

Hospital competition improves performance

Healthcare in the UK remains a significant public expenditure, increasing from £116.9 billion in 2009/10 to £120.0 billion in 2013/14 in real terms. Research shows that hospital performance varies widely across a wide range of indicators. One way of increasing cost efficiency is by improving hospital management practices.

English NHS hospitals compete for patients as they get the bulk of their income from a prospective 'per case' payment system where funding follows the patient. Hospitals are keen to win patient referrals as this allows managers to implement better pay and conditions, and better financial performance reduces the probability that managers will be fired.

Competition is also being introduced in many countries such as the Netherlands, Belgium, the UK, Germany, Norway and Australia as a means of improving productivity in the health care sector. There is much debate as to whether this will improve care.

The report *The Impact of Competition on Management Quality: Evidence from Public Hospitals*, building on ESRC-funded research, shows that hospital competition can improve healthcare by improving the quality of management practices. The research measured the management

quality of 100 public hospitals through a management survey of clinicians and managers, and used data published by the government to assess the performance of NHS hospitals in England.

Key findings

- Hospital competition is useful for improving management practices and outcomes in healthcare.
- More hospital competition leads to improved management and higher hospital performance in terms of quality, productivity and staff satisfaction.
- Management quality is linked to improved indicators of hospital performance including clinical quality, mortality rates and staff turnover rates.
- Hospitals with higher management scores also had shorter waiting times, lower MRSA infection rates and performed better financially.

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Policy relevance and implications

- Policies encouraging hospital competition are likely to increase healthcare productivity. It can do this, in part, by giving incentives to managers to be smarter in their management practices.
- Pro-competitive policies can have very cost-effective effects on the quality of medical care. Policies to promote competition include low-cost measures such as giving the right of patients to choose, and making better information on hospital performance publicly available.
- The findings do not imply that new hospitals should be created or that over-capacity should be maintained, but that the benefits from competition should be included in future social cost benefit analyses.

Policies encouraging hospital competition are likely to increase healthcare productivity, for instance by giving incentives towards smarter management practices.

BRIEF DESCRIPTION OF THE PROJECT

The findings are based on research from the ESRC-funded Centre for Economic Performance and the Centre for Market and Public Organisation by Nicholas Bloom, Carol Propper, Stephan Seiler and Jon Van Reenen. The report *The Impact of Competition on Management Quality: Evidence from Public Hospitals* examines whether competition amongst healthcare providers can increase management quality and hospital performance.

Web: <http://cep.lse.ac.uk/pubs/download/dp0983.pdf>

FOR MORE INFORMATION

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