ORGANIZATIONAL PERFORMANCE IN HUNGARIAN HEALTH CARE INSTITUTIONS

Paper for The Eighth International Research Symposium on Public Management (IRSPM VIII), Panel Health Care Management
31 March – 2 April 2004
Budapest University of Economic Sciences and Public Administration, Hungary

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DRAFT VERSION
Abstract

Performance management systems (PMSs) developed for the business sector, have now been taken into use also in the public sector. The spread of PMSs have directed researchers’ attention to understanding, defining and measuring of performance in public organizations. The judgements of organizational performance highly depends on expectations of key stakeholders. This paper identifies these stakeholders in the Hungarian health care system and examines their performance requirements in Hungarian hospitals. According to our research data, Hungarian hospitals meet very heterogenous, multi-faceted performance requirements, and they have explicit, implicit and often divergent impacts on organizational performance.

Introduction

Performance management methods are traditionally applied to business sector organizations to improve their activities. In the last two decades, both philosophy and tools of performance-oriented thinking have increasingly spread in public organizations, too. However, the context, goals, main characteristics of public sector institutions vary significantly from private ones, so the determination and evaluation of high organizational performance requires different approaches.

There aren’t any well-defined performance measure standards, especially in public organizations, and they depend on the requirements and judgements of the key stakeholders. In our research, we examine the performance requirements of the most important actors in Hungarian health care sector. The Hungarian health care is changing, it faces significant new challenges. In the past years, there were many reform intentions to improve the functioning of the health sector. One of the most relevant ones was the introduction of the performance based financing for health care service providers.

Our research group examines and analyses the performance requirements of the next key stakeholders of the hospitals: the patients, as the client of hospitals, the National Health Insurance Fund (it finances the operating cost and expenses of health care based on performance), and the owners (the state and local governments are responsible for financing investments).

This paper is primarily based on the information collected by our research team using questionnaire-based surveys about organizational performance. It was supplemented with different literature and document analysis.
Theoretical framework - The stakeholder approach to organizational performance

The rise of new public management movement have led to an increased attention to performance measurement and management of public services [Hood, 1995; Bouckaert, 2003]. In the Western countries the public organizations began to apply different performance management tools in order to be able to improve their accountability, enhance efficiency and effectiveness. The concepts of organizational performance in the public sector have long been subject of academic debates about their very heterogenous and ambiguous nature.

The **stakeholder approach** offers a complex view of organizational performance. It is a very critical question related to performance management systems how the stakeholders, be they clients, employees, owners, suppliers, local communities view the organization [Atkinson, 1997]. The relevance of stakeholder approach in Hungarian health care sector confirms the debates about health care reforms: only after clarifying relations, tasks, responsibilities of key stakeholders can be achieved positive results. At organizational level identifying the requirements of stakeholders supports strategy-formulating and building an integrated performance management system.

Some popular performance management concept applied by public sector organizations could be interpreted in the stakeholder framework. One of these tools is the **Balanced Scorecard**, which four perspectives of its original version by Robert Kaplan and David Norton refers to some important stakeholders: owners (shareholders), customers and employees. The financial perspective represents main requirements of owners, the customer (and implicitly the business process) persepective emphasizes realization of customer (client) focus and customer satisfaction, the learning and growth perspective includes employee training and organizational cultural attitudes related to self-improvement. The original model of BSC can be criticized for not taking a broad view of the stakeholders (e.g. regulators or suppliers) who interact with an organization [Atkinson, 1997]. In the case of public BSC application the Scorecards appear more diverse than in business, many public organizations have changed the hierarchy, the name, and the content of BSC perspectives. This customization enables formulating perspectives based on requirements of other stakeholders.

The **Performance Prism** is a new, integrated performance management framework, which focuses on “the notion of stakeholder, as opposed to shareholder, value” [Neely, Adams, Kennerley, 2002]. The Performance Prism has five facets: stakeholder satisfaction, strategies, processes, capabilities and stakeholder contribution. The first facet – stakeholder satisfaction – concentrates on wants and needs of key stakeholders. The final facet – stakeholder contribution – emphasizes the reciprocal relationship between the stakeholder and the organization.

The **European Foundation for Quality Management (EFQM)** was founded in 1988 by presidents of 14 major European companies and started to focus on public sector organization during its evolution. The self-assessment based EFQM Excellence Model model could be interpreted as a stakeholder oriented performance management concept, because it also concentrates on an extended input-activities-output-outcome logic chain and on enhancing of efficiency and effectiveness [Bouckaert, Thijs, van Dooren, 2004, ]. The nine dimensions of the model are: leadership, people, policy and strategy, partnership and resources, processes (these are “Enablers”), people results, customer results, society results, and key performance (these are “Results”). The dimensions of EFQM Model represents explicitly a broad view of the stakeholders.
These same dimensions can be found in the **Common Assessment Framework (CAF)**, which is a tool for organizational self-assessment in the public sector. The concept is aiming to assess quality of European public administration bodies. The CAF – alike to above mentioned models – focuses on requirements of many stakeholders.

There are different approaches to classify the spheres of social activities. According to the most accepted model the “visible, formally existing” sectors are the sphere of **business, public, and nonprofit organizations**, while households and grey/black economy constitute the “less visible, informal” sectors. With regard to our research, the first three (visible) sectors have relevance.

Business, public and nonprofit organizations operate also in the Hungarian health care sector, and they can be clearly separated from legal and regulatory point of view (see Figure 1).

![Figure 1. The three types of health care organizations in the perspective of law](image)

The boundaries of the sectors are more blurred, however, if we see the daily operation and the financial sources of these organizations as well (see Figure 2). From this point of view the health care organizations have overlapping goals and financing resources.

![Figure 2: The perspectives of financial sources and the daily operation of organizations](image)
The three sector model helps to understand the characteristics of business, public and nonprofit organizations. The convergence of the sectors enables and even necessitates the diffusion of (performance) management concepts. The adaptation process of the above mentioned, principally business oriented models (BSC, Performance Prism, EFQM) needs time, effort and careful selection of appropriate tools.

**Key figures and structure of the Hungarian health care sector**

Before beginning of analysing the requirements of key stakeholders in the Hungarian health care institutions, we briefly introduce the key figures and structure of this sector.

Hungary has 10 million inhabitants. The population is decreasing since the birth rate has been below reproduction level since 1981. The life expectancy at birth is below the European average (see Table 1). Total health expenditure as a percentage of the GDP in Hungary is 5 %, the European average is about 8 %. The hospitalization index is 25-30 %.

<table>
<thead>
<tr>
<th>INDICATORS</th>
<th>HUNGARY</th>
<th>EUROPEAN UNION</th>
</tr>
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<tbody>
<tr>
<td>Male life expectancy at birth</td>
<td>68,2</td>
<td>75,3</td>
</tr>
<tr>
<td>(years)</td>
<td></td>
<td></td>
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<tr>
<td>Female life expectancy at birth</td>
<td>76,5</td>
<td>81,4</td>
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<tr>
<td>(years)</td>
<td></td>
<td></td>
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<tr>
<td>Infant mortality</td>
<td>8,1</td>
<td>5,2</td>
</tr>
<tr>
<td>(per 1000 live birth)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cancer mortality, men</td>
<td>191,9</td>
<td>73,4</td>
</tr>
<tr>
<td>(per 100.000 population)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cancer mortality, women</td>
<td>68,9</td>
<td>26,1</td>
</tr>
<tr>
<td>(per 100.000 population)</td>
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Source: Hungarian Central Statistical Office; Statistics in focus: Population & Social Condition, First results of the demographic data collection for 2001 in Europe

Table 1: Some health indicators in Hungary and EU, 2001

Health services in Hungary are funded principally from the compulsory National Health Insurance Fund (NHIF) for recurrent costs and from taxation for capital costs. Health services are delivered predominantly by public providers in facilities owned mainly by local governments. Providers contract with the NHIF Administration. The government is the dominant regulator of health services, exercises statutory supervision over the National Health Insurance Fund, provides capital costs, and delivers most tertiary care services.

Hungary developed a hospital-centred system of health care, which is beyond the current economic capacity of the country and beyond the level of care required. Reforms aim to move more treatment from inpatient to outpatient services and to expand day surgery as well as microlevel diagnostic and therapeutic procedures. Hungary has about 160 hospitals at national/regional, county and municipal level. Geographic inequalities still exist despite attempts to redress these. For example, the 47 hospitals in Budapest represent almost 40% of the total facilities in Hungary, although, only 20% of the population live in the capital. Tertiary care is provided by four medical universities and by 18 national institutes. National institutes provide services that require extensive equipment and specialists.

Under the previous state-socialist model, health care institutions received a fixed annual budget that was raised by a certain percentage each year. The budget was not linked to
performance, but input norms and political influence. The reforms of the 1990s have brought significant changes: patient capitation was introduced for family doctor services, fee-for-service point system for outpatient specialist care, DRG (diagnosis related group) system for acute inpatient service and payment per bed days for chronic care [Gaál et al., 1999]. Although the new financing system intended to be more performance related, the effect of it on the efficiency and effectiveness of health care service delivery has been rather disappointing since then.

A new consolidation program for the health care sector has been developed for 2002-2006 with an expenditure of 2.5 milliard Euro, and The Public Health Program (2001) sets strategic goals and actions for 2001-2010.

**Stakeholders of hospitals**

The Hungarian hospitals operate in a very complex environment with many stakeholders: ministries, local governments, clients (patients), suppliers (e.g. pharmaceutical companies), NHIF Administration, National Public Health and Medical Officer's Service, chambers, system of primary health care services etc. In this paper we concentrate on four key stakeholders: clients, financer, owner and management.

**Clients (patients)**

One of the most important stakeholders of all types of organizations is their customers. In the health care sector the patients have a limited customer function: the doctors order the examinations, medicines etc., and the NHIF finances its costs. Of course, the clients as employees (and their employers) pay the contribution to the health insurance system, so they finance indirect the costs of health services.

We assume that wants and needs of clients have great impact on performance of hospitals, the degree of client satisfaction has an important feedback function for quality of health care services. To achieve high level customer satisfaction the hospital have to meet the requirements of their clients. But what are these requirements? Due to information asymmetry between the doctors and patients, in most cases the clients can not judge the adequacy of health services.

Based on patient satisfaction researches [Szonda-Ipsos, 1999; TÁRKI, 2001] the requirements of clients are: good doctor-patient relation, good nurse-patient relation, appropriate information about health services, high level infrastructure (e.g. number of beds in a hospital room, hygienic bath rooms), high level additional services (e.g. quality of food, television room, cafeteria).

**Owners (local governments, ministries etc.)**

Owners, who since 1990 are mainly local governments, are responsible for the maintenance of health care facilities. Local government revenue for health capital costs come from four sources: transfers of central tax revenues on a capitation basis, local taxes, earmarked and target subsidies and other projects.

The main requirements of local government for hospitals are: economical and efficient operation, financial stability, effective fundraising activities of hospital management, good reputation of the organization and the doctors.
The National Health Insurance Fund Administration (NHIFA), which is the only health insurance within social insurance system in Hungary, finances costs of health care providers contracted with it. NHIF can not select among health care providers due to current regulations. It has to contract if a provider fulfils requirements of National Public Health and Medical Officer’s Service. Thus NHIF has restricted role as service purchaser and it can influence performance of service providers only through financial incentives / systems.

Because of problems of financial system (such as coding higher and higher performance in hospital, financing based on normative performance which does not differentiate according to level of quality; lack of adequate control and sanctions) NHIF proposes to modify financial system:

- to strengthen NHIF’s role as service purchaser;
- to reduce adverse effect of normative financial system (e.g. with volumen contract, fee harmonization);
- to develop and strengthen control system;
- to monitor quality continuously, to apply quality indicators, to develop financial incentives for quality improvement.

The role of quality indicator system program in strengthening of NHIF as service purchaser:

NHIF has launched a program to develop quality indicator system which evaluates services and health care providers based on data. The aim of this program is to apply available and valid quality indicators to sign problems or successes. NHIF can expect providers to take actions in order to improve quality if the value of indicator is not acceptable.

The main goal is to develop a multi-aspect “balanced scorecard” type system with different components of quality (effectiveness, efficiency, timeliness, acceptability, accessibility, fairness, etc). After an initiative period of indicator system NHIF will introduce financial incentives to reward those providers which have continuously improving, good performance.

Management

In all of the organizations, managers are significant stakeholders. Since most of the health care organizations are owned by local governments, or the state in Hungary, they even play a more essential role in the organizations’ everyday operation. The scarcity of resources available, and the importance of lobbying and fund raising, and also the relative high social risk of any failure in service delivery make managers more powerful.

Methodology and major findings

We used a self completed, written questionnaire about organizational performance. The content of questionnaire: Basic data about the organization, open definition of organizational performance, statements about organizational performance related to its content, and requirements of key stakeholders, most important aspects of performance, and elements of applied performance management systems. It was completed by members of 13 hospitals, thereof 4 are national institutes.

1 In the framework of our research program funded by Hungarian Scientific Research Fund (OTKA). Its title: Contribution of performance management systems of efficient and effective functioning of the sectors (F 042915)

We asked the respondents about elements\(^2\) of the applied performance management systems (PMS). The next figure shows which PMS elements are applied in analysed organizations.

![Figure1: Elements of applied performance management system in hospitals](image)

**Conclusions and further steps**

According to the results of the first phase of our research, there seems to be a solid evidence on that Hungarian hospitals meet very heterogeneous, multi-faceted performance requirements, and they have explicit, implicit and often divergent impacts on organizational performance. On the other hand, health care organizations are much better equipped with performance management tools than other public sector organizations in Hungary. Probably because of the parallel existence of scarcity of resources and performance-based financing, the performance management methods that the Hungarian hospitals use are dominantly financial ones.

To have a deeper insight into the characteristics and use of performance management systems in Hungarian health care organizations, we intend to further analyse data collected in the first phase, it means:

- Content analysis of answers to open questions;
- Multi-variable analysis focusing on possible cause-and-effect relationships.

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\(^2\) These elements are: Documented strategy; Adequately elaborated strategy; Middle-term financial plan; Economic decisions are based on financial plans and budget; Accounting system reflects to managerial information needs; Economic performance of units are regularly evaluated; Evaluation is based on data from inside the organization; Evaluation is based on data from inside and outside the organization; Transfer pricing for counting and evaluating inhouse service transfer; Individual performance evaluation for all members; Individual performance evaluation for only the managers; Integrated (individual and organizational) performance evaluation; Premium system; Colleagues get feedback regularly about their individual performance.
In the next phases of our research program we would like to collect and analyse further data based on case researches focusing on not only the “content” of PMSs, but also on the process of choosing among different alternative solutions and on the process of implementation.

In the further phases of our research, we also would like to examine the performance management practice of other role players of the Hungarian health care sector (e.g. NHIFA, NPHMOS, MCOs) and the methods and process of defining, measuring and evaluating the performance of HCOs by their key stakeholders.

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