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Insights for Implementers

Public Hospital Strengthening

Issue in brief

The concept of autonomous public hospitals has been discussed in the development literature since the early 1990s. This concept has been of interest largely due to the significant share of resources that are allocated to public hospitals in developing countries.

If public hospitals could be made more accountable for the funds allocated to them and also be empowered to raise additional revenue, it was thought, pressure on public health care budgets would be reduced. Additionally, it was hypothesized that autonomous public hospitals would be more efficient and responsive to end-users, since they would be increasingly responsible for their own fate (Govindaraj and Chawla 1996: 1-64).

Much of the subsequent hospital strengthening work has focused on improving the internal management of public hospitals in developing countries as well as introducing strategic management constructs that link the public hospital to its environment through boards of directors or similar boundary-spanning management strategies.

Some research suggests that the use of the strategic management conceptual model and the emphasis on managerial efficiency may have limitations when applied to public hospitals. This conclusion derives from the public goods argument that public institutions exist because of the type of services they provide and suggests that public hospitals should be measured against benchmarks that take into account not only their efficiency but also their uniqueness as social institutions. For example, public hospitals in middle-income countries may have performance measures that are different from those of public hospitals in low-income countries if their responsiveness to the social agenda is considered.

All public hospitals share the mandate to provide a set of public goods in response to a given social agenda, but these hospitals are faced with different environmental constraints. If the constraints are too binding, the hospital cannot fulfill the public welfare expectations, although the managers still may be able to respond to market requirements. For example, public hospital managers may act to eliminate services that are unable to break even, even if society would like these services provided to the poor, or the public hospital manager may decide to provide services that are popular with those who can pay even if these services could be adequately provided by the private sector hospitals.

To adequately support public hospitals, it is important to understand the factors in the hospital environment that constrain its response to social welfare requirements as well as to determine what can be done to improve public hospital functioning.

Definitions

Hospital strengthening is a broad term that implies all activities that seek to promote the efficiency, effectiveness, and responsiveness of the hospital within its environment. Hospitals can be strengthened regardless of the organization of the hospital sector within a given country; however, many theorists suggest that without organizational systems that provide meaningful incentives, efficient and effective management of public hospitals is difficult to achieve.

One way of providing more direct incentives is to create **autonomous hospitals**. Hospital autonomy describes organizational arrangements where the managers have a greater degree of authority than in a traditional, directly managed public service. Autonomy can include the following:

- Financial management, such as freedom to spend within an overall budget, setting pay levels, transferring money between budget heads, and selling off assets;
- Personnel management, such as setting terms and conditions of employment, reward and discipline of staff, and the ability to hire and terminate staff; and
- Product or service development, such as offering new services or discontinuing services that drain hospital budgets.

Hospital autonomy can be granted within a centrally managed system; that is, the central management authority for public hospitals can delegate some or all authority for management decisions to the hospital manager and/or a board of directors.

Public hospitals may also be part of a **decentralized system**. In such a system, the authority for public hospital management may reside with a local government authority such as a county, district, or region.This decentralized branch of government would have budgetary authority for the public hospital, and often the responsibility to raise revenue to support it. Some degree of hospital autonomy may also exist within such a decentralized system. In this case, the decentralized branch of government would grant management authority for some or all of the critical management functions to the hospital manager and/or board of directors.

A separate decision may be made to **privatize** public hospitals. In this case public hospital assets are transferred to private owners either by direct sale or lease. If hospitals are privatized by sale of assets, the government may retain the authority to regulate hospitals, but the ownership of the hospital assets are private, and the privatized

hospital assets may be sold or traded by the owners without prior public approval. If public hospital assets are leased rather than sold, it is more difficult for the private managers of the assets to dispose of them. The sale or trade of leased assets is usually stipulated as part of the lease agreement.

Contracted private management of public hospitals may also be considered. In this case, the government retains ownership of the public hospital, but the hospital is managed by a private group. Some or all of the functions of the hospital may be contracted out to private managers. The terms and conditions of the management agreement are usually subject to whatever public procurement and contract rules exist in the country. Usually such contracts are granted after a competitive bidding process that is managed under the procurement rules of the public sector.

Public hospital systems are often composed of hospitals that exemplify several of these strategies. For example, a tertiary public hospital may be centrally managed while district hospitals in the same country may be decentralized and managed by an autonomous public hospital board. Public systems frequently contract private management for some public hospital functions such as information systems management or housekeeping services.

Critical Issues

Critical issues that are usually encountered in implementing hospital strengthening programs are:

Conflicting political and hospital system management objectives: Hospitals are often seen as visible representations of the government's concern for the welfare of the people. For this reason, activities such as hospital construction and renovation are politically popular and hospital downsizing and closure are not. Hospital system planners may wish to right-size the hospital sector by closing some hospital beds, or even consolidating hospital services and closing entire facilities. Even if such recommendations are supported by clear evidence, careful political mapping and stakeholder analysis is needed to bring the objectives of effective and efficient hospitals in line with political goals and agendas. In addition, the costs and benefits of various policy options should be discussed carefully with the policy community before any action is taken.

High technology demand and supply: Medical care specialty areas require increasing levels of high technology both to provide patient care and to support medical education. While many high technology interventions have been shown to be less cost effective than lower technology or preventive services, the fact remains that high technology is in demand. This demand comes from both medical educators who must train the next generation of specialists, as well as specialty physicians and their patients. In resource-constrained environments, policymakers need to know what options are available to manage the demand for and supply of high technology. Rationing high technology can be done by reducing the subsidies for such services and charging market price, by regulatory strategies such as certificate of need or licensure requirements, or by constraining the supply of the technology by increasing the price though taxation or other fees.

Paying for and subsidizing hospital care: In all countries public hospitals are the providers of last resort for those in need of health care. For this reason, public hospitals usually do not refuse critical services to any person regardless of their ability to pay. This practice may result in the eventual closure of the public hospital, unless financing policies to accommodate it are developed. There are many solutions to the financing dilemma that the public hospital faces. For example, the country may elect to support public hospitals through a general or targeted tax, through a combination

of user fees and tax, or entirely through individual payment for services. If individual payment for services forms all or a part of the financing solution, the demand for some form of health insurance will usually emerge. The household usually prefers to insure against unexpected hospital costs if they are expected to pay them. Thus, the policy decision on how hospital care is to be financed impacts directly on the demand for health insurance since hospital costs are usually the largest health care cost the household faces. Subsidizing care for those who cannot pay is also an important policy decision, particularly if individual payment for services is the financing method of choice. Since public hospitals usually cannot refuse care, those who cannot pay must either be supported through an explicit or implicit subsidy. If no subsidy policy exists, the public hospital will usually pass the cost of uncompensated care on to those who do pay for care. This hidden tax is the source of the subsidy for those who must use services but cannot afford to pay for them.

Photo: Bryn Sakagawa

Managing the episode of care: Public hospitals form only a part of the continuum of care in a given health care system. In some systems, it is possible to access all required care using private providers; in other systems the public hospital may be the only source for certain high-technology or specialized services. The public hospital may also be the only provider in remote or resource constrained areas that do not present viable market opportunities for private providers. Policy decisions concerning primary health care, referral management, aftercare, and demand management directly affect the public hospital. Public hospital policies and planning must be done with careful consideration of the policies affecting other parts of the health sector. For example, strategic planning models that recommend utilization management in the public hosptial must also consider the availability of aftercare within the community. If aftercare is not generally available, or if the community does not have resources to manage aftercare, hospital utilization management must be done with different discharge planning standards.

Health workforce supply: Public hospitals are frequently training institutions that provide clinical training for new physicians, nurses, lab technologists, and other allied health workers. Health workforce supply management and training policies depend on adequate clinical training opportunities in order to succeed. Public hospital strategic planning must be done in the context of health workforce supply management. Some systems have found ways to contract for training with private sector hospitals or institutions; however, most of these arrangement require some training subsidy since training new providers imposes costs that cannot be recovered from individual patients. This is particularly true in resource-constrained environments where the training institution must provide appropriate technology to train new providers, and where the individual patient usually cannot afford to pay the true cost of such technology.

Guidance and Lessons

The following bullet points offer some practical guidance and suggestions for those implementing a hospital strengthening program. These are divided by assessment and planning areas and may provide some useful starting points for an implementation plan.

- *A situation analysis of public hospitals should include:*
  - internal management of the hospital including the total financial requirements of the hospital
  - public policy and regulatory strategies and expectations that impact the hospital including the portion of the health budget that it receives, the financing plan for the hospital, and the planning/budgeting strategies that are used to allocate resources to the public hospital sector
  - position of the public hospital within the health education sector, for example, the proportion of public hospital capacity that is used for teaching purposes and how the educational function is supported
  - environment surrounding public hospitals including community expectations of the hospital, the perception of the quality of care, and the demographics of the community the hospital serves
  - degree of autonomy, decentralization, and privatization that currently exists in the public hospital domain
  - basic utilization and cost data that includes occupancy rate, length of stay, total average cost of a unit of service, services provided, and organizational structure of the hospital.

- *The dimensions of social welfare and efficiency should both be considered:*

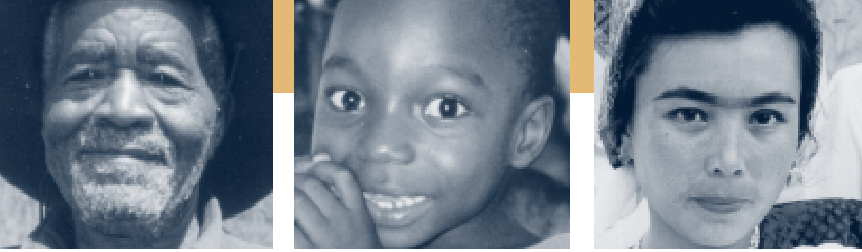
  Hospitals might be grouped according to their efficiency and social welfare performance. Although there is no comprehensive empirical evidence, this typology and the suggested hypotheses presented in the table below may provide a useful tool for discussion with policymakers, monitoring and evaluation activities, and applied research.

- *Carefully assess environmental variables before recommending a technical approach.*

  Much of the literature on hospital strengthening in the development context cautions that sustainable success in strengthening public hospitals is rare. If environmental factors such as population characteristics, geographic issues, or epidemiological patterns are seriously impeding hospital functioning, it may not be possible to retain hospital staff long enough to create sustainable change in technical areas of the hospital. In such cases, another technical approach such as strengthening public sector resource allocation or infrastructure planning might be a necessary first or concomitant step to improve the environment in which the hospital functions. It may also be necessary to consider strengthening ambulatory care services and referral systems before focusing on the hospital.

- *Plan for monitoring and evaluation from the beginning to create an evidence base to guide policy decisions:*

  Because public hospitals consume such large shares of the health care budget, it is important to allocate some technical assistance to monitoring and evaluating any hospital strengthening program that is proposed. Early discussions with counterparts about information they need to monitor the sector is very useful to create a demand for information and provide evidence of system change. Working with counterparts to propose indicators for monitoring progress can be a logical follow-on activity that creates opportunities to create an evidence-based regulatory climate.



	Low Efficiency	High Efficiency
Low Social Welfare	■ Environment may not be supportive of the public hospital. ■ Regulatory capacity underfunded or weak. ■ Public spending may be insufficient or misallocated. ■ Community participation compromised. ■ Quality may be a problem. ■ Internal management likely to be challenged with lack of sufficient resources and lack of skilled health workers.	■ Environment likely to be competitive. ■ Community participation and/or technical quality may be compromised. ■ Regulatory capacity may be compromised. ■ Public spending for hospital care may be insufficient for services required. ■ Internal management likely to be skilled at responding to market signals, but may not advocate for or understand the social agenda.
High Social Welfare	■ Environment is not competitive and/or public hospitals are insulated from competition. ■ Community participation may be strong. ■ Public budgets likely to be adequate for hospital sector. ■ Policy environment relatively supportive. ■ Internal management likely to be adequate, but may not be skilled in methods of efficiency or in responding to competitive market.	■ Hospital is optimal within the environment. ■ Regulatory and policy strategy likely to be supportive of public hospitals. ■ Public budgets likely to be adequate. ■ Internal management likely to be skilled in both response to environmental signals and internal efficiency. ■ Technical quality likely to be acceptable. ■ Community participation likely to be strong.

PHRplus Tools and Tips

All PHR*plus* reports can be downloaded from www.PHRproject.com.

Rationalization Plans for Hospital Beds in Egypt
Order No. TE 29

Implementing Hospital Autonomy in Jordan: Changing MOH Operating Procedures
Order No. TE 44

Hospitals Autonomy in Malawi: Assessment and Implementation Plan
Order No. TE 46

Study of Hospital Referrals in the Pilot Program in Alexandria, Egypt
Order No. TE 56

Design Report 3: Health Resource Groups and Parameters of Casemix Reimbursement for the Hospital Sector of Peru.
Order No. TE 63

An Essential Hospital Package for South Africa: Selection Criteria, Costs, and Affordability
Order No. SAR 3

Hospital Financing Study for Georgia
Order No. SAR 4

Characteristics and Structure of the Private Hospital Sector in Urban India: A Study of Madras City
Order No. SAR 5

An Overview of PHR's Work in Hospital Reform and Development of Hospital Information Systems in West and Central Africa.

Other Resources and References

Internet:

PHR*plus* website at www.PHRproject.com. Keyword to search is "hospitals."

National Library of Medicine website at www.nlm.gov. Search the Medline database using the term "hospitals and autonomy." Follow the international links.

World Bank World Development Sources at www-wds.worldbank.org. This site contains on-line copies of Bank reports and appraisal documents. The general World Bank site at www.worldbank.org can also be searched.

World Health Organization website at www.who.org has numerous reports on hospital autonomy and related topics. Search term is +hospital +autonomy.

USAID website at www.usaid.gov. This site is searchable and provides flexible query-based searching strategies.

Print:

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