies who engage in the reform project with different agenda and business than DNVHC.

7.0 ANALYSIS

7.1 Service Product Evaluation

DNVHC will be operating in a developing country, where everything seems to change rapidly. They need to know what values can be offered as well as expected by the customers, so that the quality of the service is coherence with the quality delivered to the buyers. In China, the competition will mostly take place in the
expected product level and which DNVHC should have an advantage over. It will also be important to prepare an augmented product that exceeds customer’s expectations\textsuperscript{112}, but this is a less important factor for DNVHC that operates in a less-developed country.

Accreditation service (NIAHO\textsuperscript{SM})

Accreditation service from DNVHC is their NIAHO\textsuperscript{SM} program, which is designed to improve quality system into the core processes of running a hospital.\textsuperscript{113} This service can be categorized as a service mix product, where the major part is evaluation of hospitals, but the buyer will also issue a certification by the end of the inspection. If DNVHC decides to offer accreditation services, it should be marketed mostly with the \textit{visible and tangible} side of the service to make it easier for buyers to judge the quality, in order to eliminate the uncertainties. They can focus on the actual accreditation certification and educate the buyer about the physical problems that might need to be improved. It is also important to state clearly about the international standards, and to present the price reasonably.

Attributes and conditions that buyers expect from accreditation service are ways of improvement. By comparing with other accreditation programs DNVHC can see how NIAHO\textsuperscript{SM} differs from other programs. This figure about Advantages of DNV accreditation is taking from their webpage.\textsuperscript{114}

\textsuperscript{112}Kotler, Keller and Lu (2009:286)
\textsuperscript{113}http://www.dnv.com/industry/healthcare/hospital_accreditation/niaho_advantages/index.asp
\textsuperscript{114}http://www.dnv.com/industry/healthcare/hospital_accreditation/niaho_advantages/index.asp
The buyers will expect the product to be slightly better than TJC program. DNVHC must deliver the expected values of the product, including other promises that are made when promoting the accreditation service. The expected value and experienced value has to be consistent in order to reach maximized customer satisfaction.

How DNVHC deliver their service through the message is also essential because of the variability of a service product. According to Polsa, showing respect to people and willingness to learn at the same time from each other is one of the key success factors in China.\textsuperscript{115}

\begin{figure}[h]
\centering
\begin{tabular}{|l|c|c|}
\hline
 & DNV NIAHO\textsuperscript{SM} & TJC \\
\hline
Deeming authority for Medicare CoPs & Yes & Yes \\
\hline
Accountable to CMS & Yes & No \\
\hline
Accreditation requirements & Fully consistent with CMS; stable & Determined by accreditor; change frequently \\
\hline
Survey process & Outcomes based & Inspection focused \\
\hline
Quantity of findings determine accreditation status & No & Yes \\
\hline
Approach to patient safety & Encourages innovation & Narrow path to compliance \\
\hline
Life safety survey & Comprehensive & Basic \\
\hline
Integrates ISO 9001 Quality Management System & Yes & No \\
\hline
\end{tabular}
\caption{Hospital accreditation program comparison}
\end{figure}

\textsuperscript{115}Interview with Pia Polsa 22.04.2010
Consulting service

Consulting service within Chinese healthcare should be a learning curve itself, because of the transforming market.\footnote{Kotler, Keller and Lu (2009:81)} DNVHC has healthcare experiences from other countries, but those countries are far from similar to China. This fast developing country has the biggest population in the world. Due to the fact that the provinces and areas in China differ widely from each other, DNVHC needs to look at the potential areas very individually. DNVHC should also try to individualize their consulting and focus on quality given and not quantity to the number of hospitals. The expected value of consulting services is unclear and not measurable before the end of the service.

Consulting is based on pure service where the buyer gets consulting from DNVHC to improve the conditions. DNVHC has brought in experts from other countries to further analyze the possibilities in the Chinese healthcare market.\footnote{Meeting with Jinsong Gao 18.03.2010} DNVHC operates as a “Risk partner” to the UK National Healthcare Services (NHS) in assessing hospitals, developing standards and training hospital staff in enhancing patient care.\footnote{http://www.dnv.com/resources/publications/features/2007/committedtosafety.asp}

“The NHSLA considered that DNV’s existing activities, experience and knowledge would not only enable the organization to enhance the delivery of the core services required but also add value through new ways of working and the provision of additional services, including the use of IT approach to education.”\footnote{119}

The expected value from consulting services will rely on the results as well as the reputation of the company. Only when the customers see the actual benefits, the company has succeeded in giving the expected value. The consulting service can only be measured after its performance.

DNVHC is still in the entry stage. It is very difficult to estimate demand and supply of their business when it comes to their services. They should focus on building strong internal resources in order to succeed within healthcare.
consulting. DNVHC should build up their reputational resources as well as human resources, which can continuously be upgraded by time. By creating strong internal resources, DNVHC will be able to differentiate themselves from other competitors and create competitive advantage.

7.2 Internal analysis

7.2.1 Resource Based View

The internal environment consists of resources and capabilities of a firm. The authors analyzed the internal environment of DNVHC, for it to be easier to define their strengths and weaknesses.

“The most effective organizations recognize that strategic competitiveness and above-average returns result only when the core competencies (through the firm’s internal environment) are matched with opportunities (through the firm’s external environment analysis).”\textsuperscript{120}

7.2.1.1 Tangible Resources and Capabilities

Innovation and Sustainability

Innovation and technology are important factors for DNVHC, in order to stay competitive and being a leading company. They have an R&D department, sustainability, and innovation division, which contribute to the growth of the company. This division is linked directly to DNV’s Sustainability Center in Beijing, who has free boundaries to find any project they see as sustainable and profitable for DNV.\textsuperscript{121}

“DNV is heavily involved in the qualification of new technology and development of safety standards and we all know that such standard setting may result in one

\textsuperscript{119}http://www.dnv.com/resources/publications/features/2007/committedtosafety.asp
\textsuperscript{120}Hitt, Ireland and Hoskisson (2007:70)
\textsuperscript{121}Interview with Anders Swerke 20.04.2010
technology being favored over another. To be the safer technology is always an advantage.”

DNVHC’s Risk Management Research Center

The MoU-agreement that has been signed with CHEI can be viewed as a tangible asset. They have together established the Healthcare Risk Management Research Center, which greatly focuses on China’s national healthcare reform strategy and hospital management from a risk management perspective.

“DNV has built up the globally recognized mature theory and tools of risk analysis in health area. It is our pleasure to build up a partnership with DNV, develop into a top ranking think tank of government policy makers and seek benefits for all”.

The representative of CHEI, Prof. Zhang Zhenzhong

Financial Situation

Another supporting resource is the financial situation. The average annual growth for DNV over the last four years has been 12.7%, and in 2008 their revenue increase by 18% to NOK 9,560 million. DNVHC will be supported by DNV through DNV SC. DNV is a not-for-profit foundation meaning that they only have stakeholders and no shareholders.

Strategic Location

DNVHC has an office in the Chinese capital Beijing, which makes it easier to set up connections both in the country and with the government. The central government in Beijing is the highest executive organ of state power and in a market like China where everything is strictly controlled; Beijing is a favorable location to establish oneself. DNVHC will get quick access to the governmental

122 http://www.dnv.com/moreon/dnv/research_innovation/foresight/outlook.asp
125 DNV annual report 2008
126 Interview with Anders Swerke 20.04.2010
bodies whenever new decisions are being made and they can better influence the situation.

7.2.1.2 Intangible Resources and Capabilities

**Governmental Relations**

DNVHC in China has managed to establish a good relationship with the government that is viewed as a valuable internal resource to the company.\(^{127}\) Although the bonds are not yet as strong as DNVHC wishes it to be, according to their own standards to sustain their business in China, the relationship is stronger and more stable than what the competitors have. DNVHC does not only rely on their MoU-agreement with the government, but they have also managed to arrange summits with China’s MoH. In these summits, DNVHC has had presentations talking with ministers about risk management healthcare. DNVHC has been approaching strongly and been involved in one of the pilot projects for the hospitals.\(^{128}\)

**Reputation and Brand Name in China**

DNV has had a solid brand name for a long time, holding its position as a strong competitor. DNV is one of the world’s leading classification societies, and now also one of the world’s leading certification bodies that meet both national and international standards.\(^{129}\) Their reputation is widely known, creating positive word-of-mouth (WOM).

The strong brand name and reputation is primarily established in the maritime industry, and can have negative impact on DNVHC. Their brand name might be too connected with shipping and not enough with healthcare. Not many in the health sector have knowledge about DNVHC or DNV. This is reflected e.g. on the DNV logo, which illustrates an anchor and a balance. The colors are blue and green, symbolizing the ocean and environment.\(^{130}\)

\(^{127}\)Interview with DNVHC 30.04.2010  
\(^{128}\)Interview with DNVHC 30.04.2010  
\(^{129}\)DNV annual report 2008
DNVHC’s Human Resources and Experience

DNVHC has recruited a competent staff. International experts and specialists within the field have been brought in, and DNVHC’s experience in U.K. and the U.S. can be very helpful when doing same line of business in China.

DNVHC has a mix of Western employees and Chinese employees. This can be a positive thing when doing business in China. When dealing with customers, having a foreigner talking about the company and services can be more valued in the Chinese mind, but when dealing with government and other relationship related matters, a Chinese person who understands the business culture might be a better choice.131

7.2.2 Summary of VRIO

The VRIO is a summary of the internal analysis and gives DNVHC an overview of which resources and capabilities that can be identified as competitive advantages.

Core Competencies

In order to create sustainable competitive advantage, the capabilities also need to be valuable, rare, costly-to-imitate and non substitutable.132 DNVHC has many good capabilities internally, the four criteria might not be fulfilled with every capability. This means that their core competencies will only stay sustainable for a limited time of period; depending on how strong and well they perform in China and how long it will take for the competitors to achieve the same capabilities.

DNVHC’s core competency is experience from the U.S. and the U.K. The ISO 9001 has been integrated in the accreditation process, and this is something that differentiates DNVHC from other competitors. In the U.K. the standards are developed around risk management. Developing hospital staff in risk management, training and assessment are core activities. This gives DNVHC

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131Interview with DNVHC 30.04.2010
132Hitt, Ireland and Hoskisson (2007:61)
credibility, and DNVHC needs to show how they can adapt these competences into the Chinese setting.133

DNVHC views its employees as a definite core competence. In Jinsong Gao’s opinion, the people are the number one competence. This gives competitive advantage and an edge in the market. “When it comes to consulting business, people matters.”134

DNVHC has been able to create relationship with the government that in return gave them a foothold within healthcare industry in China. One of DNVHC’s core competencies is to develop along with governmental interests, giving them the important resources. The relationship between DNVHC and the government has been made possible due to the immature healthcare system in China, which can be developed and improved with support from DNVHC. This relationship is valuable and something that not every company can gain. It takes time to build such a trust as well as guanxi with government, meaning costly to imitate.

DNV’s existence and history will be hard to imitate. DNV’s competitive advantage is much related to their reputation within risk management, making market access easier for DNVHC. Reputational resource is viewed as an important source of competitive advantage, especially in services, which indicates the level of awareness a firm has been able to develop.135 Tørvold, is very confident that DNV will succeed within healthcare market, partly because of their international experience and strong market position within their respective fields.136

DNV is international, global and local.137 DNVHC can take advantage of this reputation, depending on what the customers might value. Country of origin is also something that DNVHC can use as a competitive advantage.138

133 Interview with DNVHC 30.04.2010
134 Interview with DNVHC 30.04.2010
135 Hitt, Ireland and Hoskisson (2007:57)
136 Interview with Dag Tørvold. 23.04.2010
137 Interview with Vidar Andersen 13.04.2010
138 Interview with Anders Swerke 20.04.2010
139 Interview with Pia Polsa 22.04.2010
Another core competency for DNV is management system certification. Up to last year, DNV was celebrating the 20-year anniversary of accreditation to perform certification according to the ISO 9001, Quality Management System standard.\(^{139}\) This competence is difficult to build up because of their long existence within certification knowledge. It is not easy to imitate, as DNV will always stay one step beyond the others in the competition field.

“Management System Certification is one of the core businesses for DNV. We are providing trust and confidence to more than 50,000 customers worldwide and assure their sustainable business performance through our portfolio of service.”

COO Bjørn K. Haugland, DNV Maritime

<table>
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<tr>
<th>Resource</th>
<th>Valuable</th>
<th>Rare</th>
<th>Costly to imitate</th>
<th>Organized to exploit</th>
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<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Temporarily advantage</td>
</tr>
<tr>
<td>DNV SC</td>
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<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Sustained advantage</td>
</tr>
<tr>
<td>DNV Risk Management Healthcare Center</td>
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<td>Yes</td>
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</tr>
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<td>Yes</td>
<td>Yes</td>
<td>Better than competitors</td>
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<td>Yes</td>
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<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Temporarily advantage</td>
</tr>
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Table 1: Summary of VRIO

7.3 External Analysis

7.3.1 Market Orientation

Market orientation is used as an introduction to the external analyses. The authors have used market orientation as a general overview of macro-environment factors. The authors have used Porter’s five forces and PEST, to create a more thorough picture of the macro environment in accordance to DNVHC.

“Marketing is becoming more of battle based on information than one based on sales power.”

Philip Kotler

The Chinese macro environment changes rapidly. This includes economic changes, social changes, political changes and demographical changes. To better target one’s desired market, understanding the macro environment in which one operates is important.

From 456 million accounted for as the urban population in the year 2000, the number lies on approximately 608 million in 2010. Economically, China has gone through rapid changes since its transition from a planned economy to a market economy. China survived the financial crisis better than many of the Western world’s powerful countries.

China is not only a country where foreign companies enter to manufacture their products, but they also enter because of the high market potential. The higher middle class is growing. The higher middle class earning 40 000 to 100 000 RMB per year has increased from being 12.6%, expecting to be is a high as 49.7% by 2015. This means that the financial ability of the population is rising drastically.

Household patterns give the Chinese population financial power because of the one child policy. Each family has more to spend on their families, compared to how it would have been if each household were to have more than one child.

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140 Kotler, Keller and Lu (2009:70)
141 Kotler, Keller and Lu (2009:75)
One of the problems China is going to face in the next coming years is an aging population. "Compared to other countries, the aging population in China is growing tremendously fast. The United nations has speculated that by the first half of the 21st century, the Chinese aging population will make up for nearly 20 percent of the world total aging population."\(^{142}\)

“The number of the population receiving higher education is also higher, 25 million Chinese students in the year 2006 with an enrolment ratio of 22%”.\(^{143}\)

With higher knowledge comes more refined needs and wants, meaning that the patterns of consumption will change following. “Marketers find opportunities by identifying trends in the macro environment. A trend is a direction or sequence of events that has gained some momentum and durability.”\(^{144}\)

For DNVHC using such information in order to understand the environment in which they will operate, will help them better adapt their services and products to fit the needs of the Chinese healthcare market.

7.3.2 PEST Analysis

The PEST analysis is done to give an overall view of the Chinese healthcare market. By understanding the macro environment in which DNVHC is going to operate in, DNVHC’s products and services can be adapted in order to meet the needs and wants of their target market. The extended version of the PEST analysis includes L for legal factors, but it has been excluded in this analysis. There are not many legal factors that seem to create opportunities or cause threats to the services DNVHC are to offer. In the case of this PEST analysis in relation to DNVHC, the political and economic factors cover the legal factors necessary.

Political factors

“China began its transition into a market economy in the late 1970s. This affected the rural health system in a number of ways. The government

\(^{142}\)Kotler, Keller and Lu (2009:70)  
\(^{143}\)Kotler, Keller and Lu (2009:72)  
\(^{144}\)Kotler, Keller and Lu (2009:68)
The new healthcare reform
In 2010 the new healthcare reform was introduced, promising among many things healthcare insurance for 90% of the population by 2011, cutting medicine prices sold at hospitals and higher control over the production and supply of drugs." One important consequence has been the proliferation of fee-for-service (FFS) private medical practice in a largely unregulated environment." With the new regulations the need for better services and higher quality on procedures has arisen. One of the problems facing Chinese healthcare is the lack of integrated health policies that apply to all hospitals. The last reform was not a success and as a caution from that experience the Chinese government will launch the new reform as a pilot test, before distributing it to the rest of the country. The need for the new reform to function better then the last one creates a need for outside help. Because the government needs a third party to measure the success of the pilot to see if it is functioning as hoped.

"Consulting might be more valuable asset to help the pilot reform. Consulting service will bring value into healthcare reform."
Ken Garnett, DNVHC

Accreditation of hospitals
The Chinese government has their own system for accreditation of their hospitals. They divide the clinics and hospitals into three levels. Level I: clinics and smaller community hospitals. Level II: bigger hospitals that provide everyday healthcare for patients both in- and outpatients. Level III: general or comprehensive hospital at national, provincial or city level. Meaning so far The Chinese government has not brought in a third party to help evaluate the hospitals.

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145Fang and Bloom 2010  
146Lim, Zhang and Zhou 2004  
147Hew 2006  
148Interview with Christina Yan 29.04.2010  
149Interview with Christine Yan 29.04.2010
• Government support
  Level I: all government. Level II and III: 50:50. The hospitals need to report all financial activities including earnings, spending, financial reports, and accounting. There is strict control. The central government controls the local government. In every hospital there is a member from the “party” present. That means connections that report to the Political Party in China today.  

Economic factors

China’s economy has been growing rapidly since they transformed to a market economy system in the late 1970s. China is one of the strongest economies in the world.

• Financial assets for the new healthcare reform
  The Chinese government has now set a budget of approximately RMB 850 billion that will be invested on the new healthcare reform from 2009-2011. Over the past 25 years, China’s economic and social reforms have been greatly successful. During this period the capita gross domestic product (GDP) has increased from RMB 379 (US$219) in 1978 to RMB 9101 (US$1099). This has lead to dramatic improvements in the standards of living in China, especially in urban areas.

Social factors

• Demographic changes
  The number of the Chinese population aged above 65 is expected to rise from 6.1% to 9.3% in 2015, and a prediction that it will later double in the coming 20 years. This is a factor that will affect the healthcare system in China notably in the future.

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150 Interview with Christine Yan 29.04.2010
151 http://www.diagnosticimaging.com/display/article/113619/1538891
152 Hew 2006
153 The Economist Intelligence Unit Limited 2009
• Living standards

A large number of the Chinese population is living in quite poor circumstances, and they are also living without healthcare insurance. In 1998, 44% of the population was living without health insurance.\(^{154}\) Sadly that number has not changed as much as it should have in current date; however the new healthcare reform promises changes towards this issue. Another thing that will affect not only standards of living, but also a rise in new medical needs is the growth of urbanization. This growth is expected to be 55-60 %, where over half of China is expected to be urbanized by 2020.\(^{155}\)

• Guanxi

There is one important social factor in China that no one doing business in China can overlook. That factor is the importance of *guanxi*; *guanxi* is all about creating the right relations in order to succeed. Guanxi with the government is important in China. In China government approval is needed to do successful business. Without government guanxi you can only go so far, before someone who has a well-established government guanxi surpasses you.\(^{156}\)

• Expatriates working in China

"*Chinese is not always seen upon as an insider as there do exist different levels. An international Chinese person who left China and then comes back to do business, is not considered an insider. They might believe that they still are insiders, but the Chinese might perceive it as to arrogant. They left the country and now come back to take over. This is very often what Western companies misunderstand.***\(^{157}\)

Donald Wyatt, Attorney

"As a manager in China you have to spend more time with your staff. Chinese do not take initiative and they do not speak up in meetings. Calling a meeting would not necessarily solve the problems, and as a

\(^{154}\)Luo et al. 2009  
\(^{155}\)Hew 2006  
\(^{156}\)Interview with Dag Tørvold 23.04.2010
manager you should talk more up front in a meeting. People working for foreign companies are certainly aware of the different working style, and would adapt to the differences over time.”¹⁵⁸

Ander Swerke, DNV Maritime Shanghai

There are many differences in how employees interact in Western companies and how employees interact in China. This often causes misunderstandings between expatriates working in China and the local Chinese employees.

Technological factors

The new healthcare reform and the amount of money that is being invested in the healthcare reform have also created a market for higher investment on medical technology. “... In what is already one of the world’s fastest growing markets for medical technology.”¹⁵⁹

One of the most important changes will be the prioritizing of Healthcare IT, by establishing a medical record system. A medical record system will facilitate patient data sharing among different healthcare providers. Electronic medical record systems are quite common in most western countries. Numerous pilot programs offering this system are already on their way in different parts of China.¹⁶⁰ This technological change will push China towards a more functional future.

7.3.3 Porter’s Five Forces

Porter’s Five Forces model looks at the external factors in the market where DNVHC operates.

Threat of New Entrants

The entry barriers for the hospital accreditation and consulting industry in China are high. Entering this industry requires the understanding and knowledge about

¹⁵⁷ Interview with Donald Wyatt 12.04.2010
¹⁵⁸ Interview with Anders Swerke 20.04.2010
¹⁵⁹ Http://www.diagnosticimaging.com/display/article/113619/1538891
healthcare issues in China. It is also necessary to have competence and expertise in accrediting and consulting hospitals. Entering such industry takes several years with R&D, investment and the right relations.\textsuperscript{161} It is important for DNVHC to constantly monitor the healthcare industry, as there are many potential hospital accreditation and consulting firms with the necessary expertise and competence seeking to enter the Chinese market.

The exit barriers are relatively high. After studying different accreditation firms worldwide, findings shows similarities in accreditation programs which generally are granted for a period of at least a year and up to five years.\textsuperscript{162} Such commitments make it difficult for a firm to exit the industry. Poor-performing firms may stay in the industry as long as possible in order to avoid the loss of invested R&D. The high exit barriers make the healthcare industry attractive when speaking of potential profit, but the firms may face higher risks.\textsuperscript{163}

Since there are many healthcare consulting firms currently operating in the Chinese healthcare market, threats of such firms entering would not be of significant importance for DNVHC. Instead, DNVHC should focus more on monitoring the healthcare accreditation firms seeking to enter the Chinese industry. Among the firms who wish to enter the hospital accreditation industry, and the firms that are in the early entering stage, DNVHC should be aware of:

- The Trent Accreditation Scheme
  The core elements of their scheme are a peer review, accreditation awards by an independent board, newsletter, training events for participants and surveyors in the scheme and networking opportunities, pre-survey visits, mentoring for the organization if desired, continuous process of development.\textsuperscript{164} The Trent accreditation scheme, differentiate themselves by offering lower priced accreditation. “We believe that by offering high

\textsuperscript{160}Sinclair 2009
\textsuperscript{161}Interview with Anders Sweiske 20.04.2010
\textsuperscript{162}Common for all the firms studied:
www.dnv.com
www.jointcommissioninternational.org
www.achs.org.au
\textsuperscript{163}Kotler, Keller and Lu (2009:228)
\textsuperscript{164}http://www.trentacreditationscheme.org/
quality, lower cost accreditation, Trent is able to operate inclusively in the healthcare market to raise standards as well as minimize risk for patients in every sector,” explains Dr. Smailes.”

- The Australian Council on Healthcare and Standards (ACHS)

ACHS’ core accreditation program is the Evaluation and Quality Improvement Program (EQuIP). The EQuIP program guides organizations through a four-year cycle of Self-Assessment, Organization-Wide Survey and Periodic Review to meet ACHS’ standards. Every four years ACHS undertakes a comprehensive EQuIP standards review and consultation process to ensure the standards remain current. Other ACHS programs include: EQuIP Certification, EQuIP Corporate, EQuIP In-depth Reviews and ACHS Quality for Divisions Network. ACHS provide customized reporting from their rich data sources, enabling single health care organizations or groups of organizations to compare their own performance to state and national aggregates. In addition ACHS offer customized education, workshops, consultancies and access to publications, supporting ongoing quality improvement initiatives. ACHS have no immediate plan entering the mainland Chinese market, but are present in Hong Kong. They have commenced work with the Hospital Authority since May 2009 on a Pilot Scheme on Hospital Accreditation with a few private hospitals in Hong Kong that have joined the EQuIP4 accreditation program.

- Accreditation Canada

Accreditation Canada is now making its entry into the Asian market. Dr. Jason Moon, the CEO of Environment & Quality Assurance International Certification Center (EQAICC) says: “We are pleased to bring Accreditation Canada International to Korea. The high quality of Accreditation Canada’s services will be welcomed in Korea. These services will soon be expanded to Japan and China.” Accreditation Canada offers accreditation, education and consultation for its clients.

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166 www.achs.org.au  
167 Interview with Sareeta Ngairangbam 30.04.2010
Their services are designed to improve organizations’ quality of care and service.\textsuperscript{169}

\textit{Summary Threats of New Entrants}

The entry and exit barriers are relatively high, making the industry attractive but at the same time risky. Even though the entry barriers are high, the threat of new entrants is high due to several qualified international firms seeking to penetrate the industry. According to Swerke from \textit{DNV Shanghai Maritime Center}, it is necessary for DNVHC to be an early mover.\textsuperscript{170} This would be particularly important for DNVHC, as too many firms penetrating the industry may cause overcapacity.

\textit{Bargaining Power of Suppliers}

Developer and publisher of international standards would be suppliers for DNVHC. Suppliers of importance for DNVHC are:

- International Organization for Standardization (ISO)

  ISO is the world’s largest developer and publisher of international standards, forming a bridge between the needs of the society and the requirements of business. The Central Secretariat in Geneva, Switzerland, coordinates ISO’s network of the national standards institutes. The network consists of 161 countries with one member per country. ISO is a non-governmental organization, but many of its member institutes are part of the governmental structure of their countries or are mandated by their government.\textsuperscript{171}

- Standardization Administration of China (SAC)

  The SAC, authorized by the State Council, represents China within the ISO and other international and regional standardization organizations. Its

\textsuperscript{168}http://www.accreditation.ca/en/news.aspx?id=1288
\textsuperscript{169}http://www.accreditation.ca/accreditation-programs/international/services/
\textsuperscript{170}Interview with Anders Swerke 20.04.2010
\textsuperscript{171}http://www.iso.org/iso/about.htm
functions are to exercise administrative responsibilities by undertaking unifies management, supervision and overall coordination of standardization work in China.\textsuperscript{172}

- The Ministry of Health (MoH): Overall responsibility regulating China’s healthcare system.

- The Administration of Quality Supervision, Inspection and Quarantine (ASQIQ) China: Drafts rules and regulations on certification and accreditation, safety and quality licensing, hygiene registration, and qualification assessment.

- Staff: experts and surveyors are trained within healthcare and DNVHC risk losing relevant competence. DNVHC will experience loss of specific investment, and it will take time to recruit and train new employees with same high level of skills.

\textit{Summary Bargaining Power of Suppliers}

The bargaining power of suppliers tends to be significant since the supplied product is an important input for DNVHC. The ISO 9001 standards are not required to obtain, when operating in the healthcare industry in China. The ISO 9001 standards add value to DNVHC and create an advantage when reaching their audience. According to Miao working at the Shanghai United Family Hospitals and Clinics, many local hospitals want to increase their management systems by passing international standards.\textsuperscript{173} Though many local hospitals want to pass such standards, there are few who actually fulfill their wants since many local hospitals’ liquidity is weak. Such standards would be more saleable if the government sets requirements through rules and regulations. The ISO are holding an oligopoly in the international standardization market, being one of the largest developer and publisher of international standards, which

\textsuperscript{172}http://www.sac.gov.cn/templet/english/ShowArticle.jsp?id=2305&id=364
\textsuperscript{173}Interview with Jumei Miao 18.01.2010
strengthen their bargaining power.\textsuperscript{174} However the ISO products are standardized, but the competition factor is still of less significance. The SAC which represents the ISO in China is authorized by the State Council, meaning it is a part of the governmental structure. The State Council of the People’s Republic of China, also called Central People’s Government, is the highest executive organ of State power.\textsuperscript{175} The ISO and the SAC is therefore of even more importance for DNVHC, as the government plays a fundamental role in the Chinese community. Currently none of the suppliers are seeking to integrate forward becoming a competitor to DNVHC, but the possibility should be taken in consideration, being aware of the possibility in the future.

Bargaining power of staff will be one of the highest importance compared with the other suppliers. To reduce the bargaining power of the suppliers, DNVHC can influence the setting of standards in the Chinese healthcare industry as they have done in the shipping industry.\textsuperscript{176}

**Bargaining Power of Buyers**

The buyers within the healthcare industry are very powerful. They purchase a large proportion of this industry’s total output.\textsuperscript{177} Accreditation programs are standardized, making it easy for buyers to find other options, lowering the switching costs. However the quality among the providers of such services varies in a large scale. As mentioned, accreditation programs are normally granted for a period of at least a year and up to five years, binding the buyers to a certain extent. The buyers can still withdraw if they find the services useless and unnecessary.\textsuperscript{178}

According to Ken Garnett, the senior level government in China wants the services provided by DNVHC to be free of charge.\textsuperscript{179} The importance of the government and their interest in not paying may influence DNVHC’s decisions.

\textsuperscript{174}http://www.iso.org/iso/about.htm
\textsuperscript{175}http://english.gov.cn/2008-03/16/content_921792.htm
\textsuperscript{176}Interview with DNVHC 30.04.2010
Interview with Anders Swerke 20.04.2010
\textsuperscript{177}Hitt, Ireland and Hoskinson (2007:38)
\textsuperscript{178}Interview with Sareeta Ngairangbam 30.04.2010
\textsuperscript{179}Interview with DNVHC 30.04.2010
Summary Bargaining Power of Buyers

Overall the bargaining power of the buyers is relatively high. The government is currently functioning as an accreditation body by categorizing the public hospitals in level I, II and III. Garnett explains that there are currently no such standards on the market. The government and the hospitals can become a competitor by integrating backward. By gathering together, they can develop their own accreditation or consultancy organization based on their own standards and competences from the industry. DNVHC should be aware of the possibility of that its buyers can integrate backward even though the chances are considered as low.

Threat of Substitute Products

There are no substitutes for certification and consulting. Other mechanism used to evaluate quality and make enrolment, hiring, and licensing decisions have been used to supplement and substitute accreditation. Such mechanism could be reputation and rankings of programs, evaluation of individual skills through grades and continuous education credentials, and on-the-job training and testing.

Intensity of Rivalry among Competitors

There are currently many strong and aggressive firms operating in the consulting industry making it unattractive to some extent. It is therefore important to differentiate in a saturated market. In the accreditation industry, there are currently few firms operating. It will be attractive for new entrants if the need for classification bodies arises in the healthcare industry as a result of new standards set by the authority. Existing rivalry intensity in the healthcare consulting industry is relatively high compared with the hospital accreditation industry.

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180 Interview with Christina Yan 29.04.2010
181 Interview with DNVHC 30.04.2010
181 http://www.accreditation.org/accchall.php
7.3.4 Competitor Analysis

<table>
<thead>
<tr>
<th>Number of Suppliers</th>
<th>Level of Preferences</th>
<th>Homogeneous Market (no preferences)</th>
<th>Homogeneous Market (some preferences)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Monopoly</td>
<td>Differentiated Oligopoly</td>
</tr>
<tr>
<td>1</td>
<td>Few</td>
<td>Oligopoly</td>
<td>Monopolistic Competition</td>
</tr>
<tr>
<td></td>
<td>Many</td>
<td>Pure Competition</td>
<td></td>
</tr>
</tbody>
</table>

Figure 12: Competitor Analysis

Main competitors in the Chinese healthcare accreditation business

There seems to be very few competitors that operate within the Chinese hospital accreditation market at this stage.\(^{182}\) Currently there is only one main competitor operating in the Chinese hospital accreditation market, which is placed in the Differentiated Oligopoly Competition square in the competitor analysis figure. The preferences among the accreditation clients are different. Clients will have the choice to decide based on their own differentiated preferences. One can purchase accreditation can be based on size of the hospital, length of the contract, price, and surveyors needed.

- Joint Commission International (JCI)

JCI is a private sector U.S. based not-for-profit-organization. Their Revenue in 2008 was US$165 million and their expenses during this period were US$162 million. Their revenue came mainly from what they

\(^{182}\) Zigler and Paulsen (2004:77)
\(^{183}\) Meeting with Jinsong Gao 18.03.2010
charge U.S. health care organizations for evaluating their compliance with federal regulations.\textsuperscript{184}

The mission of JCI is: “To continuously improve the safety and quality of care in the international community through the provision of education and consultation services and international accreditation and certification”.\textsuperscript{185}

Their services include: Accreditation manuals, advisory services, Books and e-books, conferences and seminars, custom education, periodicals, web based training and other resources such as focus on hand hygiene.\textsuperscript{186}

- The Chinese government

The government currently has their own accreditation system with the different levels of public hospitals, and the hospitals get funding from the government.

\textit{Main competitors in the Chinese healthcare consulting market}

There are many competitors operating in the Chinese healthcare consulting market. The preferences among the clients are different and there are many healthcare consultancy firms in the market. DNVHC’s main competitors are therefore placed in the \textit{Monopolistic Competition} square in the \textit{competition} analyze figure.

- McKinsey& Company

McKinsey is considered to be the leading global management consulting firm in Greater China.\textsuperscript{187} They provide superior client service with its deep industry knowledge on a global scale within these industries: automotive & assembly, consumer & retail, financial services, global

\textsuperscript{184}http://www.jointcommission.org/NR/rdonlyres/05E0308B-E5FF-4CF7-AD63-39C038E85ACA/0/08_financial.pdf
\textsuperscript{185}http://www.jointcommissioninternational.org/about-jci/
\textsuperscript{186}Http://www.jointcommissioninternational.org/Products-and-Services/
\textsuperscript{187}http://www.mckinsey.com/locations/greaterchina/ourwork/healthcare/
energy & materials, healthcare, high tech, public sector and travel & logistics. Within the healthcare industry, McKinsey work with healthcare suppliers, hospitals, and insurance companies to transform their operations. McKinsey help clients designing corporate and product portfolio strategies, preparing and implementing M&A strategies, and optimizing sales and marketing approaches. They also advise hospitals on the design and implementation of strategies to improve the quality of care while enhancing productivity. Strong brand reputation makes it possible to charge more for the services. McKinsey has a strong brand name in the consultancy industry, and charges for example six times more than DNV for healthcare related projects in the U.K. market.

- The Boston Consulting Group (BCG)

BCG was founded in 1963 and is the world’s leading advisor on business strategy, making it a global management consulting firm. They have customized their approach which gives them a deeper insight into the dynamics of the companies and markets. BCG is a private company with 69 offices in 40 countries, and has been in China for more than 20 years. Healthcare practice is one of BCG’s most important pillars among all the wide variety of industries they cover.

- Perficient

Perficient started up in 1998 and is a leading information technology management-consulting firm located in North America, Europe, China and India. Perficient is business partner with IBM and offers consulting across a wide range of different industries focusing on internet-based technologies. They were ranked to be #15 of the largest Healthcare Management Consulting firms in 2009. Perficient Healthcare offer
services such as innovative business process, technical solutions for providers, health plans, life sciences, government services, custom application solution design and implementation, technology and business consulting services that increase efficiencies while reducing cycle times and costs, customer portals, enterprise portals, partner portals, comprehensive education and mentoring.\textsuperscript{193}

- China Healthcare Group (CHG)

CHG is striving to be a leading global supply chain management service company, but is today an international medical product full service company. CHG provides services such as business alliance, clinical education, regulatory consultancy, market research, investment advisory, technology licensing, marketing & distribution, product sourcing, CRO, hospital business and IT healthcare. They specializes themselves in the five last mentioned services in China and Korea.\textsuperscript{194} In addition CHG have a healthcare network with the United States and Europe.\textsuperscript{195}

- The Dorenfest Group (DG)

DG formed the Dorenfest China Healthcare Group based in Shanghai in 2006. They offer a variety of investment and consulting programs such as hospital management and work process improvement, hospital IT consulting, hospital contract management, hospital ownership, healthcare investment advisory services, healthcare education symposiums and seminars, healthcare supplier consulting, healthcare insurance consulting and healthcare market research services.\textsuperscript{196} DG have consulted with over 300 hospitals worldwide and worked with over 200 Health IT suppliers to improve their strategies to better serve their customers with their products.

\textsuperscript{193}http://www.perficient.com/industry/ind_Healthcare.asp
\textsuperscript{194}http://www.chccgroup.com/content/view/17/9/
\textsuperscript{195}http://www.chccgroup.com/content/view/31/46/
\textsuperscript{196}http://www.dorenfest.com/ASP/chinadefault.asp
Currently, DG has provided over ten Chinese hospitals and Health Bureau clients with consulting.\textsuperscript{197}

- **The ChinaCare Group (CCG)**

CCG is an international healthcare consulting firm in China. They focus on providing business development and management services that assist new healthcare ventures to establish in China.\textsuperscript{198} For existing healthcare businesses CCG provides the full range of services necessary to modernize, upgrade and promote the services and functions of the facility. CCG provides services such as feasibility studies, business plans, market surveys, licensure, government relations, legal affairs, medical staff recruitment and organization, governance, training and education, marketing and advertisement, efficiency studies and project management.\textsuperscript{199}

- **Sunfire Healthcare Consulting (SHC)**

SHC is a young healthcare technology and management consulting company established in 2004 with its main office in Shanghai. They provide services such as technology/market development and management to medical device and pharmaceutical companies. SHC mainly focuses on helping Chinese healthcare companies entering the global market and helping the global companies entering the Chinese market.\textsuperscript{200} They have done some success, bringing products to the North American market. It seems that SHC still is a small company but is eager to grow.\textsuperscript{201}

\textsuperscript{197}http://www.medicexchange.com/Asia/dorenfest-forecasts-fate-of-health-information-technology-in-us-and-china.html
\textsuperscript{198}http://www.chinacaregroup.com/
\textsuperscript{199}http://www.chinacaregroup.com/clientService/WhatWeDo/WhatWeDo.htm
\textsuperscript{200}http://www.sunfirehealthcare.com/about.php
\textsuperscript{201}http://www.sunfirehealthcare.com/work02.php
Summary of competitor analysis

The majority of the competitors in the healthcare consulting business are for-profit-organization, whereas DNVHC is a non-for-profit organization. In this field there are relatively many players, making differentiation and specialization important.

Both JCI and the Chinese government are not-for-profit organizations. In a differentiated oligopoly competition arena the number of competitors is few and alliances can be established to prevent new entrants. To sustain this competition situation and avoid a monopolistic competition or pure competition arena, DNVHC should not be too aggressive towards its competitors.

7.3.5 Customer Analysis

For DNVHC there are two potential types of buyers that can be interested in their services: the Chinese Government and the hospitals in China. These two segment groups are based on findings from market research where the authors became aware of the fact that, the government in China still plays an important role. Since the government is interested in improving the current healthcare situation, they can be viewed as potential buyers or partners for DNVHC. DNVHC can offer service in order to improve the health conditions. The hospitals in China are the other segment group that needs to be improved. Hospitals are also a place DNVHC can position themselves with their services in the future, if they chose to offer their services to hospitals directly.

Government

DNVHC has to know who the decision-making group is, and then further implement strategies on how to sell their services according to the Buying Process. Different decision-makers have different positions and tasks within the Buying Process.202 It is clear that the government wants to improve the healthcare system in China. DNVHC has managed to target themselves to the right people, where they now have a MoU-agreement with CHEI, under the direct leadership of Ministry of Health.
The government interest is to build a basic healthcare system that can provide safe, effective, convenient and affordable health services to all its urban and rural residents by 2010. DNVHC is already on the right track on establishing good relationships with the government, and see reciprocities that can lead to long-term investment. The government is looking for ways of improvement that develops the country in order to create political and economical growth. This they can learn from DNVHC, both having experiences from Norway and the U.S. Both the countries were ranked among the five highest countries by WHO when it comes to Per Capita Government Expenditure on Health.

DNVHC has already established relationships with the government, and it will be of interest to look for additional reasons to stay and develop this relationship. The risk that might be involved includes uncertainties and consequences. Uncertainties from the government side can be related to the evaluation of DNVHC’s performance, as well as the result from the MoU research agreement. The consequences involve the failure of the research program, or the risk on whether this will help improving the healthcare system China.

Andersen pointed out the benefits from cooperating with DNVHC for the government. They can co-operate in the establishment of structures, routines and policies, which can be implemented in hospitals. They would like to have a mechanism to follow up these changes. The government would benefit from having a third party following up if the hospitals, something they do not have at present time, to follow up and see if the changes are actually working according to what the government has implemented.

_Hospitals_

The infrastructure and management of hospitals are still underdeveloped. The needs from the hospitals can therefore be to have better structure, increased efficiency and a reduction of unnecessary costs for the hospitals. The different

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202 http://www.ronbrauner.com/?p=68  
204 http://apps.who.int/ghodata/#  
205 Interview with Vidar Andersen 13.04.2010  
206 Article compendium 1
hospitals in China can be viewed as first-time purchasers with limited knowledge about the quality of DNVHC’s services. DNVHC should present the company to be more visible and create brand awareness among the potential hospitals. It will be necessary with WOM in China, as this culture is strongly based on relationships and guanxi.\(^{207}\) WOM is rated more valuable than advertising when it comes to service industries.\(^{208}\)

DNVHC can provide the hospitals with either quality management accreditation or consulting services. The company has to decide what service that will be most suitable, and which of the services that can meet the needs and wants of the hospitals. Andersen stated that the benefits for public hospitals would be in reward for service quality, showing both its staff, the public and the government that it is willing to improve, and also getting a certificate that it is indeed a good hospital.

Polsa has also pointed out the importance of having relationships with the local government.\(^{209}\) If the local government do not agree or support your business, they have the power to make it difficult for you. High level of relationships will not always help when it comes to lower level of business. Having an agreement with the central government will not necessarily benefit their business in the hospitals, unless the local government also shows the same interests.

It is also considered to be important how DNVHC manage to deliver their message and market their services towards the hospitals. Decision-making people in the hospitals are not interested in losing face, so proper use of language and words are also significant factors.

### 8.0 STRATEGY FOUNDATION

#### 8.1 SWOT

The authors have chosen a SWOT analysis for identifying DNVHC’s strengths, weaknesses, opportunities and threats. The analysis is illustrated in a table and

\(^{207}\) Interview with Pia Polsa 22.04.2010  
\(^{208}\) Kotler, Keller and Lu (2009:318)  
\(^{209}\) Interview with Pia Polsa 22.04.2010
weighed according to level of internal factors, attractiveness and probability for success for opportunities, and seriousness and probability of occurring for threats. The weighing is ranged from level 1 to 5, where 1 is the lowest and 5 the highest.

These values are used in three different matrixes; the competence matrix containing strengths and weaknesses, the opportunity matrix, and the threat matrix. The highest valued factors and the important areas in each of the matrixes will be considered as the strategy foundation.

I: internal
X: external

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Horizontal axis</th>
<th>Vertical axis</th>
</tr>
</thead>
<tbody>
<tr>
<td>AI - Brand name and reputation</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>BI - One of world’s leading classification societies and certification bodies</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>CI - Presence in China since 1888</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>DI - Country of origin</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>EI - Financially stable</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>FI - DNV is a not-for-profit foundation with no shareholders</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>GI - Headquarter in Beijing</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>HI - Extensive experience in the U.K. and U.S healthcare industry</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>II - Competence in Risk management</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>JI - Qualified employees with relevant expertise</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>KI - Local employees with good understanding of China</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>LI - ISO 9001 standard</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>MI - High level of investment in R &amp; D</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>NI - Healthcare Risk Management Research Center, DNV-CHEI joint research institute</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>OI - MoU-agreement with China’s Ministry of Health</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>PI - Relatively strong governmental relationship</td>
<td>5</td>
<td>4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Weaknesses</th>
<th>Horizontal axis</th>
<th>Vertical axis</th>
</tr>
</thead>
<tbody>
<tr>
<td>QI - Strong brand name and reputation in other industries, but not yet in healthcare</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>RI - Core competencies will only stay sustainable for a limited period of time</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>SI - DNV logo too highly associated with maritime industry</td>
<td>2</td>
<td>4</td>
</tr>
</tbody>
</table>
8.1.1 Competence Matrix

The competence matrix includes DNVHC’s strengths and weaknesses and visualizes the importance of specific internal factors. The horizontal axis shows the importance weighed in regards to DNVHC. The vertical axis is the grade of importance in the market.²¹⁰

²¹⁰ Bronder et al. (2007:83)
### Summary of Competence Matrix

#### Strengths:

**AI** – Brand name and reputation: The name DNV is an advantage, but in the healthcare market the name has no recognition.

**BI** - One of world’s leading classification societies and certification bodies: It gives DNVHC a good image towards the market, and that the company has knowledge in the respective field. Increases the perception of quality.

**CI** - Presence in China since 1888: Deep knowledge about the Chinese market, broad experience in the Chinese market, and well-established in China.

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![Figure 13: Competence Matrix](image)
DI - Country of origin: Norway has a well established and well working health system. This is positive for China if they would want to adapt to a Western health system, however, the American system are more known in China.

EI - Financially stable: Financial stability is important for both DNVHC and its customers. This will reduce risks for both parties. It gives DNVHC opportunities for further development.

FI - DNVHC is a not-for-profit foundation with no shareholders: A shareholder owns a part of the company through stockownership, meaning the company has to always answer to the shareholders’ needs. With no pressure of constantly satisfying shareholders, DNVHC can have more focus on delivering for its stakeholders.

GI - Headquarter in Beijing: Having a headquarter in Beijing allows DNVHC to create and retain their government relations by being geographically closer to the central power of China. Having good governmental relations are important in China in order to do business in China.

HI - Extensive experience in the U.K. and U.S. healthcare industry: The experience DNVHC have from U.K. and the U.S. can be used as a strength in the Chinese healthcare market.

II - Competence in Risk Management: DNVHC’s competence in Risk Management is a core capability.

JI - Qualified employees with relevant expertise: This is one of DNVHC’s core competencies.

KI - Local employees with good understanding of China: It is a strength to have local employees, however there is often misunderstanding between the Chinese and the foreign employees.
LI - ISO 9001 standard: DNVHC met the requirements for approval to perform accreditation compliant with ISO 9001. In the Chinese healthcare market government controls much of the accreditation with its level I, II, and II hospital standards.

MI - High level of investment in R&D: High level of R&D allows DNVHC to further develop their abilities.

NI - Healthcare Risk Management Research Center, DNV-CHEI joint research institute: This center creates an even more trustworthy regarding involvement in the Chinese healthcare, and showing that DNVHC is committed to make a difference.

OI - MoU-agreement with China’s Ministry of Health: Having created a MoU-agreement show that DNVHC has stronger connections with the government than its competitors.

PI - Relatively strong governmental relationship: In order to operate in China, one must have governmental relations for doing business.

Weaknesses:
QI - Strong brand name and reputation in other industries, but not yet in Healthcare: When establishing within healthcare market in China, it is a relatively major weakness that there is no brand recognition for their name in healthcare.

RI - Core competencies will only stay sustainable for a limited period of time: DNVHC cannot solely trust their current core competencies as they are not sustainable in a long-term. DNVHC must continuously develop their competencies.

SI - DNV logo too highly associated with maritime industry: DNV logo creates strong associations to the maritime industry. This is decreasing their opportunities for getting higher recognition in healthcare market.
8.1.2 Opportunity Matrix

This matrix assembles DNVHC’s opportunities in the Chinese healthcare market. The most important opportunities are identified and to what extent they are attractive and the possibilities for success.

![Opportunity Matrix Diagram]

**Summary of Opportunity matrix**

AX - New healthcare reform: Without the reform, the possibilities in the Chinese health market would not be as attractive for DNVHC. The probability for success is rather uncertain.

BX – Aging population: this increases the demand for a better healthcare system.

CX - Higher demand for better healthcare: High demands on the healthcare market creates lucrative possibilities for DNVHC.
DX - Rapid development of the Chinese health industry: The industry is attractive, but at the same time it will be a difficulty to keep up when DNVHC is a fairly new player in the Chinese healthcare market.

EX - Higher middle class increasing rapidly: With higher middle class, comes higher social standards and affordability of healthcare. It is attractive, but uncertain if DNVHC can exploit the opportunities this brings.

FX - Higher education among the population: With higher education comes higher knowledge leading to higher demands and expectations on how healthcare services should be provided. This giving more requests for developing of the healthcare system.

8.1.3 Threat Matrix

The threat matrix assembles the threats weighed in the SWOT analysis illustrating DNVHC’s most important threats and the degree of seriousness.

The Threat Matrix

<table>
<thead>
<tr>
<th>Seriousness</th>
<th>High (5)</th>
<th>Neutral (3)</th>
<th>Low (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High (5)</td>
<td>KX(5,5) HX(4,5)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>GX(5,4)</td>
<td>IX(4,3)</td>
<td>IX(5,4)</td>
</tr>
<tr>
<td>Low (1)</td>
<td>3</td>
<td>2</td>
<td>4</td>
</tr>
</tbody>
</table>

Probability of Occurrence

Figure 15: Threat Matrix
Summary of Threat Matrix

HX - Government is not really interested in paying for services: The government is not really wishing to pay for services at this point. This creates a substantial threat.

IX - Many players looking in to entering the Chinese healthcare market: More players on the market increase the competition intensity. The reform might be attracting more consulting/accreditation companies, who have competence, to enter the Chinese health market.

JX - Chinese government spends less money on healthcare than other countries: This issue affects the attractiveness of the healthcare market.

KX - The needs for hospital accreditation is not highly valued by government or hospitals: The government has not yet seen a need to bring in a third party to do accreditation. The hospitals do not have sufficient financial support to purchase such services, and does not see a need unless it is required.

LX - Companies such as JCI, McKinsey & Company, BCG, Perficient, China Healthcare Group, The ChinaCare Group, Sunfire Healthcare Consulting and Dorenfest Group are already established in the Chinese healthcare market: These are well-established and have already created a reputation.

Summary of SWOT

Using the SWOT analysis the authors have concluded that DNVHC’s biggest strengths lie within their competence in risk management, their human resources, and their relationship with the government. DNVHC’s main weakness is that although they have a strong brand name in maritime industry, they have not yet a strong brand recognition in the healthcare market in China. Based on the competence matrix, DNVHC should sustain their efforts.²¹¹

8.2 Strategic Problem Definition SPD

Based on the weighing of the SWOT analysis, the authors have reached a strategic problem definition.

“How can DNVHC use their expertise within risk management and their strong relationship with the government to exploit opportunities with the new healthcare reform pilot project, and how can DNVHC create higher brand awareness in the Chinese healthcare market?”

8.3 Goals

The SPD helps with developing and formulating DNVHC’s goals. The goals determine and describe what DNVHC want to achieve in a given period of time. The goals are viewed in a short-term perspective and a long-term perspective. 212

8.3.1 Short-term Goals

The authors define short-term goals as present to 3 years.

- Create higher brand awareness in the Chinese healthcare market
- Create stronger relations with the government
- Use current government relations to create awareness of accreditation among hospitals

8.3.2 Long-term Goals

The authors define long-term goals as present to 10 years.

- Develop a sustainable governmental relationship
- Implement risk management in current systems and processes.
- Prevent employee turnover that leads to loss of competence within the company

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212Solberg (2005:385-386)
8.3.3 Suggestions on how to reach their goals

The authors recommend DNVHC to focus on current government relations, actively promote themselves and use their strong internal resources. Suggestions will be a part of the marketing mix in the strategy chapter.

8.4 Critical Success factors CSFs

"The limited number of areas in which results, if they are satisfactory, will ensure successful competitive performance for the organization. They are the few key areas where things must go right for the business to flourish. If results in these areas are not adequate, the organization's efforts for the period will be less than desired." CSFs are areas of activity that should receive constant and careful attention from management."\(^{213}\)

8.4.1 DNVHC’s Critical Success Factors

- Implement applicable elements from their U.K. and U.S. healthcare business
- Strong and sustainable relationship with the government
- Achieve understanding of benefits with international accreditation in China
- Competent human resources

\(^{213}\)http://www.mindtools.com/pages/article/newLDR_80.htm
9.0 STRATEGY

9.1 Segmentation, Targeting and Positioning STP

9.1.1 Segmentation

[Diagram of Segmentation Process]

DNVHC has a clustered preference market because there are several potential buyer groups when it comes to healthcare system in China. The reason why the authors mention clustered preference is that there are several factors as well as players that would be of importance in China. Not only should DNVHC serve the buyers from a business perspective, but also the great impact that comes along with the government. It is due to the immature stage in the healthcare system that the government sees needs for improvement.

When implementing a sequential segmentation, it is very important to start from a macro perspective. DNVHC should keep partnership with government within their market strategy, but also try to find other potential customers in China. This is to reduce the consequences that occur when only operating with one single partner. DNVHC should not rely heavily on one single business within healthcare in China, but rather spread the risk in several targeting groups.214

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214 Biong and Nes (2003:189)  
215 Biong and Nes (2008:89-90)
The government in China is one of the buyers that DNVHC already has shown interests to. The partnership with government has given them a position within healthcare market. This alone is not enough to secure a long-term business growth. After looking at the market opportunities and the possibilities that lies within the healthcare market, it will mainly be hospitals that DNVHC should further be targeting. The hospitals will be a part of the healthcare reform in the sense that government will try to implement the three years plan, putting more investments into public healthcare sector. The private hospitals are also interested in accreditation and certification in order to set international standards. DNVHC unfortunately has not yet a strong enough brand name within healthcare, making it difficult to get through to the hospitals.216

When it comes to micro-segmentation, DNVHC should combine the opportunities in the market with their core competencies and what the company has to offer. The organization is strong within risk management that can be utilized through the cooperation with government, in order to set better healthcare conditions that can improve the wealth of China. DNVHC should further create stronger market position, as well as building a stronger brand name so that hospitals see the value of using DNVHC.

9.1.2 Targeting

The market segments should further be targeted into government and hospitals, which means selective targeting. However, these two markets are too big in size and need to be more specified in order to find the most valuable targeting groups.

**Government**

As findings in preliminary research shows, it will mainly be the different parties written below that are strong decision-makers when it comes to Chinese healthcare system.217

- The Ministry of Health (MoH): overall responsibility for regulating China’s healthcare system

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216Interview with DNVHC 30.04.2010
The ministry of Commerce (MOFCOM): Regulates foreign investment in China

The State Food and Drug Administration (SFDA): Oversees the research, production, and distribution of pharmaceuticals

The Administration of Quality Supervision, Inspection, and Quarantine (AQSIQ): drafts rules and regulations on certification and accreditation, safety and quality licensing, hygiene registration, and qualification assessment.

Local Health Bureaus: responsible for healthy work belonging to one region, and report regularly conditions of healthy reform and development to local People's Congress.  

Since the different departments are strong within healthcare market, DNVHC should try to focus on creating relationships with them, also making it easier to measure instead of referring to government as one segment in general. These groups within the segment are substantial because of the hierarchical system in China where the government has strong influence and decision power; making it big enough to be profitable. This targeting group also differentiates from Hospital segmentation.

**Hospitals**

The Chinese hospital system consists of three hospital tiers, which are divided into level I, level II and level III.  

- **Level I**: Provides basic medical services in small towns.
- **Level II**: Provides comprehensive medical services plus teaching and research functions. They generally include municipal hospitals in smaller cities, as well as district and county hospitals.
- **Level III**: Provide comprehensive medical services, including clinical specializations, integrated with teaching and research functions. This level includes provincial hospitals and municipal hospitals in bigger cities.

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217 Dudek, Chen and Zhang 2004
219 Sinclair 2009
Yan stated that the government financially gives fully support to level I-hospitals, whereas level II and III are partly supported.\textsuperscript{220} DNVHC should take this sector into consideration, as they should position themselves differently, according to the needs and possibilities from the different levels. From the different grading system level III is the most developed hospitals as well as being the biggest and opinion leaders in the healthcare market, they also have the biggest budgets and earnings among the three levels. DNVHC should for this reason focus on level III. DNVHC should focus on the needs from a macro perspective, and understand that the reform’s emphasis is not on expanding demand for high-end products and services.\textsuperscript{221} This is a good reason for DNVHC stay in compliance with the government interests.

The difference between level I and level II hospitals is the government funding. Level I is fully covered by the government whereas level II only are partly provided with financial support. Level I include the clinics and small community hospitals that do not see any desires in having accreditations with international standards.\textsuperscript{222} This level mainly follows the rules from government and has either no interest in accreditation or shows low interest in decision making when it comes to hospital improvements. Level I follows the decisions made by government, and operates on the lowest level of the healthcare system. This could have been a potential targeting group if only their financial situation did not totally rely on government. DNVHC will therefore meet difficulties to get through if positioning in this level.

Level II is partly supported by the government and has stronger purchase power than level I. Level II hospitals are bigger hospitals that provide a wider aspect of health care and have higher revenue. When the government now tries to limit the usage of drugs in hospitals, it will be a need for other ways to keep up their revenue, which can be said through the importance of having efficient and improved standards in the hospitals.

\textsuperscript{220}Interview with Christina Yan 29.04.2010
\textsuperscript{221}Sinclair 2009
\textsuperscript{222}Interview with Christina Yan. 29.04.2010
9.1.3 Positioning

After having decided the targeting groups, DNVHC should position itself with the most preferred strategy. From Porter’s three generic strategies\(^{223}\), the authors would recommend to implement Focus strategy in order to succeed within the healthcare market, as well as utilizing the core competencies from DNVHC. Reason for choosing Focus strategy is due to the fact that DNVHC focuses on their relationship with the government and how to improve the healthcare system that is in compliance with governmental regulations.

After having positioned themselves better within the healthcare market, DNVHC will benefit from shifting from Focus strategy to Differentiation strategy in order to meet the needs for not only government, but also hospitals. Differentiation strategy would be achievable because of DNVHC’s strong internal resources such as innovation, financial situation and product quality. In other words, DNVHC has to change their strategy based on the short-term goals in China. This is needed in a country that is rapidly developing.

9.2 Marketing Mix

For DNVHC the P for product and the P for promotion are the most important Ps to focus on at present time. P for people in the service marketing mix should also be taken under consideration. The services provided by DNVHC cannot be done without the correct and competent people. Without the personnel there will be no service to offer. For DNVHC, its staff creates the service and value that can be offered to the customers.

There is a need to build awareness of their services as well as their brand name. This can be partly done by designing a good marketing communication strategy. The brand name today and the logo that represents them are too closely associated with the maritime and energy division of DNV.

\(^{223}\)Kotler, Keller and Lu (2009:45)
DNVHC offers services “unlike physical products services cannot be seen, tasted, felt or smelled before they are bought.” The P for product for DNVHC depends much on how well they can adapt their services to the Chinese healthcare market.

9.2.1 Product adaptation

The services that DNVHC offer include risk management consulting and hospital accreditation. Risk management consulting is a service that is customized for each customer; this service is always adapted in order to meet the customers’ needs. Their accreditation and certification services are standardized services, this because they accredit according to a standard set of rules.

DNVHC can add value to the accreditation services in order to make them more attractive for the customer. “When the physical product cannot be differentiated easily, the key to competitive success may lie in adding valued services and improving their quality.”

For DNVHC to successfully sell their accreditation services to the level III hospitals, they need to add extra value in accordance with the new reform. This can be done by offering educational courses on the importance of correct management to hospital administrations. DNVHC can also educate hospital staff on how to deal with patients, and what measures to use in order to minimize risk for the patients.

“DNV is strong in the maritime and energy sector. Hospital managers might wonder how that can matter for them that DNV are strong in shipbuilding for example. What can DNVHC do for a hospital? This brings a number of challenges. It is a question of PR-strategy. Not only in relation to the brand, but the messages the brand delivers.”

Jinsong Gao, General-Director DNVHC China

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224 Kotler, Keller and Lu (2009:319)  
225 Kotler, Keller and Lu (2009:226)  
226 Interview with DNVHC 30.04.2010
Whether DNVHC decides to focus on their accreditation services or their consulting services they need to create higher awareness of the importance and quality of what they offer. To do this and in order to adapt their services to the markets needs, they need to understand the market. Their agreement and cooperation with the government have pushed them towards the right direction. Substantial PR strategy should be designed in order to educate customers on the value and need for DNVHC’s services.

9.2.2 Promotion – marketing communication mix

Use of Government relations
In order to reach their short term-goals DNVHC needs to use their current connections with the Chinese central government to sell their consulting services. This based on that the consulting services could benefit the Chinese government as well as DNVHC. The Chinese government needs a third party to advise them on how to implement their new healthcare reform pilot. DNVHC carry with them an expertise within risk management, as well as experience from the U.K. and U.S. market in which they have been operating.

Word-of-mouth
Word-of-mouth (WOM) can be created and facilitated by the company itself.\textsuperscript{227} For DNVHC the WOM can be initiated by their governmental relations, and also by actively communicating the company. The relationship with the government and the use of its WOM value will later enable them to sell their accreditation services to the level III hospitals, which are the market opinion leaders. This will later help create awareness about accreditation among the level I and II hospitals in the longer run.\textsuperscript{228}

It will take time to develop positive WOM as evaluation of the services occur after service delivery, and it will depend on the satisfactory level from the customers.

\textsuperscript{227} Kotler, Keller and Lu (2009:502)
Branding

DNVHC’s name is a brand extension of DNV, and the use of the well-established DNV is a good start for a sub-brand.\textsuperscript{229} DNVHC can however separate themselves from the associations connected to DNV, since DNV is not a name associated with healthcare in China.\textsuperscript{230} DNVHC might benefit from creating a new logo and create awareness in connection with healthcare. DNVHC should be aware of negative impact when totally distinguishing themselves from the original brand.

“A potential new-product extension for a brand must be judged by how effectively it leverages existing brand equity from the parent brand to the new product, as well as how effectively the extension, in turn, contributes to the equity of the parent brand.” \textsuperscript{231}

Country of origin

Country of origin can be used as a relevant element when creating the message and communicating to the target markets. It has been discussed whether country of origin have an effect on the customers view of the service. The level of importance often depends on how the customers evaluate the country of origin effect.\textsuperscript{232}

Norway, U.S. and U.K. are countries that are connected to DNVHC. DNV has been present in China since 1888 with their core business within maritime industry. This makes their name strongly related to Norway as country of origin. DNVHC should be linked to U.S. and U.K. as the healthcare business is developed from hospital accreditation in the U.S. and healthcare consulting from U.K. All three countries are known for having good healthcare systems and are more developed than China. This can have positive influence on DNVHC’s image in the Chinese healthcare market.

DNVHC can combine positive elements from all three countries in their communication strategy to strengthen the DNVHC name.

\textsuperscript{228}Supervision with Jinsong Gao 07.05.2010  
\textsuperscript{229}Kotler, Keller and Lu (2009:267)  
\textsuperscript{230}Interview with DNVHC 30.04.2010  
\textsuperscript{231}Kotler, Keller and Lu (2009:270)  
\textsuperscript{232}Solberg (2009:365-369)
Education

Personal selling is more important in B2B business than in the consumer market.\(^2\)\(^3\)\(^3\) Personal selling includes face-to-face interactions with potential buyers. DNVHC can make the government aware of the importance of risk management and also the need for third party accreditation as a measuring tool for current systems and processes in the healthcare sector.\(^2\)\(^3\)\(^4\) Educating the hospitals apart from the government can also create stronger position in the Chinese healthcare market.

Public Relations – PR

DNVHC can use different PR strategies in order to strengthen their customers’ knowledge about their services and its values. One of the PR-actions can be corporate social responsibility (CSR) where the company is being socially responsible. In this way it will be possible for DNVHC to build a positive image and a positive impact on the society.\(^2\)\(^3\)\(^5\)

9.2.3 People

DNVHC sets high requirements to its surveyors in the accreditation process. Each surveyor must have extensive healthcare clinical and management background, and complete a sufficient number of surveys in a student role before performing in real life. All surveyors must also successfully complete NIAHO\(^\text{SM}\) Surveyor didactic training, ISO Lead Auditor didactic training, courses offered by DNVHC, complete continuing education every three years, and participate in annual surveyor training. The PE Specialists must further participate in the NFPA Life Safety.\(^2\)\(^3\)\(^6\)

For consulting, DNVHC uses highly competent experts within the respective field. Continuously recruiting new personnel in order to obtain the high level of human resources will be a critical success factor.

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\(^2\)\(^3\) Biong and Nes (2003:24)
\(^2\)\(^3\)\(^4\) Interview with DNVHC 30.05.2010
\(^2\)\(^3\)\(^5\) Seitel (2007:114)
9.3 Niche Marketing

DNVHC can choose to use niche marketing. This means choosing to target their accreditation or consulting services towards a specific part of the healthcare market.

Some alternatives would be:

1) Targeting their marketing and sales towards public hospitals in urban cities.

2) Targeting their marketing and sales towards public hospitals in rural-cities.

3) Targeting their marketing towards private hospitals in urban cities.

This means they would choose a specific segment within a larger segment and focusing specifically and exclusively towards that sub-segment.

9.4 Relationship marketing

The main customers from segmentation include government and public hospitals. Since DNVHC has signed MoU-agreement with CHEI on improving the health situation in China, it will be considered as long term interests with a great deal of specific investment. This agreement and cooperation can also be defined as relationship marketing. As to hospitals, it can be necessary to conduct a deeper analysis and then select the most suitable marketing organization.

Government – consulting service

The authors have chosen to recommend a relationship-marketing strategy when it comes to government. DNVHC has already managed to establish government relationship, based on the MoU-agreement on healthcare. DNVHC should use this opportunity to further build strong connections, making it possible to differentiate themselves from other competitors by having this competitive advantage.

DNVHC and the government have to see clear benefits from having this agreement and the added value in order to create mutual gain. Government wants to improve the recent healthcare system whereas DNVHC see this as a great opportunity and a good way of entering the Chinese healthcare market. DNVHC
is focused on own return on investments but also bear in mind that the healthcare industry in China will influence the well being of the whole population and development of China as a country. Since the improvement of the healthcare reform will be ongoing, this can support the need for relationship marketing.

The risks involved in cooperation can be the high level of involvement from one part, whereas the other part might only be interested in a single transaction. This is fortunately not a threat for DNVHC, as the Government will have more benefit from having a relationship with DNVHC because of the added value. The added value is DNVHC knowledge about risk management, which makes this agreement possible. Both parties are also motivated to contribute with their own resources and together make improvements in the healthcare system. They will also need to have a shared set of mind instead of each part operating individually. The relationship requires honesty and sharing of information.

Another incentive for focusing on relationship marketing with the government is the non-economical purpose of the cooperation.\textsuperscript{237} The purpose is in general hard to measure through financial numbers, but DNVHC can evaluate the purpose through the fact that they will have access to specific resources.

Improvement in the healthcare system together with government relations can give DNV valuable resources later. Because of the rapidly changing environment and market this can be a learning curve for DNVHC, and DNVHC can exploit this in order to develop better resources.

Increased reputation is another valuable benefit for DNV. Having an agreement with the government will in most cases be positively related in China, due to their decision power and strong existence. DNV’s reputation must have been strong, since they managed to attract the government’s interests for establishing partnership. The Healthcare system in China is highly relevant to the population involved, stimulating the workers to make more efforts and put time into the project.

\textsuperscript{237}Biong and Nes (2008:144-145)
Public hospitals – accreditation certification service

Due to the fact that DNVHC has not yet entered the hospital market with their services, it will be important to analyze all possible outcomes, and whether to offer consulting or accreditation service towards hospitals. Offering accreditation service will be our suggestion due to the fact that DNVHC should rather focus on giving service to as many hospitals as possible.

DNVHC will be able to reach out to a bigger number of hospitals which all need improvement in their management system. Another reason for choosing accreditation is the less competitive market. The competition within consulting is viewed as higher.\textsuperscript{238}

The authors decided to implement transactional marketing when targeting the hospitals due to several reasons. Offering accreditation to hospitals will only be based on a limited time of period. The hospitals will mainly be interested in the results from the service, making the purchase decision heavily relied on the actual transaction.

10.0 CONCLUSION AND RECOMMENDATION

The authors have reached the conclusion that DNVHC should market their risk management consulting services towards the government, as a helping tool when implementing the new healthcare reform.

They should then go on to offer their accreditation and certifications services to the level III hospitals. The level III hospitals can use their expertise within this field. The government can use the results of the accreditation in order to measure the success of their pilot reform, before implementing it to the rest of the country.

Face-to-face activities are important in order to create knowledge about DNVHC among hospitals as well local governments. The authors recommend these communication strategies for DNVHC:

\textsuperscript{238} External analysis of this thesis
<table>
<thead>
<tr>
<th>Communication strategies</th>
<th>Message</th>
</tr>
</thead>
<tbody>
<tr>
<td>Branding</td>
<td>The positive elements from their parent brand should be kept. Being a sub-brand to DNV, they can also try to combine a new brand with their existing brand. In this case, the authors recommend <strong>new logo</strong> for DNVHC.</td>
</tr>
</tbody>
</table>
| Country of origin        | **Western countries:** All strong within **healthcare system.**  
                           - **Norway:** DNV’s core business. Been in China since 1888. Strongly linked to **Risk Management** reputation.  
                           - **U.S.:** Accreditation experiences. International standards. Hospital business. Strongly linked toward DNVHC’s **Accreditation** services.  
                           - **U.K.:** Consultancy experiences; Assessing hospitals. Development and training of hospital staff. Patient care. Strongly linked to DNVHC’s **Consultancy** services. |
| Government relations     | Use of guanxi, **relationship marketing** and connections to further implement business into healthcare market in China. DNVHC should create sustainable relations with government and be proactive in this relationship. DNVHC should have knowledge about relationship marketing, which is written in this thesis. |
| Word-of-Mouth            | **Satisfaction** level. The evaluation from customers if the expected product value equals the delivered product value. |
| Personal selling         | Create awareness of the need for a **third part** providing risk management. Then further educate hospitals to support DNVHC’s business in order to build stronger existence. |
| PR activities            | Create a fund that helps the people in need of urgent medical care but cannot afford it. DNVHC can launch a “healthier healthcare tour”, were they visit level II and III hospitals and give free educational courses on patient safety, and the importance of clean hands in hospitals. |

**Table 3: Communication strategies**
There is a need for DNVHC to create a different logo, seeing as the current logo consists of an anchor and a weight.

This is an image of the current logo for all DNV divisions. Looking at this logo, healthcare is not the first association one gets. The authors suggest the following changes to the logo:

Replacing the anchor with a stethoscope can create associations with healthcare as well as it being a tool for measuring how “unhealthy” a hospital is, and so on helping it become healthier.
10.1 Further studies

The authors recommend that price should be highly prioritized as price can be seen as a key differentiator.\textsuperscript{239} DNVHC has to find a balance between setting the price and the scope of service provided. The price should not be set too low in the beginning, but lower than competitors.\textsuperscript{240}

Concentrating on niche marketing by approaching private hospitals would be an option if the reform project with the government and the public hospitals proves itself to be unsuccessful. The authors would then recommend DNVHC to consider withdrawing themselves from the market if appropriate. However, another option for DNVHC is that they can assist the government in developing new reforms in the future.

\textsuperscript{239} Kotler, Keller and Lu (2009)
\textsuperscript{240} Interview with DNVHC 30.04.2010
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Sareeta Ngairangbam, International Business Coordinator - The Australian Council on Healthcare Standards, Hong Kong, *e-mail interview* 30.04.2010
12.0 APPENDIX

12.1 Interviews

Huashan public Hospital

Interviewers: Harald Iversen and Lily Chen
Interviewee: Attending doctor
Date: 18.01.2010
Place: Shanghai

This is a preliminary interview, which took place on the 18th of January 2010. The interviewee wants to remain anonymous due to some personal statements that might lead to unexpected outcome.

Huashan hospital is a state-owned hospital situated in downtown of Shanghai. Our first impression of the hospital was in overall on an average level, as it seemed to be very disorganized and messy. The interviewee did not seem to be familiar with the new healthcare reform, and has neither seen any changes made in this hospital. However, the new reform should be something positively related to the current healthcare situation. It was especially stated through the interview about environmental issues. Not only are the working facilities below satisfactory, but the patients are also not managed in an efficient way. This can be a significant challenge for doctors to handle.

The working place for doctors is another problem issue, as they receive tasks beyond their capability. As a result, doctors need to allocate their time efficiently, which might cause less time spent on actual patients. The big challenge for both government and hospitals will be hospital management. The system needs to be more efficient in order to serve the whole population. It was suggested that the government should play a more important role if they want to achieve both better quality and equality in the healthcare system.

Furthermore, there is also a very clear distinction between public and private hospital. Private hospitals only cover a certain percentage of the population with
limited service areas, whereas public hospitals have the mission to cover everyone in every field. When it comes to healthcare service in urban areas, the interviewee suggest that the government should provide doctors with more benefits and give them more motivation to stay in rural places.

Shanghai United Family Hospitals and Clinics

Interviewers: Harald Iversen and Lily Chen
Interviewee: Jumei Miao
Date: 18.01.2010
Place: Shanghai

Miao’s position at the hospital is Governmental Liaison, meaning that her main tasks are dealing with governmental issues. Their hospital is private, but according to Miao, a private hospital cannot be fully owned. 70% is the highest limitation for a hospital’s investment. The regulation states that 30 % or more must belong to a public hospital as a joint venture. 70-80 % of their patients are foreigners and likewise more than half of their doctors are foreigners. Their doctors are mainly Americans, British, Australians and Canadians. The government have visited their hospital saying it is an exceptional good hospital.

Miao is not very familiar with the Chinese healthcare reform in terms of the differences between private and public hospitals. In contrast to the public hospitals, the government does not financially support the private hospitals. She says that the main point of the reform is letting the poor people in the rural areas seeking a doctor more easily and conveniently. Such rural areas would in Miao’s opinion be in the Northwest of China. People in those areas are living far away from the central hospitals and most of them cannot afford the charges.

Miao thinks that China will be successful after accomplishing the three-year action plan of the reform. The high-end residents should get a higher and better service if they want. People in the middle class and below can go to the public hospitals and still receive good healthcare. The patients visiting the private hospitals do not have to queue the whole day seeing a doctor. Miao says that
many patients visiting the public hospitals assume that the private hospitals will provide you better service and the best quality. Paying more money for the services is related to what kind of services you are offered and not to the quality. The split between private and public hospitals should be more equal. It should be more private hospitals like in other foreign countries, such as the United Kingdom and the United States.

Miao got experience from visiting the public hospitals. Once she was sick, she visited several. She got three different diagnoses visiting three different doctors prescribing her a lot of unnecessary medicines. Miao emphasizes and understand that many patients get confused. In other cases, some doctors have prescribed one kind of drug curing all kinds of different diseases, which is a problem among many hospitals in China. Due to low budgets in the local hospitals, many use the income from the drug sales covering their expenses. One solution eliminating unnecessarily drug prescriptions might be following up the patients more thoroughly one by one. By keeping in touch with the patients after prescribing a drug, the doctor will get feedback about the affect from the drugs taken. If the drugs didn’t work to its intentions, the doctor could easily replace and prescribe new drugs. Miao doesn’t think that the local hospitals would be able to offer such detailed services for their patients. The situation is improving after the government has gained more control over the drug prices. Every year the government will receive a report showing a study of the drug sales. The report will include the percentages of the hospitals income coming from the drug sales.

Everyone has the right to receive healthcare and Miao says that it should be built more hospitals in the suburban areas. The government should send more highly educated doctors to those areas. Miao also suggest sending good doctors in those fields for two days, followed by two days in the central hospitals. Ironically, Miao wouldn’t bare the mind of sending doctors from her own hospital to those areas for a longer period. The hospitals in the suburban areas would benefit from transferring good doctors to their areas. The present doctors in the suburban areas would learn from the doctors coming from the urban areas. Other doctors would again learn from those who were trained by the immigrating doctors, spreading out the competence under the shadow of the growing tree.
Miao thinks that the doctors working in the public hospitals should get better benefits. Every year many doctors graduate. By offering them better wages, Miao believes that the doctors would be more motivated and better structured. In addition Miao believes by this that the doctors would treat every patient more individually.

Miao is familiar with accreditation of hospitals. Their hospital is cooperating with an American accreditation firm called Joint Commission International (JCI). Unfortunately they do not have close connections with JCI. Every year JCI renew the license by inspecting and reviewing the hospital’s documents. JCI also function as an advisor if any management problem occurs. Miao says that their hospital is trying their best to full fill their policy with JCI’s standards, the Chinese standards and the U.S. standards. If they do not meet the standards, they will ask JCI for guidelines.

Miao know about other accreditation organizations using the ISO 2009. Many local hospitals in Shanghai wishes to pass those kinds of standards. Miao compare accreditation organizations practicing ISO 2009 with a mass-producing factory. Hospitals can easily fill out a form and easily receive an accreditation. The hospitals want to increase their management systems matching the international standards. But Miao says that the public hospitals management style is different from the management style in the private hospitals. In the public hospitals, the government controls the management. Also, the government must approve most of the higher-level decisions, before any action can be taken place. When the government has developed a solution, it would have to pass by many different bureaus before taking action.

Meeting with Mr. Jingsong Gao 18.03.2010

Meeting with Mr. Jinsong Gao gave the authors insight in the services DNVHC are looking into for the Chinese healthcare market. Gao explains that there will be an issue of either providing healthcare risk management consultancy or hospital
accreditation. Due to ethical issues these two services cannot be offered to the same customer at the same time. It will not be right to provide consultancy in form of recommending our accreditation service.

Healthcare consulting will be tailor-made according to needs of the client. There seems to be less competition in the consulting business than in the certification business. This based on the fact that consulting is a flexible product rather than a standardized product like certification.

Both cost and pricing of consultant service will be higher than for accreditation. Consultancy will require more resources than accreditation. The selling price for consultancy might be NOK 3-5 mill, and for accreditation the selling price could be NOK 0.2 mill. However, in a long-term perspective the revenue for both will be approximately the same. If the certification will cost the hospital NOK 0.2 mill each year and the consultant service, valid for a certain period of time, for a one-time fee of between NOK 3 mill and 5 mill, the revenue in the end for both services will be about the same.

R = P x Q
P: price per contract
Q: quantity, how many contracts you get
R: revenues
Consulting could be more profitable. Quantity would definitely be in focus regarding certification, but for consulting the focus would be on price per contract.

Gao’s view on the new healthcare reform is that it is exciting and challenging. He asks us to mention three things that we see as most important issues in healthcare. The answers given to him were; drug control, equal access and healthcare insurance. These are all main problems in the Chinese health sector that the reform will address.

DNVHC has identified two main segments in the healthcare market, the government and public and private hospitals. DNVHC should first approach the government and then the hospitals. What does the government want? Gao says
confidently that consulting would be the right offer to the government. When talking about consulting in this context it will be managing risk. DNV has already done it well and is huge in risk management in China, DNV is good in risk management.

Why corporate with the government? “Improving the macro economy.” Risk management and hospital management does not overlap that much and there are yet no standards in China. DNVHC can help set standards in the industry as it has done in other industries, such as maritime and energy industry. When approaching hospitals directly with no governmental support and telling them that you have the best accreditation skills from the U.S. or U.K., the hospitals will consider this as a threat. They do not want to make a change unless they have to. By cooperating with the government and saying we can help you make healthcare better and that you have to change, will be a different scenario. To sum up, government first and then the hospitals. Enter the hospital level through the governmental level.

*Interview with Donald Wyatt*

*Interviewers: Poladdokht Hamzeloee and Cathrine Li*

*Interviewee: Donald Wyatt*

*Date: 12.04.2010*

Don Wyatt is an attorney, who mainly deals with technology products and patent issues, and runs his own business in China. He has been in China physically one year, but has been doing business with China for approximately 8 years altogether.

How to manage expectations of what can be done, and how it should be done are what Wyatt feels are main experience he has gained while in China. His business is dealing with intellectual property regarding technology products which is much more complex than managing manufacturing business in China. Factors most important in order to succeed with doing business in China are patience and culture awareness. For a non-Chinese coming to China to do business, patience is a virtue. Foreigners need to understand that the world does not run after their
ways. Everyone has established work ethics that are based on the system they work in or have been working in, but in China methods of doing business are different. One example is that in the Western business world, agreements are written and the process is quickly completed. For China months of investigation and relationship building must be considered. A written agreement contains everything one needs to know, but still today in China there is no protection in form of a written agreement. The business is strictly based on trust. These relationships require investment in form of both time and money. One also need to portray oneself as trustworthy, one should not lie or be over-confident. One should know their own limitations and establishing contact should be through family members or personal introduction.

Wyatt portrays China, more than other societies, as a web of insiders and outsiders. As a foreigner you will always be considered as an outsider. Chinese is not always seen upon as an insider as there do exist different levels. An international Chinese person who left China and then comes back to do business, is not considered an insider. They might believe that they still are insiders, but the Chinese might perceive it as to arrogant. That they left the country and now comes back to take over. This is very often what Western companies misunderstand. They have little knowledge about the insider/outsider issue and hire someone who they think is an insider to be in the management. What they should do is to hire a foreigner to be the head of the international Chinese. In this way the outsider Chinese will become an insider and a key person. This due to the fact that the Chinese who left will be more insider compared to the foreigner.

One other aspect is that one should always be aware of what kind of Chinese they are dealing with. Either it is mainland Chinese, Chinese people from Hong Kong or Taiwanese the business methods must be adapted accordingly. Also one should have knowledge about the fact that people from Hong Kong and Taiwan is being treated differently in mainland China.

China is a country built on social harmony. Westerners coming to China should have cultural awareness. They ought to be familiar with Chinese culture and traditions. One should know that the Chinese rarely express directly what they mean. Very often they will say one thing and then do the opposite. Mendacity is a
science and in their culture it is expected that one understand what is being said without having to say it explicit.

When introducing people to your partners, you should be aware of your choice. Stay away from people who are prejudice and tend to stereotype by groups. Behavior by groups is a result of systems. You will be judged on who you introduce, their behavior will reflect on you. If you deal with non-Chinese who lack understanding of culture you should walk away. No job is worth your career, and no deal is worth your China business.

One needs to have the right attitude when entering China. Be open about your agenda and establish trust. Once you have burnt the relationship, it will never come back. Trust is never in the contract. Trust is in the future value of the relationship. There will not be any trust if there is no future value of the relationship. Wyatt’s advice is to always build a relationship that contains future value.

To gain respect and participate in Chinese business, one should live in China. Be an ordinary person and live like any other normal Chinese person. Be modest and do not think that you can come into China and tell the Chinese how to run their own country!

Interview with Vidar Andersen
Interviewers: Harald Iversen and Cathrine Li
Interviewee: Vidar Andersen
Place: DNB NOR office in Shanghai
Date: 13.04.2010

Vidar Andersen is a banker and a financial adviser at DNB NOR in Shanghai. He is Vice President responsible for all Nordic clients in China. Andersen has been working in China for five years after five years of experience from the banking industry in Norway.
Experiences gained during his time in China are on many levels. First, and most importantly how to set up a bank from scratch, and how to do business in China on a general level. It has been a long process and a constant learning curve. The language and culture are of great importance. To succeed with doing business in China, one must spend time in China, send qualified people, and find good local staff and partners. This is important for all industries.

Talking about product adaptation, Andersen says it is not given that your product will fit everywhere. This of course will depend on the type of product you offer. For most production companies, they come to China as a part of a value chain. In the maritime industry, for example, when you manufacture a component to be built in a ship. This component will be the same either the ship will be built in China or if it built in Norway.

When asking about the healthcare sector in China, Andersen mentions KPMG, McKinsey, and Boston Consulting Group as some healthcare companies they interact with from time to time. He has knowledge about the new healthcare reform in China. It is the biggest project in the world, ever. Main purpose is to be able to provide basic healthcare for the whole population. From own experience, Andersen thinks that there are fundamental issues that the government needs to solve. The system today, does not work. However, healthcare is complex in every country. It does not matter how good a country’s healthcare is, most people will complain about the system and how it functions. The better the system gets, the higher the demands will be. It is then safe to say that it is a project that will never end.

Andersen is familiar with DNV looking into healthcare in China, but does not want to discuss directly about a client. DNV has in some areas, world class reputation and services. Experience in management style ISO, certifying and consulting. DNV as a consultant does not only advice how and what, but also set standards. If they manage to get a position in the healthcare as they have in the shipping industry, the potential will be of important size when healthcare is such a big market globally and also especially in China where there will come some many changes in the next 10 years.
When entering the market, Andersen definitely feels that the government is the right choice to focus on. This due to the fact that decisions makers within the healthcare sector and public hospitals are the same. The government will have bodies sitting on top deciding what the hospitals should do, and what changes to implement. However, to build knowledge one cannot just talk with the government. You must actually go and see how the hospitals function in practice. He assumes that there will be less important to approach the private hospitals seeing as most of them are foreign and will not be included in the healthcare reform plan. When DNV is talking about business they should start with the government.

The benefits from cooperating with DNV Healthcare from the government’s side are when establishing structures, routines and policies which will be implemented in hospitals. They would like to have a mechanism to follow up these changes. The government would benefit from having a third party following up if the hospitals are actually working according to what the government has implemented. For the hospitals the benefits would be in rewarded for service quality, showing both its staff, the public and the government that it is willing to improve, and also getting a certificate that it is indeed a good hospital. This will be beneficial if there is any competition in the hospital industry.

Selling points that DNV Healthcare should focus on are the fact that they have world class reputation in some fields. DNV Healthcare has to show that they can in fact transfer these qualifications and skills to the health market, that they can do an equally good job and be an equally good player in the new industry. In order to work well with the government, they should be a part of creating good solutions. Be a good consultant and give the government good recommendations on how to implement strategies, being proactive, and how to effectively follow up and creating systems for control.

For reaching the target group, there would be a limited people to talk to. DNV probably already know who the decision makers will be. You should basically just talk to the right people and sell your skills. To participate in this project (the healthcare reform) you do not simply put an advertisement in the paper or on a bus, you should on beforehand know who to approach. Once you are in, you need
to retain the relationship. DNV is a long-term company and they have knowledge about how to keep relationships seeing as they have been in China for such a long time.

Few players are acting in this field and competition in this market might be very different. Andersen is not too familiar with the competition arena in this particularly industry, but assumes that the government itself would be a competitor. The government might have plans on carrying out the project by themselves without bringing in external help. Other Chinese or international healthcare providers might be potential competitors. They might not be leading in the classification business, but still have interest in becoming a player in the market of other reasons than DNV. They might have other goals like selling additional product or other services. Everybody has interest in making money, but perhaps in this situation DNV has interests beyond just making money on the project. Leading Chinese consultancy firms, Chinese classification companies would possibly be interested in participating in the healthcare reform. The WHO and UN might be interested in this field, but then perhaps more like a supporter than a direct competitor for DNV. In Andersen’s opinion, DNV should know the competitive situation in order to make correct strategic moves. Competing against for example an American accreditation firm would require different measures than if you are competing against certain government bodies.

On the question about if it will be more desired to have certificate from either an international accreditation company or a Chinese company Vidar Andersen answers that DNV has enough “chineseness” to be perceived as a local company. “They are both international and local company. If they would send a group of consultants, I bet all of them would be Chinese.”

*Interview with Anders Swerke*

*Interviewers: Poladdokht Hamzeloe and Harald Iversen*
Interviewee: Anders Swerke  
Date: 20.04.2010  
Place: DNV office in Shanghai

Anders Swerke is head of the Shanghai Approval Centre, working in the maritime division of DNV. He has been working in China as a manager since 2005. The Shanghai approval centre approves drawings of ships and offshore installations. Drawings that are sent in to the Shanghai approval centre are evaluated and approved according to DNV’s rules. DNV uses the drawings when inspecting the vessels as they are being constructed.

The Shanghai Approval Centre does certification and consulting since their clients often request them to classify/certify objects where they previously have functioned as an advisory. The certification business is the most profitable. Due to ethical dilemmas and in order to remain as a credible 3rd party, they have separated the roles offering certification and consultancy in two different units. The Shanghai Approval Centre has one set of team doing the consultancy, and another set of team doing the verification. Swerke does not see any problems in offering both certification and consulting to hospitals in China as long as the two activities are separated.

According to Swerke, cultural differences between China and Western countries are not as challenging as most people will have it to be. When entering China one would normally expect it to be very different from one’s own country. Swerke thinks that there are more similarities than differences between people from different cultures. The culture differences are just a tiny piece of a big picture. When doing business in China one simply has to treat people as fairly and honestly as one would have done at home. Swerke thinks that the Chinese are doing business differently with each other. When Chinese are dealing with foreigners, they do not expect them to do business the Chinese way. Have something good to offer, be persistent and never try to cheat anyone is Swerke’s advice.

Swerke believes that; as a manager in China you have to spend more time with your staff. Chinese do not take initiative and they do not speak up in meetings.
Calling a meeting would not necessarily solve the problems, and as a manager you should talk more up front in a meeting. People working for foreign companies are certainly aware of the different working style, and would adapt to the differences over time.

Swerke has visited private hospitals twice since he came to China. He is not very familiar with the new healthcare reform and does not know much about the practices in public hospitals. Though, he has heard a few stories about patients who have scheduled an appointment, and waited the whole day to see the doctor. Swerke believes that the biggest challenge is the fact that healthcare seems to not be available to everyone, and the availability is still an issue to the people that it is actually accessible to.

DNV recently reorganized their business structure in the beginning of April 2010. From being organized in business areas, DNV is now working in geographies areas instead. All the different business areas all over the world and all the business assurance, which are all different types of certification schemes, used to be reported to a COO in Oslo. Now for instance after the restructuring, all the different business areas in Asia Pacific report to COO, Remi Eriksen in Singapore. The Sustainability and Innovation division is an exception to the geographic divisions, and all its activities worldwide are headed by Bjørn Haugeland.

During the reorganization of the business structure, DNV started processing an outsourcing of the Business Assurance part, which is the management system certification and the ISO 9000 certification business, to Intertek. The idea was to keep the Business Assurance DNV branded by DNV being the major shareholder in Intertek. The negotiations with Intertek presently stopped in the end of April 2010. There will be no implications with the healthcare part, and this is now in a business unit called sustainability and innovation. This unit is again linked to an independent unit in China called DNV Sustainability Development Centre Beijing (DNV SC).

According to Swerke, DNV SC’s mission is to find any business that has something to do with sustainability. This is a wide field, and as far as he knows,
the idea with DNV SC is to give the unit free boundaries to generate new businesses that eventually will lead to success and substantial revenues. Swerke assumes that there is good potential in the healthcare industry for DNVHC. He also assumes that most of the healthcare systems are run by the government. Focusing on the privately owned hospitals as DNVHC’s market share, may seem as a big potential market, but compared with the total healthcare market in China, this is small and not as big as one would have predicted.

Swerke believes that they have fairly good relations with the government, but not necessarily well enough, yet. The government in Shanghai is not as influential as the government in Beijing. That might be the reason why DNV SC is located in Beijing, where they work closely with the government, ministries and big state owned companies. Governmental relations are not as important in the shipbuilding industry as in the healthcare industry. Many of DNV’s clients in the shipbuilding industry are foreign companies building ships in China. Working closely with hospitals in China, one definitely needs to have some relations with the government.

Swerke explains that DNV is working in the healthcare industry in the U.S. and in the U.K. This is some sort of FDA approved scheme that would be attractive and appeal to the foreign private owned hospitals in China, because many of their doctors are American or trained in the U.S. Getting into the state owned hospitals, Swerke would assume that DNVHC has to tune the scheme for China, and get that specific scheme approved by the government.

The services that DNV offers in the shipping industry are based on their own schemes and DNV makes its own standards. Swerke explains that there are two parts:

- *One* is the classification rules. That is the rulebook DNV write.

- *The second part* is the statutory that comes from the government. Shipping is an International business and the government part are international through a UN organization called IMO. They make all the rules and the safety rules for shipping.
Basically it is the same framework all over the world, making it easier as it is an international business. In the healthcare business, Swerke guess it is different. He thinks that making the standards would be an ideal situation for DNVHC in the healthcare industry, but he does not know if there is currently set such standards in the Chinese healthcare industry. It is necessary for DNVHC to have good relations with the government, to be allowed to make the standards. Meaning Chinese hospitals are required to be certified based on those standards by the government. That would be the ideal setting, but if DNVHC cannot make the standards themselves, they should at least influence them. Even if others can certify towards the same standard, if they do not have the same indebt knowledge about it, DNVHC would at least get ahead in the race.

According to Swerke, most of DNV’s revenue comes from the Maritime and offshore businesses. He believes that DNVHC can be a source of high revenue in China if:

- _This type of certification becomes mandatory._
- _DNVHC gets to be a recognised organisation for this type of services._
- _DNVHC is an early mover._

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_**Interview with Pia Polsa, Assistant professor**_

_**Interviewers: Cathrine Li and Lily Chen**_

_**Interviewee: Pia Polsa**_

_**Place: Fudan University, Siyuan Building, office room 411**_

_**Date: 22.04.2010**_
Pia Polsa is an assistant professor at Hanken School of Economics. Polsa has been in China since last August as a visiting lecturer at Fudan University in Shanghai. She has plans to stay here for a year.

Pia Polsa has gained many experiences while staying in China. The main knowledge that she has gained lies within the field of retailing research. She did her doctoral thesis on Chinese retailing and has data collections from 1993, 1997, 1998, 2004, and now in 2010 she is back in Guilin to further continue her research on retailing development.

Polsa has written several articles about Chinese consumer behavior, where she has general knowledge. The general knowledge about consumer behavior in her findings seems to be ignored today. “Everybody talks about the big Chinese market, but not more in detail”. Polsa has lectured business in China for many years, giving her more knowledge within her respective fields. Polsa has also written an article about Guanxi in China, which she also has been lecturing in Fudan.

From her point of view, the most important issue when it comes to Guanxi in China is the process of building Guanxi. “People ignore that it is among the Chinese more than is it for us to build up”. She thinks that foreigners can build Guanxi, but never be able to reach the same level of Guanxi. Because we are not relatives, and most of the time we are just alumni and not classmates. The foreigners do not have the same hometown, always bringing them to a lower level of what the Chinese among themselves share. Because of this literature can be slightly wrong, where the importance of Guanxi is focused on the results, and what you need to do in order to make Guanxi. This is far from enough if you really want to gain a deep relationship with the Chinese. Although Guanxi is of much importance, you will never be able to reach the same level as the local Chinese. However, “It is still important to read the books and try to act according to them and be generally interested in this country”.

One other factor that is important when doing business in China is respect. Polsa thinks there is a Western arrogance, when westerners go to other countries. From
time to time you can hear that western people are annoyed by the way Chinese people behave. “This is their country, if you can’t take it, go out”. Polsa also states that western people should respect more. Not only in the sense that Chinese have achieved the economical growth, but also the respect of people as they are, poor or not poor. Polsa thinks people slightly ignore the legislation and five year plans of China. “If I were a business man, I would read carefully the 5-year-plans and then I would read the Chinese current legislation very carefully”. Do not simply ignore the legislation because somebody says that nobody follows it. This is the written law and everyone should bear in mind that not all people are following it, but it is of great importance to know about it and try to follow it. Chinese people seem to like the laws and legislations to be included in the contracts. Polsa says that you also gain Guanxi from showing such respect from a legal aspect.

Polsa does not have much experience when it comes to managing and management in China. She has never done business in China, but she believes there is a difference between managing Chinese and Western employees. Polsa has been reading an article saying that the Chinese management system is more based in personal relationships and people seem to be more individually treated. Therefore, there is a more personal concern about the employees in a Chinese company, and there is no separation between your private life and your professional life.

Polsa has unpublished studies about the healthcare in China. She mentioned the healthcare system and that people used to belong to a working unit, which was a part of the plan economy in the past. Working units provided the workers with everything, covering all the medical needs. The system collapsed with the new economic reform. The government is trying to rebuild it within the new reform, but has been met with obstacles. Today both private and government owned hospitals are charging patients, making it extremely expensive for many because they pay out of their own pockets. The hospitals get profits from the sales of medication, which can result in unethical behavior from the hospitals because of the profits they can make on those sales. There is a difference between healthcare system provided for the rural and urban areas, people in urban and rural areas also have different social securities. The collapse of the old system also removed the
pension system, and many companies are unable to pay their retired employees their retirement money.

In China’s private hospitals, it is the rich people that can afford such medical expenses. “Health issues in China are for the people that have money at the moment. It is a money issue”.

The implementation of the new reform and promises made are hard to predict, but Polsa believes that the Chinese government is concerned about this issue. Chinese are also studying the healthcare system from developed countries to see if something can be learned. Polsa believes that the implementation of the healthcare reform depends, based on the provincial and local level where it is implemented. “In the places like Shanghai where the government has a lot of money, they might be able to do it if they are willing to do it, if they want to gain face. Then in the local, smaller towns and the countryside, it is much more difficult because the local conditions and the local governments do not have money”. Many of the problems when it comes to healthcare in China are rather local.

Polsa believes that the foreign companies can help with the reform. She states that there is so much money in this country that could be channeled to healthcare, either through charity or cooperation. Someone should attract the extremely rich people in China to support the Foreign Service providing companies. The foreign companies can get money because they come here together with local rich businessmen that support the hospitals, together they can lower the hospital prices.

One potential business idea that she mentioned could be targeted towards the migrants from one to another province. These migrants do not have their working or residence license in cities where they work, so that they have no access to any healthcare. Therefore, one could make a joint venture between healthcare providing companies and a Chinese charity system among the rich Chinese.

Pia Polsa was not familiar with DNV or DNV healthcare, but has seen signs of Norske Veritas from place to place. She also mentions the assumption of competitiveness in the private healthcare sector since people can make big money
from this rich market. Therefore, it might be a better solution for DNV to target themselves among the people that cannot afford such exclusive treatment.

After a brief introduction to the interviewee about the lack of management in hospitals, her comment is that it could be a market potential for training in hospital management. Furthermore, she also mentioned a research on ehealth business that Finland and other countries in the West are doing at the moment. That might be a good cooperation business for DNV.

Polsa believes that it will be important to have contacts in China to give financial support. Because the local government does not have much money or might not show any interest in this issue, so that it will be necessary to target the extremely rich Chinese who are willing to do this kind of work. The reason why rich Chinese might show interest in financial support is due to their consumer behaviour. “They do this to increase their own face. They have done it for the Universities as said, so they can do it for other things, like healthcare”. However, access to the rich Chinese will be another issue that needs to be looked into.

Besides gaining face for rich businessmen to support healthcare, this is also a cultural issue. Chinese people are very concerned about their old hometown, and by finding someone from the poor areas, they will be able to give support to their hometowns (老家 laojia), or even to the places they feel attached to. “They sort of have an obligation to pay back to their origins. If they became rich, they want to pay back”. However, one should be careful on who one works with, in order to avoid unethical money related to corruptions or other ethical issues.

Generally speaking, having governmental relationship will be of positive influence. Government plays an important role in China still. Western people also tend to think that the Chinese Government is the bad communist, one-party system; however, this is not the case in the mind of Chinese people. In their view People respect China.

Opinions about the Government are not always positive, but that is only if the government is being corrupted. Generally speaking no one has bad impressions of local governments either. Moreover, the state government always tends to have a
good reputation. Polsa believes there is less corruption on the higher level, but more on the local level.

Another issue concerning governmental relationships is that even if you have relations with the central government, the local people do not care that much because they seem to be far away. China is a diversified and big country. Polsa suggest that DNV should start in one district or one city with one or two issues, which will be more than enough as a start point. This will be a much more applicable instead of shaking hands with the whole of China. “Learning by doing small and perfect”.

Polsa has been conducting a research about service quality in China. One of the implications is that cultural differences also create different perceptions of healthcare services. In western hospitals, they take care of your personal needs, including food and drinks. In China it is the family that come to the hospitals and take care of you, bringing the food with them. It is not a lack of service from the hospital but rather a request, and the way Chinese have always been doing it. One should bear in mind the different ways of providing services and the importance of relationships. The service should not only be provided to the personal, but also to the relatives and people involved.

Polsa thinks it is always important to be friends with the local government. If the local government does not agree with your business, they have the power to make it difficult for you. High level of relationships will not always help when it comes to local levels.

“It is one country but they might be very separated”.

When it comes to consulting and accreditation services, Polsa gives us her point of view on both. Polsa states that humbleness is important when it comes to consulting service. By having the mutual learning mentality makes it easier for hospitals to accept DNV’s service. Therefore, how to deliver your message will be very influential, and be honest and willing to learn as well as teaching to become better. Consulting in China is different from consulting in Finland because of the different needs. One example can be that the Chinese often go to the hospitals and
hence are treated differently from the treatment given in Western countries. Accreditation depends more on DNV’s own system and their reputation for it, following the international standards. This could be their selling point, but in a way that will prevent hospitals from losing their face.

Polsa suggests us to sell DNV services by the country of origin, proving that healthcare issue is something DNV knows about professionally.

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*Interview with Dag Tørvold, Nemko Group*

*Interviewers: Group 2*

*Interviewee: Dag Tørvold*

*Place: Interview through e-mail*

*Date: 23.04.2010*

Dag Tørvold is President and CEO of Nemko Group. “Nemko contributes to a safer world by sharing knowledge and safeguarding products, environment, people and systems. Nemko creates value for the customer by providing fast and reliable global market access.”

Nemko Group provides services for certification of products, Medical certification, Medical Safety testing, and training programs. Nemko Group also provides ISO 9001 among other ISO certifications. They work as an third supporting body, and are present in Shanghai, Beijing, Shenzhen and Guangzhou.

Nemko is already operating in Mainland China, and most important factors for succeeding in doing business in China are time, finance, personnel, and staying focused. The main reason for establishing a wholly owned subsidiary in China is the big market available. However, the market is not easy to access and it is not possible to enter this market with such speed often required other places. Time is

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241 http://www.nemko.com/about/nemko-fact-and-figures
242 http://www.nemko.com/about/nemko-fact-and-figures
therefore an important factor. One need to be patient and slowly establish the necessary relations with both customers and the government before one can expect a good return. This requires a sound financing that takes into account that it may take time before the operation is profitable. One other aspect is how to recruit employees and how to retain them. The Chinese are driven by salary and compensation and will jump to another employer if they get more favorable conditions unless you are able to establish other good reasons for retention like e.g. overseas training, various career opportunities etc. Interesting work is not as important as in Norway. Since the market is so big in China, it is important that one stay focused in one’s business. It is easy to try to run for every opportunity, but this may also lead to big risks. “Stay focused and develop what you are good at!” Find where you, as a foreign invested company, can differ from the domestic Chinese companies.

To stay competitive in today’s global business, companies must have a well defined business plan with the right services for the specific market, and find the best people and keep them.

Tørvold’s experiences with managing and management in China are very different from Europe. Management in Asia in general differs from the West. It is a well developed hierarchy and decision making is often made at higher level than what we are used to. Due to the traditional feudal system, the Chinese are more reluctant to make decisions. On the other hand, if the boss has made a decision it is never questioned.

Nemko’s biggest challenge has been to retain people and have tried using both Chinese and non-Chinese managers. However, Nemko did not experience much difference when it comes to the attitude of the employees. “It is the factors mentioned above that are crucial, they have to believe in the company and their employer.”
Tørvold is not familiar with the healthcare sector in China, and does not have knowledge about what the main problems are. He also admits that he has no knowledge about the new healthcare reform recently created by the government. Nemko does however, have many years of experience within accreditation and certification in other industries. Even though, the health sector in China is increasing, Nemko has chosen not to enter China. DNV has made system certification in general to a big activity in China, but Nemko is a much smaller company specializing in the testing and certification of electronics and have found that there are not enough resources to train and develop a competitive business in systems certification. Nemko is currently testing and certifying medical devices according to international standards in China. This is of course a growing market, but it is not related to the health care as such. There are many high tech companies manufacturing such products for domestic and export market.

However, if Nemko would enter China it would be in the hospital accreditation and healthcare consulting business. Nemko is doing this in Norway, and have certified a number of hospitals and other health care institutions, but feels that they do not have the resources to do the same in China.

For entering China, Tørvold assumes strong inroads with decisions makers with the government would be crucial. Tørvold explains that one cannot operate in China without good government relations. One has to remember that China is still a communist country and the whole political system is based on this. Therefore the government will always play an important role. Many of the businesses that appear to be private are often governmental or semi governmental. Governmental relations are always beneficial. They make it possible for both Nemko and other businesses to operate. It is as simple as that.

Tørvold is not very familiar with DNV Healthcare’s activities, but generally speaking DNV is a global market leader in their respective fields. They have a strong market position and organization. They have succeeded in ISO certification and Tørvold is confident that DNV will succeed in the health market as well. DNV has critical mass in their business volume.
Follow-up interview with Dag Tørvold, CEO Nemko Group

In the initial interview Tørvold mentioned that Nemko has certified hospitals and other health institutions in Norway, even though this is not Nemko’s main service. The certification activity for the healthcare business for Nemko is not very extensive. Tørvold explains that the market is still in a very early stage. The hospital and the management structures are rather complicated.

Nemko has currently certified 11 health care institutions in Norway, but due to the complexity, the service has been divided into 25 certificates at each place. Nemko is together with DNV market leaders in Norway, but DNV is certifying according to several standards while Nemko is only certifying according to ISO 9001.

Tørvold believes that there is a prospective market out there, but for the time being this business is not representing enough revenue for Nemko. This business is only bringing in NOK 1.5 mill out of total revenue of NOK 430 mill.

If Nemko were to enter the Chinese hospital certification business, experience from Norway would be valued highly. The accreditation would then be based on Nemko Norway, but it would take lots of resources to train good auditors in China. At present time, Nemko is not planning on entering China with this line of business.

If Nemko would possess the right resources, would it be possible to offer healthcare consulting as well? Tørvold views certification as a third party responsibility, and believes it cannot easily be combined with consulting. This would bring the independence of the certifying body in question. Tørvold knows a number of certifying firms that also do consulting, but explains that this would not be possible for Nemko as it is not in line with their understanding of the rules regarding accreditation.

The business model for Nemko if they would have entered China would be based on certification services. The main focus would be to identify a number of pilot clients. Nemko would have to establish a new department at the Shanghai office to deal specifically with this. For Nemko it would be natural to look for synergies
between their testing and certification of medical equipment and the ISO certification.

In choosing a marketing strategy, Tørvold assumes that a good relationship with the local governments would be important for success. Tørvold admits he does not know enough about the market, in order to fully understand the target groups, but he assumes that primarily government-owned hospitals would be the first choice.

There would not be any need for Nemko to adapt the product specifically for China seeing as they would provide ISO certification. The ISO is an international standard and should in theory be applied in the same way regardless of geography. The product adaption should therefore be the same, but the marketing strategy however, should be different.

*Interview with Christina Yan*

**Interviewers:** Poladdokht Hamzeloe and Cathrine Li  
**Interviewee:** Christina Yan  
**Date:** 29.04.2010  
**Place:** Shanghai

Christina Yan works in the hospital administration office at Pudong New Area People’s Hospital. It is a public hospital categorized as a grade II hospital. There are own standards for public hospitals. In China the hospitals are accredited by the government divided in three levels. *Level I:* clinics and smaller community hospitals, township hospitals. *Level II:* hospital of medium size at city, county or district level. *Level III:* general or comprehensive hospital at national, provincial or city level. The Central government takes charge of local government. Every hospital has party members. That means connections that report to the “party”. We give year plans to the government. These plans explain what the hospital wants to do in the coming year. We then get feedback on that report. We also give report on financial stuff, and they give suggestions back.
Yan has a major in hospital administration, but she further explains that the chief of the hospital is the most skilled doctor. Yan has studied Chinese management, and she has been working for one year at the hospital’s HR department. Yan’s main tasks include hiring, firing and training employees. She also deals with doctors and nurses.

Being a good doctor does not necessarily mean that you are an equally good manager. Managers in hospitals in China are therefore often not professionally educated within management. They do not have any prior experience in managing either. The problem is that management is not viewed as a science. Instead they just follow their own instincts. This is in the present mentality and cannot easily be broken. The mentality now is a mix of both. Currently it is quite good. If you only major in management, you need to have experience in the respective field to recruit correct employees. The Chinese mentality is; “you are born to be a leader”.

The main problem in the Chinese healthcare system as she views it is that the resources do not cover the population’s needs. Doctor-patient relationships are very tense. Patients complain about the costs when visiting hospitals. The patients do not feel that they get the time needed when paying the amount of fees per visit. There is a lot of pressure on the doctors as well. The salary is very low compared with the doctor salaries in the Western world. It is therefore hard to motivate doctors to work harder. Patients have to wait a long time to see the doctor, and when they do they only get a short amount of time with the doctor. The doctors have no choice; there are lots of patients waiting. There is a lack of efficiency and a lack of resources. The fees are high and insurance does not cover all of the services. The situation is better in a big urban city like shanghai, but in rural areas it is quite hopeless.

Patients often come and complain about the doctors, but there is thorough investigation before firing a doctor. It is hard to keep the balance between patients’ needs and the doctors’ needs. Yan explains that they have to keep explaining to the patients why time and resources are limited but at the same time understanding the patients needs as well. You need to understand the situation of the nurses and doctors, they are also human beings, and under great pressure. The goal is to improve into having less and less complaints.
Further Yan discusses the management system in China. The Chinese way of management is different from the West. Normally supervisors are not equal with employees. An employee cannot go directly to the boss, and hand in a complaint. Employees have to follow and listen to what the supervisor says. There is no good system to measure performance. The salary is the same on every level. This does not really inspire employees, because they know there will not be any financial benefits related to working harder. There are hierarchical “guanxi” issues between the employees on different levels. To receive a promotion the boss must like you and your co-workers must like you. Doctors and nurses hold high degree, but without the right “guanxi” you cannot get the promotion you want.

Yan hopes the new healthcare reform will change the situation, but she believes it will take time. The government must give lots of time and support, and provide correct amount of money and resources. The population is large, so it is difficult to cover everyone’s expenses. It has to be a balance, if no one needs to pay money for seeing doctors, some people will abuse the situation and there will be less opportunity for the people who really need it. Compared with western world: Balance between payment and insurance schemes. A good try: An insurance scheme charging 20 RMB per person for rural areas, to create some sort of back-up plan for when they needed medical help. However with the new reform new problems may occur.

The Reform in 2004 failed. Yan does not know what happened in hospitals exactly because she was still a student at that time. But changes need to be made and especially in the rural areas. Because in the rural areas they simply cannot afford medical care.

The new reform is being tried out as a pilot first, meaning it will be tested on some chosen areas. This is to test the new reform and see if it can function. When the government is happy with the way it functions they will apply it to the rest of the country.

Who gets government support? The governmental funding for the public hospitals depends on the three grade levels. Level I is fully supported, level II and III are
partly supported. The hospitals need to report all financial activities; this includes earnings, spending, financial reports, and accounting. There is strict control.

Hospitals get their income from medical fees and patient fees. To see the doctor is not the most expensive part, it is the medication and examinations that are costly for the patients. Some of these medications and examination prices are very high. Staying in the hospital is quite expensive; therefore most patients will want to avoid that.

Is it true that many Chinese hospitals use a great amount of money on buying high-tech medical equipment? Yan answers that this is true. Many young doctors do not have time to learn skills, and this result in relying too much on the equipment. Doctors need to protect themselves, because if something goes wrong, the patients are the weaker part and the government will support the patients. In case of a lawsuit, patients always win in court and doctors risk losing their work permit.

Yan would like to see more research and resources. But there are financial, time and resource issues. We try to hire good doctors with Master degrees, but in order to get the PhDs we have to spend money, but we do not get any money back. Although the PhD level doctors are better, they function better in research and handling special cases. They do not do everyday patient checks that well.

On the question if her hospital would be interested in buying accreditation or consulting services, Yan replies that it is not really up to the hospital. The hospital’s responsibility is to deal with people. Public hospitals follow government and fulfill their responsibility. Choice of buying such services is a choice someone from the government can make. If government gets help, the reform will be better implemented. Yan believes that this is something that the government wants to do, and if they give the right support it will be successful.

There is absolutely lots of competition between hospitals. Things like Reputation and good service, and attitude from the doctors and nurses are attraction factors. If you get sick, no one goes to level I clinic, people choose to go to level II.
Would certification help in the hospital competition arena? Chinese care about money, medication, attitude and doctor skills. They measure hospital quality by shorter time spent waiting and less money spent. Another factor is that Chinese patients are not familiar with international standards. This might be more interesting for private hospitals, since their patients will often be foreigners and rich Chinese.

**Questions for the Australian Council on Healthcare Standards (ACHS)**

*Interviewee: Sareeta Ngairangbam, International Business Coordinator, The Australian Council on Healthcare Standards, Hong Kong*

*Date: 30.04.2010*

*E-mail interview*

- **In what extent has ACHS entered the Chinese market?**
  Our presence is currently only in Hong Kong. ACHS commenced work with Hospital Authority, Hong Kong in May 2009 on a Pilot Scheme on Hospital Accreditation. The project is expected to be completed in mid 2011. A few private hospitals in Hong Kong have joined the ACHS EQuIP 4 accreditation program since.

- **What opportunities does ACHS see in the Chinese market?**
  ACHS believes in working collaboratively with countries to develop their own accreditation program - there are no immediate plan to enter the mainland Chinese market.

- **Does ACHS set its own standards in addition to follow international standards such as ISO 9001?**
  ACHS develops its own standards - we have a dedicated Development Department that develops our standards. Our accreditation program is a unique program which is extremely different from ISO9001. Our program is called EQuIP 4 (Evaluation and Quality Improvement Program Version 4).

- **How does ACHS develop standards and criteria in China?**
We do not develop country specific standards. However, country specific guidelines are developed that takes into consideration the local context and legislations. As a rule, organizations are surveyed using the EQuIP 4 standards in conjunction with the local guidelines.

- **Is it possible for the client to terminate the EQuIP program while the process is on going?**

The EQuIP 4 program is a continuous quality improvement program which consists of a four year cycle with an event each year. Year 1 and 2 are on-site events whereas Year 2 and 4 are desk top audits. Should an organization wish to cancel their membership at any time, they are allowed to do so. It is entirely up to the organization wishing to end their membership.

- **What price models are ACHS using for setting a price on accreditation services? Alternative pricing models?**

There is no standard pricing model. Each organization is unique and membership fee vary depending on scope of services provided by the organization, size, number of beds etc.

- **How does ACHS charge the customers? Any down-payment scheme?**

Members are charged annually in equal proportions for the four year cycle.

*Interview with DNVHC*

*Interviewers: Group 2*

*Interviewee:*

*Jinsong Gao, General Director*

*Ken Garnett, top 3 experts from DNVHC UK, Flora, healthcare insurance company*

*Ning, researcher, MD*

*Gao Fei*

*Date: 30.04.2010*

*Tele-conference*
This is an interview, which took place 30\textsuperscript{th} of April 2010. The interview was conducted with employees of DNVHC.

DNVHC is the company the authors are writing this thesis for, and the information retracted from this interview gave the authors a view of how the DNVHC actually sees the market opportunities and the current situation in the Chinese healthcare. DNVHC seemed to be very aware of all the existing problems in the Chinese healthcare market, as well as being clear over the market needs.

When asked what DNVHC could actually do in order to help the government with implementation of the new healthcare reform, Garnett replied “We are looking to try to convince the Ministry of Health that they should have a risk management policy of how to implement risk management across the stakeholders, top and various administrative, cascading down to the various provinces, county and local hospitals.”

DNVHC want to help minimize risk in Chinese hospitals, and they believe that this can help enhance the current systems and processes within healthcare in China.

DNVHC seem to be aware of the fact that their accreditation services are not well known among Chinese hospitals. Even when the hospitals have heard about DNV they associate the name with maritime and energy business, and wonder what it has to do with healthcare.

DNVHC offer two types of services as Gao said “Two types of services. Risk management based consulting service. Quality making, and implementation of management of a certain applied policy or to some technical level like IT. Risk management is a broad concept. The Certification is based on risk management approach and ISO.” Their accreditation is based on risk certification and they focus on certain areas of the hospitals were risk is at its highest.

DNVHC does risk management consulting in their UK market; they believe that the competition is high in the UK market as well as there being an overuse of
consultants by the hospitals. DNVHC related projects charge around 1000 British pounds per day. Compared to the well-known consulting company McKinsey this is quite low, they charge about 6000 British pounds per day.

DNVHC also acknowledge that the Chinese government does not wish to pay for these kinds of services and expect them to be free. They do however see that they cannot set the price to low for their services because it may cause the wrong impression of the quality of their services. Garnett says “We have to be realistic and price according to number of consultants who is actually going to be working.”

DNVHC view their employees as their number one competence, because there current staff in China is built up by experts from every field that is important for DNVHC to have knowledge about, such as insurance employees from other healthcare services and experts from within the company brought in from other countries. They believe this gives them a competitive advantage in the consulting business and Gao says “In consulting business people matter”.

DNVHC see the importance of having governmental relations when doing business in China, they also believe that the ideal setting would be for DNVHC to set standards that all hospitals should be measured up against, such as done in their maritime business. When asking if they believe they have strong enough relations with the government Gao responded, “Stronger and more stable than competitors, but not as much as we would wish. According to standards we have to fulfill to sustain our business in China.”

Having relations with local government is equally important, but in a different way. It is the central government who allocates money for projects and implementation of policies.

They are also very much aware of the importance of adapting to the Chinese market, as well as proving to the market that they can adapt to it. As Garnett says “we need to take under consideration the Chinese culture and aspects of Chinese healthcare. There is a lot of history, a lot of baggage, as well as a very different drug, and payment system.”
DNVHC knows that to be an insider in China, it is smart to have a Chinese person who is born in China and then give him a foreign boss. This will benefit the company for PR appearances. However when talking about price on higher levels they believe it is better to use a foreign person, but when creating relationships with government, to use a Chinese person. The key is to have a Chinese person who understands the Western issues and a Westerner that understands the Chinese issues.

What services should DNVHC sell in the Chinese market and who would be the preferred customers? DNVHC should offer both accreditation and certification. The competence and experience lies within risk management and in China DNVHC cannot refuse consulting projects. DNVHC believes they can develop both.

Risk management can be sold to government, provincial and city government. Big hospitals in different provinces are profitable and they have the ability to pay for the services. Hospital designing, management and top projects can be under the risk management business.

Currently accreditation is done by the government for the public hospitals (level I, II, III). There is no market for accreditation yet since no hospitals need it. No one is saying that they want it, but if they would have to have it, the situation will be different.

International companies are looking forward to take part in the reform, and China is a big market. Can you do business in China without relations? “It’s like fish in the river. Which one is yours? It depends on lots of factors. Regardless of how much money there is in the pool, one can never get all of it.”
12.2 Summary of articles compendium 1
This is a summary of several more recent articles related to the health care industry in China. This summary will wrap up the most important and most discussed issues mentioned in the articles. Most of the information in this summary is distracted from a selected group of the articles read. This summary will bring the results found in the articles and give an overall understanding of the healthcare market situation.

**Health care situation in China:**
The percentage of the population over 60 is projected to triple from 10 % to 30 % by 2050 reaching a total of 338 million.\(^{243}\) The proportion of the Chinese population living without any health insurance went from being 23% in 1993 to a staggering 44% in 1998, the study also showed that men spent a significantly longer period in hospitals compared with women as well as costing more. In smaller cities they relied more on outpatient services and allowed themselves to be hospitalized only as a last result. This because of the high costs related to hospitalization.\(^{244}\) Most frequent answer to this problem seems to be based on financial reasons.

This is a relatively huge problem as almost half of the population in china was paying out of their pockets for healthcare. The fact that the poverty level among this group is very high should also be taken into consideration. In addition to these facts, it seems that the level of education also plays a role in the use of inpatient services as well as having health insurance coverage. “Study participants with more education used inpatient services 50 % more frequently than those with less education”.\(^{245}\)

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\(^{243}\) Luo et al. 2009
\(^{244}\) Luo et al. 2009
\(^{245}\) Luo et al. 2009
“In 2000 China’s ministry of health estimated that 87% of rural patients paid the full cost of medical treatment themselves, with 60% of hospitalized patients leaving early because of their inability to continue paying.”

China has three main basic medical insurance schemes:

**Urban employed basic medical insurance (UEBMI).**
This was established in 1998 and is an employment-based insurance that covers urban workers only. The employees finance this insurance themselves via a percentage of their salary, which varies from province to province. 200 million out of 250 million urban employees participate in UEBMI.

**New rural cooperative medical insurance (NRCMI).**
Established in 2003 and consisting of a pooled fund for inpatient stays, this insurance is actually covered by various government bodies and contributors. Benefits are limited and can be as low as 30% of inpatient costs; it also operates on the fact you have to pay from your own pocket first, to later be able to claim the money back. 800 million out of a total of 850 million rural citizens participate in NRCMI.

**Urban residence basic medical insurance (URBMI).**
Established in 2007 this is one of the more recent insurance schemes. This insurance covers the urban citizens not covered by the UEBMI such as children and students. Much like the NRCMI, this insurance scheme is financed via a pooled fund that covers inpatient stays, but does not cover outpatient visits. Coverage is supposed to be available in all cities by the end of 2010, with results yet to be seen. An estimated 100 million urban residents already participate in the URBMI.

**What about drugs and drug prescriptions?**
The prescription of unnecessary drugs as well as overpriced drugs at many hospitals seems to be of great issue in the Chinese healthcare system. This being

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246. The Economist Intelligence Unit Limited 2009  
247. Sinclair 2009  
248. Sinclair 2009
based on the fact that the hospitals need the money from selling and prescribing drugs to make a profit.

The situation is seen to be changed with the implementation of the new health care reform. This much to the fact that many multinational drug companies have seen the potential that lay in this market when it comes to generic drugs, as well as R&D.

With improvement of IP laws in China (TRIPS), China is a lucrative market where they not only can sell the drugs, but also do cheaper R&D for development of new drugs. As R&D costs are much higher in the developed world where people are more reluctant to participate in clinical trials. With an increase of the population being over 65 years during the next 20 years, China is a highly lucrative market and will be even more so in the next coming years.

Around 70% of the drug market is run by a demand for generic drugs made in China, as they are cheaper. Chinese companies dominate the low-end generic drug market by a staggering 97%. China is currently one of the world’s largest markets for pharmaceuticals, with totals sales estimated at around 24,5 billion collars in 2008, of course one should take into consideration that around 6 billion of this comes from traditional Chinese medicine.\(^{249}\)

*What does the new healthcare reform promise?*

By 2020 China is to have a good and robust government –financed health insurance system. More than 90% of the citizens should be covered by 2011. This number seems like a relatively large number, and with 2011 being less then 2 years away, it appears to be a hard promise to hold. On the other hand, the Chinese financial situation is growing more rapid than most other countries in the world, enabling them to stand stronger on the path of fulfilling this promise.

The government plans to publish a list of essential medicines, and as a part of this plan they will also cut the current 15% mark-up on drugs sold in hospitals. This will of course shrink the hospital revenues quite noticeably. A national drug-supply system will also be created, with the aim of centrally controlling the

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\(^{249}\)The Economist Intelligence Unit Limited 2009
production and supply of essential medicines. They wish to reduce the “out-of-pocket” level of spending, and to also provide medical institutions with sustainable funding. A national health database including free medical examinations of children under the age of 3 and adults over 65 is to be established, this also including improvement of pre-natal care.

**Infrastructure**

The infrastructure within healthcare will also change by the building of 2000 country hospitals, 34 000 town hospitals, 3700 community health care centers, and by improving as well as renovating 11 000 community health centers. It is not just the hospitals that will be improved and renovated but also the staff working there, with a plan to train 1,37 million village doctors and 160,000 community doctors. Meaning also that China has realized the importance of management and effectiveness at hospitals and how crucial these factors are in order to not only have well functioning health care staff but to also reduce costs. Hopefully these reforms will give positive results since China is facing many serious health challenges.

### 12.3 Summary of articles compendium 2

**Healthcare system and insurance issues**

Development of the health sector in China can be seen in comparison with the radical economical change from an egalitarian society under Mao to Deng Xiaoping’s more open, and freely society. According to this new economical reform, the focus on growth of the health sector has been suppressed. It was in the government’s hope that rapid growth of the economy would boost an automatic improvement and development of the health system, and that it would move in the same direction simultaneously with the rest of the country, but sadly it has shown opposite effects.

Instead a weakening of the health system has rather become the current situation. With more private health institutions and low governmental control, the quality,
pricing of the services and finance issues has proved themselves to be major dilemmas. Now it lies in the hands of the government to try and improve the situation.

The government has two main health care systems; one is hospital systems which are developed around tertiary and secondary hospitals in cities and around township hospitals in rural areas. The other one is community health services (CHS), which include CHS centers and local stations.²⁵²

Present, some main problems within healthcare are the fact that the population is aging and China does not yet have any center of attention on how to care for their elderly population regarding areas as chronic diseases and conditions that most commonly strike the elderly. Secondly, the resources of health care are unevenly placed, giving a great difference between the offer of services in urban and rural parts of the country. With 62% of the population living in rural areas, whereas 80% of the medical institutions are situated in cities, there exists a vast gap between the health care provided.²⁵³ This makes it very inconvenient for the majority to access the type of care they seek. The education level might be a reason for why there are so few choices seeing that most country doctors have limited training, and many peasants therefore search for services directly from specialist at large hospitals. But then a problem here is that physicians at large regional hospitals often have insufficient time on each patient, resulting in less quality and poor follow-up of the patient.

With the new opening reform and privatization of the market, many collective social services were abolished. And a direct effect of this was that the rural part of the country suffered seeing as the Rural Cooperative Medical System (RCMS) became dismantled.²⁵⁴ RCMS was a community-based health-financing program, which most villages funded by using premiums, the collective welfare fund, and governmental subsidies. However, with a transition from agricultural collectives

²⁵² http://www.annfammed.org/cgi/reprint/6/5/421
²⁵³ http://www.annfammed.org/cgi/reprint/6/5/421
²⁵⁴ http://content.healthaffairs.org/cgi/content/full/23/6/222?ijkey=2bfdee78592d4b8b4986a16d26789ba45ba1a415
http://heapol.oxfordjournals.org/cgi/content/abstract/19/3/159?ijkey=5622676cf50797d07f337aaa554b58d36b9bb96&keytype2=tf_ipsecsha
http://hsphsun3.harvard.edu/ihsp/publications/pdf/NGO06.pdf
to household responsibility system the financial aspect of the RCMS collapsed in most rural communities. This left the majority of the rural population without any insurance coverage considering the fact that most of the rural population are relatively poor, and see no benefit in purchasing health insurance when a guarantee that it will be needed in the future does not exist. We can here see that there is a clear correlation between motivation towards paying for an insurance scheme and health care needs. The number of people in rural areas that holds health insurance is decreasing even though prices for health care are increasing. This is currently regarded as one of the major problems within health sector as well. The question here is; how can an insurance scheme be developed in order to deal with this, and how can it be managed in order to ensure effect?

Hospital pricing – structure and prescription of drugs

Hospital pricing policies in China needs to be reformed as well. The government does regulate prices of hospital services, and provide subsidies to public hospitals. However, with poor control and an unclear fee schedule, the behavior of hospital is being affected.

The new economic reform in the early 1980s also changed the hospital financing. The government introduced a fixed budget system to each public hospital according to the government’s financial ability, and hospital executives were now allowed to manage their own hospital. With the new system, the hospitals became responsible for their own losses and profit. The early fee program was designed to make health services affordable for the greater part of the population, but with rising input prices and failure in retaining the government budget, financial pressure became an enormous issue for public hospitals.

“National statistics showed that while the input prices of hospital services increased at an annual rate of 18 % from 1980 to 1993, the government budget

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255Every family became responsible for its own members and could no longer trust on community based collectives
256http://heapol.oxfordjournals.org/cgi/content/abstract/19/3/159?ijkey=5622676cf50797d07f337aaa554b58d36b9b96&keytype2=tf_ipsecsha
257http://heapol.oxfordjournals.org/cgi/content/abstract/15/2/157?ijkey=9f1f6407eccf84c6a83b7aa14d6d52c834bea881&keytype2=tf_ipsecsha
increased at a rate of only 11%. In real terms, the budget for hospitals was actually reduced.”

However, the provincial health authorities have together with the Price Commission tried to adapt the fees in order to keep up with the escalation of input costs. Hereafter stating that the fees is to be used to cover the hospitals own regular costs while the government provided budget is only to be used for capital development. Still, there does exist a gap between the regulated prices and costs that earlier would have been fully covered by the government before the 1980s.

“After the reform, during the early years of the 1990s, the government budget could cover only about 20% of this gap, namely 10% of the hospital cost. This means that 40% of the hospital cost and 80% of the gap between the unit costs and the regulated fees need to be met by other sources of financing.” (Liu, Liu and Chen, 2000: 158)

This means that if hospital ought to only be focusing on revenues to cover the gap, it will raise a severe economic situation for the hospitals. The article by Liu, Liu and Ningshan Chen, “The Chinese experience of hospital price regulation”, presents two possible ways for hospitals to manage the gap created by providing under-priced services. Firstly, oversell profitable services, here also including drug sales. And secondly to ignore the system, meaning not following the rules set by the government. Methods in doing so, mentioned in the article, are over-charging for services due to violation of the price regulation or through loopholes in the system, here also charging much higher fees on services that are initially not priced lower than actual cost.

What impact does this have on the consumers? Naturally, if the hospitals prescribe needless drugs and push through over-usage of services it will result in higher and unnecessary costs for the consumers.

Non-governmental providers – private healthcare sector

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258 http://heapol.oxfordjournals.org/cgi/content/abstract/15/2/157?ijkey=9f1f6407eccf84c6a83b7aa14d6d52c834bea8f1&keytype2=tf_ipsecsha
259 E.g. Unbundling, splitting one service item into several sub-items in billing practices, or basically just charge higher prices than the regulated fee, abusing of the government’s wish of
Ever since the overall development of the political, social, and economical system in China, an increasing sector of private health providers have arisen. The article “Health care in China: The role of non-government providers”, illustrates the performance of private health sector and why people choose private providers.

As a result of the opening reform, the majority of private providers are located in rural areas. This because of the dismantling of the RCMS many of the former “barefoot doctors”260 either left the health profession in order to engage in full-time farming or converted to private practice, relying on fee-for-service revenues.261 Today however, the private sector is to be found in most aspects of healthcare apart from public health, and they are all for-profit organizations as well.

As the situation shows, the Chinese population does have a choice between private and public health services. For that reason, the private providers often compete with the public sector on aspects such as price and product differentiation. Factors affecting the choice behavior tend to be perceived quality compared to the costs, including monetary and time costs. It is also commonly known that the private sector, meaning hospitals, often charge higher prices, offer more tailored services according to patient demand, thus serving mostly the customers that are able to pay. A survey conducted in article by Lim et al. (2004), about public perceptions of private healthcare sector shows that more private than public patients were satisfied with the affordability of their last clinic visit even though majority disagreed with the following statement; “Doctors in private clinics have better skills than doctors in public clinics”.

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260 “Barefoot doctors are farmers who received minimal basic medical and paramedical training and worked in rural villages in the People’s Republic of China. Their purpose was to bring health care to rural areas where urban-trained doctors would not settle. They promoted basic hygiene, preventive health care, and family planning and treated common illnesses. The name comes from southern farmers, who would often work barefoot in the rice paddies.”

261 http://en.wikipedia.org/wiki/Barefoot_doctor

262 http://content.healthaffairs.org/cgi/content/full/23/6/222?ijkey=2bfdee78592d4b8b4986a16d26789ba45ba1a415
“For minor illness, go to the private doctor; for major illness, better consult the public doctor.” (Lim et al. 2004: 227)

Regardless of this, the private sector outperformed the public sector concerning satisfaction. This because the private sector was found to be more responsive by offering flexible hours, showing better attitudes towards the patients, and there were less stressing of profit gaining. Also a major factor that mattered was that the private institutions were more conveniently located.

Ambivalence still exists towards the role of private providers. Mainly because of poor regulation of the private sector, where people does not feel safe going to a private clinic for the reason that many private doctors just are not qualified enough to run a clinic. It is easy enough to just buying the license for operating a clinic.