FRAUD RISK MANAGEMENT IN PRIVATE HEALTHCARE IN SOUTH AFRICA

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Abstract

Worldwide, the healthcare industry aims to provide better health for all. However, fraud risk has become a threat to industries and organisations, including the healthcare industry. In the South African healthcare industry, it has been found that losses due to fraud risk amounted up to R8 billion per year. The purpose of this article was to explore the management of fraud risk within the South African private hospital industry and how this is managed. Primary data was collected by means of a survey, which involved management staff at head office level and at hospital level. The findings suggest that South African private hospitals could improve their current fraud risk management practices. By implementing the recommendations provided by the study, private hospitals will be able to manage fraud risk more effectively.

Keywords: Fraud Risk, Risk Management, Competitive Advantage, Sustainability, Private Hospital Sector, South Africa

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1 Introduction

Globally, the healthcare industry aims to provide better health for all. This industry creates employment and investment opportunities, provides development opportunities, creates international linkages and promotes healthcare scalability through continual innovation and improvement in productivity (Econex, 2013; World Health Organization [WHO], 2011).

However, fraud risk has become a problem for industries and organisations across the globe. The risk of fraud moreover has also been found to be a problem in the healthcare industry (Jones & Jing, 2011; Nouss, 2013). The management of fraud risk within South African private hospitals is therefore essential and requires urgent attention.

The private hospital industry of South Africa makes a significant contribution towards the South African economy. According to the Hospital Association of South Africa (HASA), it has been estimated that the total population covered by the private hospital industry is as high as 10 million individuals, and that in 2013, the three largest hospital groups jointly held stock market capitalisation of R83.688 billion (Econex, 2013; HASA, 2013).

An estimated 50% of the national healthcare expenditure is being spent in the private healthcare industry in South Africa (Econex, 2013). 'Private healthcare' refers to healthcare services which are provided by entities other than government and which are predominantly financed by medical schemes (Basu, Andrews, Kishore, Panjabi & Stuckler, 2012). The private healthcare industry has grown and developed to such an extent that in 2013, this industry provided primary healthcare services for an estimated 38% of the South African population (Econex, 2013).

The primary objective of the present study was to explore the management of fraud risk within the South African private hospital industry and to provide appropriate recommendations.

A description of the industry and the prevalence of fraud is provided, followed by a review of the theoretical underpinnings of risk management. The article reports on the findings of the study and makes recommendations to practitioners and scholars.

2.1 Overview of the healthcare industry

The healthcare industry is concerned with the provision, distribution and consumption of healthcare services and related products, and comprises the services provided by hospitals, general practitioners and community clinics in the prevention, diagnosis and treatment of illnesses. Within this industry, a number of institutions exist, covering preventive, remedial and therapeutic services. Further, the healthcare industry is segmented in private and public suppliers.

The healthcare industry is composed not just of healthcare service providers, but also of funders (both public and private) and consumers (patients) as well as associated providers such as pharmacies, pharmaceutical firms, medical aid schemes, chemical firms, medical equipment manufacturers and suppliers (Comas-Herrera & Wittenberg, 2003). The healthcare industry does not only draw on the services of medical professionals but also makes use of the services of public policy workers, medical writers, clinical research laboratory workers, information technology professionals and marketing specialists (Global Healthcare Marketplace, 2012).

In line with the classifications by the World Health Organization (WHO) and Johns Hopkins Medicine, the healthcare industry can be divided into primary care, secondary care and tertiary care (Johns Hopkins Medicine, 2011; WHO, 2011).

'Primary care' refers to health services which play a role in the local community. It refers to the work of healthcare professionals who act as a first point of consultation for all patients within the healthcare system. 'Secondary care' refers to healthcare services provided by medical specialists and other health professionals who generally do not have first contact with patients. It includes the services of cardiologists, urologists and dermatologists, amongst others. 'Tertiary care' or 'specialised consultative healthcare' is made available to in-patients and on referral from a primary or secondary healthcare professional, in a facility that has personnel and the required resources that enable advanced medical investigation and treatment (Johns Hopkins Medicine, 2011; WHO, 2011).

The healthcare industry can also be subdivided into a public and private hospital sector. A private hospital is one which is owned and governed by a private body. Financially privileged individuals often prefer private care due to the apparent superior quality of service delivery, which emphasises the importance of individual care and attention and the reliability of equipment. In comparison, public hospitals are operated entirely on government funding. Government is responsible for the functioning of these hospitals, from the construction of the building, to the fees of the doctors, and the cost of equipment and the supply of medicines (Simaya & Malandela, 2011).

2.2 The hospital sector of South Africa

In South Africa, the hospital system consists predominantly of a public sector along with a smaller, but fast-growing private sector. Healthcare varies from the most basic primary healthcare, offered by government and funded from its tax revenue, to highly specialised health services available in the private sector. The private hospital sector, managed by large companies, caters for middle- and high-income earners (Econex, 2013). The patients of the private hospital sector generally tend to be members of medical schemes or foreign patients who require quality surgical procedures. Research revealed that within South Africa, the majority of health professionals are employed in the private hospital sector (Brand South Africa, 2012).

At the time of this research, members of the Hospital Association of South Africa (HASA) represented 172 private hospitals in total, providing 25 087 beds. This embodies more than 85% of the private hospital industry in South Africa. The private hospital sector of South Africa is further made up of three hospital groups, namely Life Healthcare, Netcare and Mediclinic, which are all listed on the Johannesburg Stock Exchange (JSE) and currently have a combined average market capitalisation of around R60 billion (Ashton, 2011). This, however, includes international subsidiaries. All three groups have a number of hospitals in other countries too, but for the purposes of this study, the focus was on the hospitals within South Africa's borders only (Ashton, 2011; Econex, 2013; Life Healthcare Group, 2014; Mediclinic International, 2014; Netcare Limited, 2014). Table 1 below presents the private hospital landscape of South Africa.

Table 1. The South African private hospital landscape

Hospital group	Number of hospitals	Number of hospital beds
Life Healthcare Group	63	8 227
Mediclinic International	54	7 436
Netcare Limited	55	9 424
Total	172	25 087

Source: Life Healthcare Group, 2014; Mediclinic International, 2014; Netcare Limited, 2014

The overview and perspective on the healthcare industry and the hospital sector of South Africa serve as introduction to the next section, which will discuss risk management.

2.3 Risk management

The International Organization for Standardization (ISO) defines risk management as the architecture for managing risks effectively (ISO, 2009). Bernstein (1996) views risk management as a process that guides an organisation over a vast range of decision-making initiatives. In Bernstein's view, the capacity to manage risk comprises the key elements of the energy that drives the economic system forward. Purdy (2010) is of the opinion that the management of risk is simply a process of optimisation, which makes the achievement of objectives more likely. As Chapman (2011) states, risk management involves controlling risk as far as possible, thereby enabling the organisation to maximise opportunities.

Risk management should be a continuous and ever-developing process, which forms an integral part of the organisation's strategy. Risk management is considered an inseparable aspect of managing change and other forms of decision-making. Accordingly, risk management should be integrated into the culture of the organisation, providing support to accountability, performance measurement and reward, hence promoting operational efficiency at all levels within an organisation. Risk management requires the engagement of all levels within the organisation, ensuring the interaction of strategic management and operational activities (Valsamakis et al., 2010).

2.4 The importance of risk management

Organisations implement risk management because of the multiple objectives of ensuring successful strategic management, maintaining and promoting a competitive advantage, and contributing towards the achievement of organisational sustainability (Fraser & Simkins, 2010). Ferguson and Ferguson (2011) state that successful risk management is critical to top-level decision-makers in any organisation, involving a fundamental strategic policy and planning to identify scarce resources and to allocate these to projects or activities that generate a sustainable competitive advantage and maximise available long-term growth opportunities.

The claims for the benefits of risk management are numerous. In financial services organisations, risk management has enabled a new focus on the quality of assets and earnings. In the corporate sector, more generally, risk management is perceived as integral to business strategy and to value creation (Elahi, 2010). Weber, Scholz and Michalik (2010) state that improving risk management within organisations would be of value for both science and the industry in which the organisation operates. This pursuit performed through an integrated strategic approach could lead to a proper set of risk management capabilities, which in turn would lead to competitive advantage (Elahi, 2010).

When organisations are able to respond to and treat risks better than competitors, they are in a position to enter riskier ventures with higher potential profits. Elahi (2010) further argues that, if organisations have stronger capabilities in managing risks, they should be able to grow faster in more uncertain business environments. This of course is a competitive advantage. If risk management capabilities justify taking the extra risk, seeking riskier businesses could be a great differentiator, provided the organisation has the capability of managing risk properly (Rejda, 2011).

To summarise, risk management is essential for value creation and sustainability, whereas the lack thereof could have detrimental effects to organisational goals in terms of achieving a competitive advantage and ensuring the sustainability of business operations. The private hospital sector of South Africa should therefore have a clear understanding of the importance of proper risk management and the numerous benefits it holds, making a definite contribution towards gaining a competitive advantage within the industry and in maintaining sustainable business operations. In the section that follows, the concepts of competitive advantage and sustainability will be explained, providing insight into how effective risk management forms part of these two concepts.

2.5 Competitive advantage and sustainability

The goal of management strategies is to ensure that a competitive advantage is achieved and that the sustainability of the organisation is ensured. Since these concepts are the cornerstones of management strategy, the next section explains the concepts of competitive advantage and sustainability from a risk management perspective.

2.5.1 Competitive advantage

Peteraf and Barney (2003) define competitive advantage as a condition that occurs when an entity is capable of creating more economic value than the marginal (breakeven) competitor.

According to the views of Lippman and Rumelt (1982) and Gottschalg and Zollo (2007), the sustainability of competitive advantage depends on the presence of isolating mechanisms that limit the competition's ability to imitate or substitute. Teece, Pisano and Shuen (1997) argue that only the superior ability to innovate continuously in products and processes leads to a continuous competitive advantage. An organisation has a competitive advantage when it implements a strategy competitors are unable to duplicate or find too costly to try to imitate (Hitt et al., 2009).

A resource only becomes a competitive advantage when it is applied to an industry and brought to the market. In this context, one may consider risk management to be a resource. This resource ought to be managed actively and accurately in order to be of value for organisations and to serve as a tool to sustain and create additional value (Delmas, 2001; Elahi, 2010).

From a risk management perspective, Buehler et al. (2008) state that organisations ought to focus on managing and even acquiring risks for which they are competitively advantaged. Buehler et al. (2008) argue that risk management is a management tool which, if properly employed, could create competitive advantage and ensure sustainability for organisations. Elahi (2010) confirms this view, stating that proper risk management capabilities could lead to competitive advantage.

2.5.2 Sustainability

Sustainability can be described by employing the concept of the triple bottom line (Anderson, 2006). For business organisations, the triple bottom line comprises of the traditional bottom line- financial performance, the organisation's environmental record, as well as its social responsibility efforts in treating employees, communities and greater society in a fair and equitable manner (Anderson, 2006; Carter & Rogers, 2008). Therefore, a firm has to ensure financial sustainability, environmental sustainability and social sustainability as envisaged by the King III governance guidelines (Institute of Directors in Southern Africa [IoDSA], 2009).

From a risk management perspective, sustainability relates to the management of risks in a manner that ensures longevity, growth and investor confidence for the organisation (Elahi, 2010). For organisations to survive and prosper in the long term in a volatile and uncertain environment, in other words attaining organisational sustainability, they ought to manage all risks in a comprehensive, systematic and responsible manner (Gavare & Johansson, 2010).

Sustainability leaders embrace opportunities and manage risks which derive from economic, environmental and social developments. Risk management correlates with sustainability, which in return can improve financial performance, produce competitive advantages, improve reputations, lower the cost of capital and increase the share price to the benefit of the shareholders (Anderson, 2006; Gavare & Johansson, 2010). As a result, the triple bottom line of the organisation is improved. This of course translates to the survival of and prosperity for the organisation. However, one of the key risks to be managed is fraud risk.

2.6 Fraud risk

Fraud is defined as an intentional act by one or more individuals, management, employees or third parties, which results in the misrepresentation of financial statements or existing material facts and in addition may result in further damage or injury to other stakeholders (American Institute of Certified Public Accountants [AICPA], 2002; Malaysian Institute of Accountants, 2001; Norman, Rose & Rose, 2009).

The term refers to the use of deception with the intention of obtaining an advantage, avoiding an obligation or causing loss to another party (HM Treasury, 2008). Fraud comprises acts such as deception, bribery, forgery, extortion, corruption, theft, conspiracy, embezzlement, misappropriation, false representation, concealment of material facts and collusion (Samociuk & Iyer, 2010).

The healthcare sector is also confronted with fraud, which specifically include the misrepresentation of the type or level of service provided, the misrepresentation of the individual rendering the service, the billing of items and services that have not been documented, the billing of items and services that were not medically necessary, and seeking increased payment or reimbursement for services that were correctly billed at a lower rate (Jones & Jing, 2011).

Young (2014) defines fraud risk as the risk resulting from illegal actions of an organisation's employees or customers, additional parties to a transaction, or outside intruders, which has a detrimental effect on the organisation. Risk, in the context of managing fraud risk, is consequently the vulnerability or exposure of an organisation towards fraud and irregularity (HM Treasury, 2008).

2.7 Managing fraud risk

The Association for Certified Fraud Examiners (ACFE) reports that 5% of business revenue across the globe, totalling approximately US$3.5 trillion, is stolen through fraud every year (Nouss, 2013). Research by the ACFE from 2002 to 2008 across a wide range of industries has repeatedly indicated the following:

fraud is a widespread problem that affects practically every organisation; and.

the typical organisation loses between 5 and 7% of its annual revenue to fraud (Samociuk & Iyer, 2010).

Musau and Vian (2008) report that healthcare fraud in the United States of America (USA) has been estimated to amount to US$60 million per year of which the majority is found to be in the hospital sector. Moreover, research conducted by the Centre for Counter Fraud Studies (CCFS) at the University of Portsmouth in the United Kingdom (UK) confirmed that 7.29% of the annual global healthcare expenditure or an estimated US$415 billion is lost due to fraud (Jones & Jing, 2011). In South Africa, Qhubeka Forensic Services, a fraud investigation organisation, researched and found that fraud in the South African healthcare sector amounted to between 4 and 8 billion rand per year (Jones & Jing, 2011). Fraud risk has become an area of concern in the healthcare sector as the problem causes organisations and countries to suffer substantial losses. The next section discusses the methodology followed to explore the management of fraud risk within the South African private hospital industry.

3 Research methodology

3.1 Research design

The research for this study was of an empirical nature within the philosophical paradigm of positivism. Empirical positivism is research that is conducted by collecting evidence to add to the field of study by means of observation that can be analysed statistically (Remenyi et al., 1998).

For this study, a non-experimental, descriptive research design was followed to address the research questions, identify the factors and relationships among them and create a detailed description of the phenomenon (Kalaian, 2008). A qualitative research design was considered to be inappropriate, and therefore a quantitative research design was utilised.

3.2 Population of the study

The private hospital sector of South Africa is dominated by three major hospital groups, namely Life Healthcare Group, Mediclinic International and Netcare Limited. The population of the study consequently included private hospitals belonging to these three hospital groups.

A non-probability sampling method in the form of purposive sampling was chosen. Participants included in the study were required to have a holistic view of their organisations, had to be familiar with risk management within private hospitals and had to have an important role in this regard. For this reason, the participants included in the study comprised management staff at head office level, as well as management staff at hospital level. This included risk managers, risk analysts, hospital managers, general managers, line managers as well as general physicians involved in management responsibilities at the private hospitals.

Hospitals were selected based on the number of hospital beds per hospital. Hospitals with fewer than 100 beds were excluded from the sample. This exclusion was made because small hospitals (with fewer than 100 beds) often lack well-developed risk management practices and procedures and consequently would not have been able to provide meaningful results.13 To this end, a total of 40 private hospitals were included in the sample.

3.3 Data gathering method used for this study

A closed-structured questionnaire was selected as the research instrument of choice for this study. The questionnaire was developed from the literature study and with the assistance of senior employees of the companies. As such, specific questions were formulated relating to the literature study on risk management, competitive advantage, sustainability and the management of fraud risk. (See Table 1)

With this study, focusing on non-experimental quantitative research, it was possible to measure the variables across a scale. A 5-point Likert-type scale was the measuring instrument employed in this study. Respondents were requested to rate the extent to which they agreed with each of the statements in the questionnaire ranging from strongly agree to strongly disagree.

3.4 Analyses of the data

All the questions in the questionnaire were coded. The data was captured in Microsoft Office Excel 2010. Descriptive statistical analysis was performed where the data was summarised and presented by means of bar charts and pie charts.

4 Results

Section 1: Organisational information

The evidence from the literature found that the management of fraud risk is indeed essential as significant amounts of money are lost due to fraud annually (Jones & Jing, 2011; Musau & Vian, 2008). The management of fraud risk should thus occur throughout the entire organisation. Figure 1 represents the state of affairs within private hospitals at the time of the research.

The majority of respondents (72.7%) agreed that the management of fraud risk occurred both at head office level as well as at hospital level. A small percentage (9.1%) indicated that the management of fraud risk occurred exclusively at head office level, whereas a further 18.2% of the respondents indicated that it occurred exclusively at hospital office level.

Section 2: The relationship between risk management and sustainability

The literature indicated that risk management is essential for an organisation in order to achieve sustainable business operations (Gavare and Johansson, 2010). Figure 2 represents the current perception among the private hospitals

It is evident that risk management was considered to be essential in achieving sustainability of an organisation's business operations. This can be observed by 96% of the respondents strongly agreeing with the statement, while a further 4% somewhat agreed with the statement.

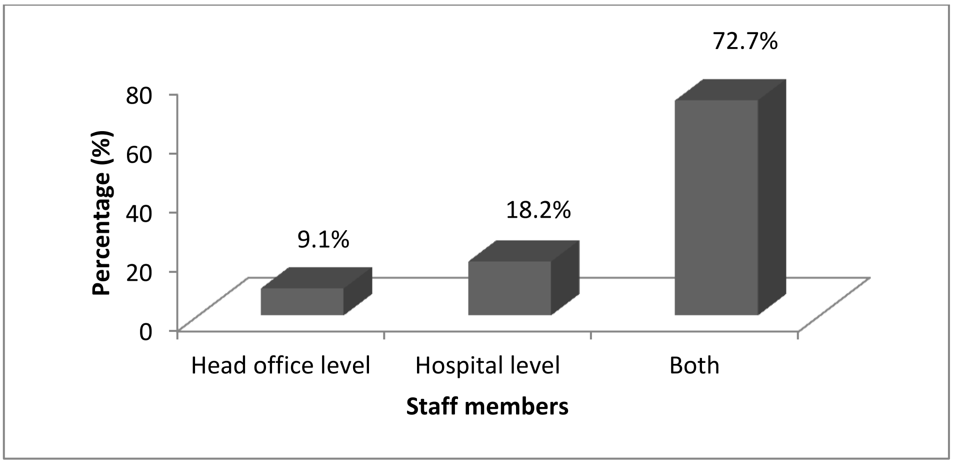
For organisations to survive in the long term in a dynamic uncertain environment, the management of all risks is important. The respondents' opinions are represented in the following pie chart.

[13] This information was obtained during telephonic conversations with hospital managers of the participatory private hospitals included in the sample.

Table 1. Questions to private hospital participants

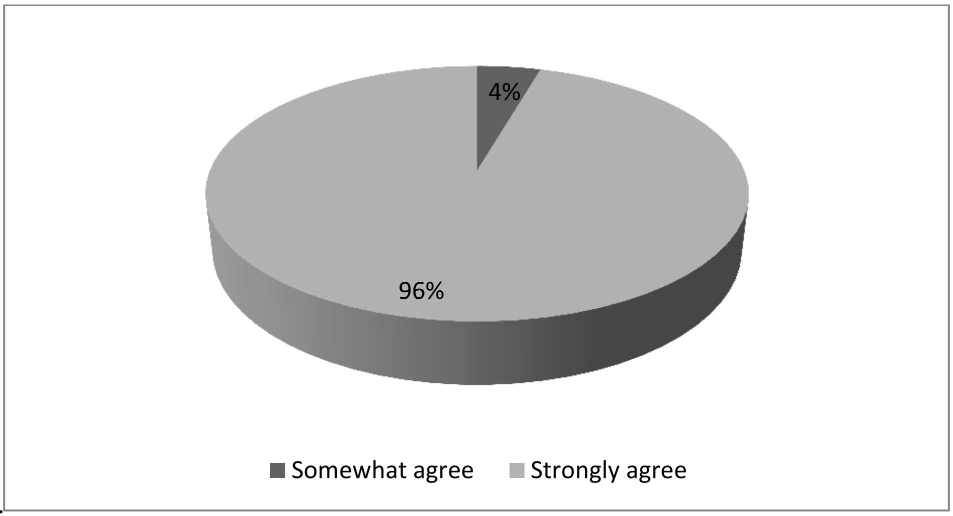
Topic	Rationale
Section 1: Organisational information	To ascertain in which areas the management of fraud risk in private hospitals occurs.
Section 2: Risk management and sustainability	To ascertain whether risk management is essential in contributing towards sustainable business operations. To ascertain whether management of all risks is important in order for organisations to be sustainable.
Section 3: The management of fraud risk as a source of competitive advantage	To ascertain whether the effective management of fraud risk is regarded as a source of competitive advantage.
Section 4: The organisational culture and management procedures regarding fraud risk within private hospitals	To establish the organisational culture with regard to the management of fraud risk.
Section 5: The reporting of risk in private hospitals	To ascertain whether the reporting of risks includes the reporting of fraud risk. To ascertain the frequency of risk reporting. To obtain additional information on the manner in which fraud risk reporting occurs.

Figure 1. The management of fraud risk



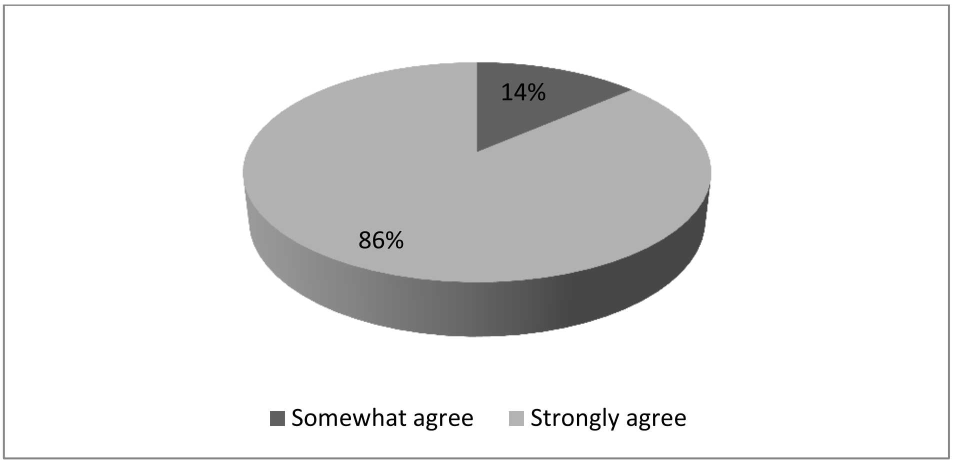
Source: Grebe (2014)

Figure 2. Contribution of risk management towards achieving sustainable business operations



Source: Grebe (2014)

Figure 3. The importance of comprehensive risk management towards the achievement of sustainability



Source: Grebe (2014)

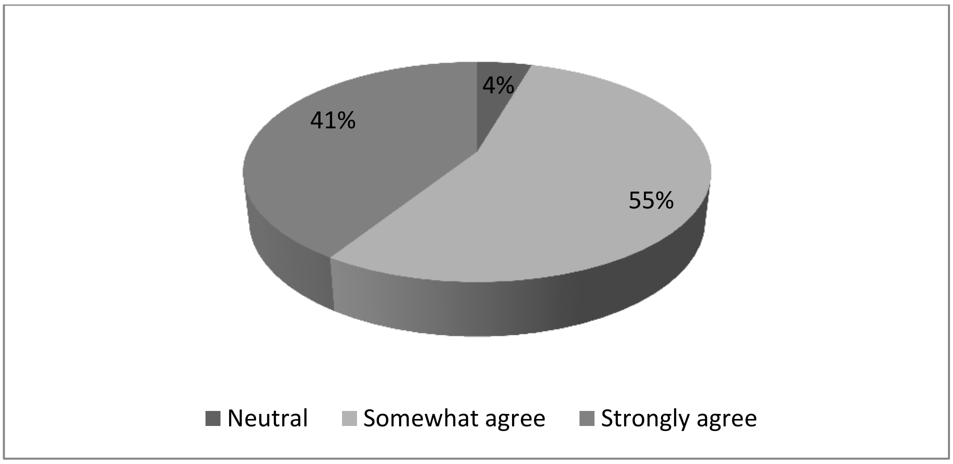
Private hospitals regard the existence of a comprehensive risk management system to be of importance as 86% of the respondents strongly agreed with the statement.

Section 3: The management of fraud risk as a source of competitive advantage

Elahi (2010) and Buehler et al. (2008) argue that risk management could be regarded as a competitive tool which, if properly employed, could create a competitive advantage and ensure sustainable business operations.

The following question tested whether the management of fraud is regarded as a competitive advantage within the private hospitals.

Figure 4. The management of fraud risk as a competitive advantage



Source: Grebe (2014)

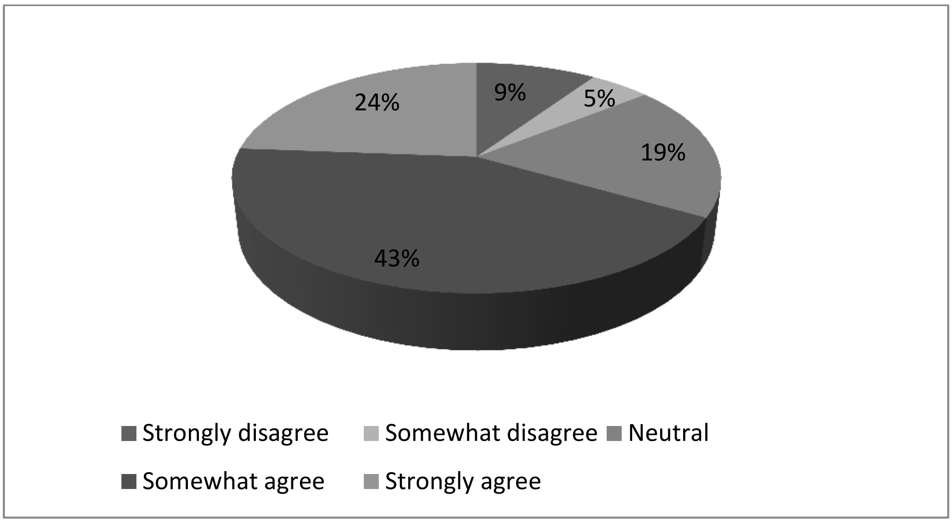
It is evident that 55% of the respondents somewhat agreed that the management of fraud risk could be regarded as a competitive advantage. A further 41% of the respondents strongly agreed with the statement, while 4% of respondents were neutral.

Section 4: The organisational culture and management procedures regarding fraud risk within private hospitals

The Institute of Risk Management (IRM) identified that risk management is a fundamental part of any organisation's strategic management plan. Accordingly, risk management should be integrated into the culture of the organisation, providing support to accountability, performance measurement and reward; hence, promoting operational efficiency at all levels within an organisation (IRM, 2002; Purdy, 2010). Valsamakis et al. (2010) state that risk management requires the engagement of all levels within the organisation, ensuring the interaction of strategic management and operational activities.

In light of the above literature, the following question was formulated.

Figure 5. The organisational culture towards the responsibility amongst staff members in the management of fraud risk



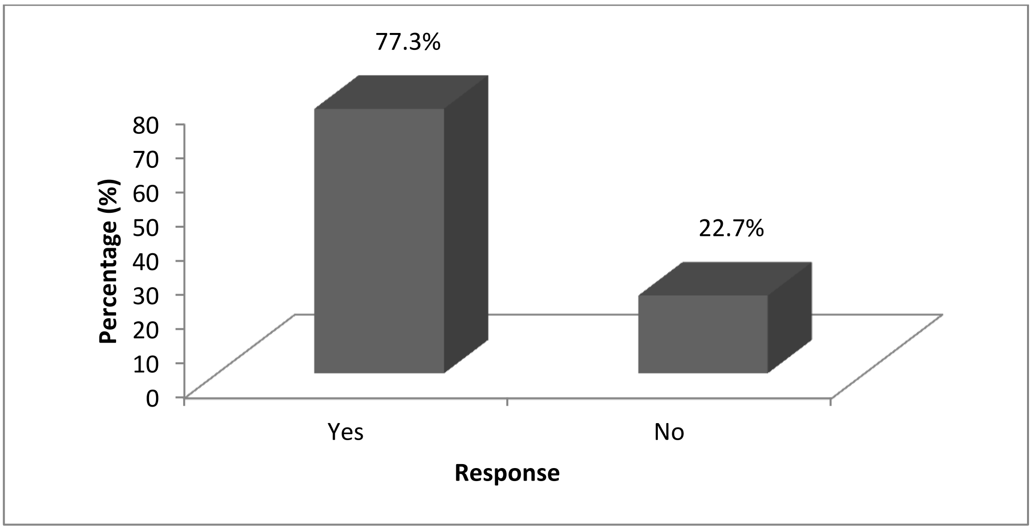
Source: Grebe (2014)

It is evident that 24% of the respondents strongly agreed, 43% somewhat agreed, 19% were neutral, 5% somewhat disagreed and 9% strongly disagreed that a culture within private hospitals existed where the management of fraud risk was a shared responsibility amongst all employees.

Section 5: The reporting of risk

Chapman (2011) indicates that the reporting of risk is just as important as the other activities which form part of the monitoring and review phase within the risk management process. The reporting of risk includes the communication of successes achieved by the organisation to date, as well disclosing the need for additional or improved response actions. Literature further suggests that the reporting of risk ought to occur at least once a year and that the reporting of all risks ought to be included (Chapman, 2011; Fraser & Simkins, 2010). Derived from the literature the following research questions were formulated.

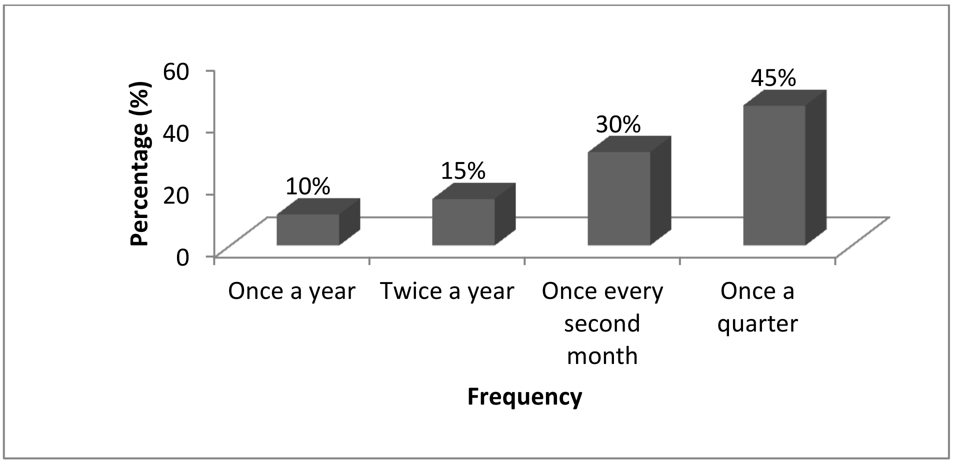
Figure 6. The reporting of fraud risk



Source: Grebe (2014)

It is evident that 77.3% of the respondents pointed out that risk reporting in private hospitals included reporting on fraud risk, whereas the remaining 22.7% of the respondents pointed out that fraud risk was not being reported in private hospitals.

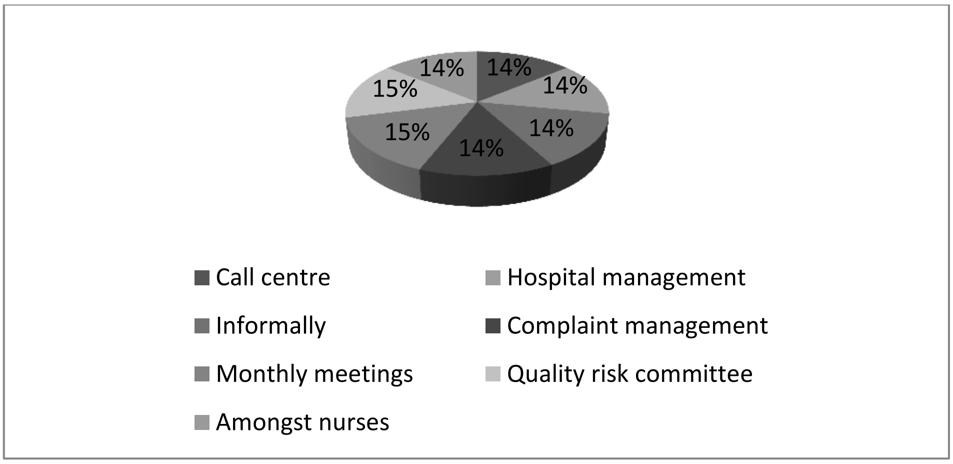
Figure 7. The frequency of risk reporting



Source: Grebe (2014)

A wide distribution existed amongst participating private hospitals as regards the frequency with which risk reporting occurs. Of the respondents, 10% indicated that risk reporting occurred once a year, 15% indicated that it occurred twice a year, 30% indicated that it occurred once every second month and a further 45% indicated that risk reporting occurred once every quarter

Figure 8. The manner of fraud risk reporting



Source: Grebe (2014)

It is evident that the reporting of fraud risk occur via various methods. These methods include reporting by means of a call centre, informally amongst colleagues, by means of monthly meetings, amongst nurses, by hospital and complaint management and finally by the quality risk committee.

5 Conclusion

The risk of fraud has been found to be a problem for industries and organisations across the world. Fraud risk moreover has been confirmed by literature to be a problem in the healthcare sector. The management of fraud risk within South African private hospitals is therefore essential and requires urgent attention.

The primary objective of the present study was to explore the management of fraud risk in the South African private hospital sector. The empirical results are the following:

The majority private of hospitals (72.7%) indicated that the management of fraud risk occurred both at head office level and hospital level. The majority of private hospitals (96%) appreciate the significance of risk management in achieving sustainable business operations, including a comprehensive risk management system for the management of all risks. The majority of private hospitals (55%) acknowledge that the management of fraud risk could be regarded as a competitive advantage, but it requires effective management.

Private hospitals indicated that a culture does exist where the management of fraud risk is a joint responsibility shared by all employees. It was however noted that this culture was not properly communicated and promoted within all of the participating private hospitals. It was further encouraging to confirm that the majority of private hospitals (77.3%) conducted the reporting of fraud risk on a regular basis. What is however an area of concern is the fact that no clear consistency was found amongst private hospitals in the manner in which the reporting of fraud risk occurs. The findings finally suggest that private hospitals are aware of the potential benefits risk reporting holds in achieving a successful risk management process.

However, there are deficiencies within private hospitals and as a result, the following recommendations are made. Firstly, private hospitals should improve their organisational culture with regard to the management of fraud risk, so that all staff becomes aware of the importance of having a shared responsibility in order to manage fraud risk successfully. Secondly, it is recommended that a formalised fraud risk reporting process ought be developed and adopted by private hospitals in order to ensure a consistent, effective risk reporting process.

Areas for further research pertain to extrapolating the exact same research to the public hospital sector of South Africa. It could be of benefit to the public hospital sector if their risk management procedures regarding the management of fraud risk are continuously investigated and improved.

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