

Public and private partnerships in the hospital sector – New challenges for Portugal

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Abstract

In a changing scenario in the hospital sector, facing pressures from many sides, like government budget constraints, patients demanding higher level of service quality and internal stakeholders (like doctors and nurses) trying to impose its power, the European Commission is supporting, with the help of Portuguese government, a new type of management in public hospitals: public and private partnership (henceforth PPP). These partnerships are not new in Europe, nevertheless in hospital sector are rare. In Portugal, Hospital Fernando da Fonseca is the unique experience similar with the PPP management, but unfortunately the data related with this experience are not enough to guarantee success to this type of management. But the government intends to launch ten new PPP hospital projects, which it will demand special efforts in terms of developing new tools to monitor the performance of the new projects. Beyond the preliminary advantages and disadvantages of the PPP, it is important to keep a special focus in key variables related with hospital sector, such as: patients, technology, taxpayers and government, and also internal stakeholders. Future research it will be necessary to evaluate the success or failure of the new PPP hospital.

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Introduction

This paper is part of a research, which major objective is to identify potential sources of performance and competitiveness in the Portuguese health care sector. The sector is complex for many reasons, as for instance, the ambiguity of the health service satisfaction, the participation of several actors inside and outside the organisation and the concept of profitability is not applied in the same sense as to every other sector.

Public and private sector partnerships (henceforth PPP) are not a new approach to organizational development (European Commission, 2003, p. 4), even though the European Commission and several governments all over the world, are developing major efforts in the creation of new kinds of partnerships, particularly in sectors dominated until recently by public organizations. Health care is particularly targeted by new partnerships, due basically to (European Commission, 2003, p. 4): (1) to provide additional capital, in a scenario with public budget constraints, (2) to provide alternative management and implementation skills, in terms of knowledge and practice, (3) to provide value added to the consumer and to the public at large, (4) to provide better identification of needs and optimal use of resources.

Beyond the need of additional capital for an investment purpose from the state government, which the PPP could be a possible alternative source, such an approach may also contribute to an increased level of efficiency, to lower level of costs and to higher level of quality for customers. Portugal has tried to launch the PPP concept in the Hospital Fernando da Fonseca (Observatório português dos sistemas de saúde, 2003, p. 68), located in the metropolitan area of Lisbon, and targeted to a population of more than 500.000 inhabitants.

The Portuguese health PPP experience

After the experience of Hospital Fernando da Fonseca, started in 1995, which is considered a hybrid PPP due to the fact that the construction of the Hospital was made by government investment (Observatório português dos sistemas de saúde, 2003, p. 68), Portuguese health

policymakers adopted the PPP concept as a major strategy to develop the health sector, particularly the hospital sub-sector, launching a specific entity inside the Health Ministry, called Estrutura de Missão. This entity has following responsibilities (Observatório português dos sistemas de saúde, 2003, p. 69): (1) to develop a body of laws in order to launch PPP in the health sector, (2) to identify and prepare projects to be launched under the PPP format, (3) to organise and to conduct public contests for each project, (4) to follow up international experience in PPP's, in order to incorporate the best practices in Portuguese hospitals, (5) to support the Health Ministry to develop tools to conduct economical regulation of the PPP's.

The government elected in 2002 is currently developing a new approach with different types of management and ownership of hospitals:

Type of Ownership	Type of Management
Public hospital	Traditional management, with or without financial autonomy
Public hospital	Managerial view, with financial autonomy
Incorporated hospital owned by the government	Managerial view
Private hospital (PPP contracts)	Managerial view

Source: Observatório português dos sistemas de saúde, 2003, p. 61.

This new law opened clearly the hospital sector to the private investors. The government intends to launch a program of new experiences in hospital management, with the objective of improving practices of management, efficiency and quality in the hospitals (Observatório português dos sistemas de saúde, 2003, p. 61). The referred experiences are:

- To transform 34 public hospitals into 31 incorporated hospitals, owned by the government.
- To create and to launch 10 new hospitals under the PPP format.

- To modernise the management in other public hospitals.

In 2003, the government signed the first contract – Hospital de Loures - to build and to operate a new hospital in association with the local council. This was the first of ten hospitals projected to open under the rules of the so-called PPP. This contract covers: first, conceptualisation and project of the new hospital; second, financing and construction of the new hospital; third, management of the new hospital (Observatório português dos sistemas de saúde, 2003, p. 69).

With this new approach to the hospital management, Portugal faces new challenges, even though with some obstacles in the way, like the doubts concerning the success of the unique experience of PPP in the country (Hospital Fernando da Fonseca) referred by the Observatório português dos sistemas de saúde (2003, p.68), “the prices of the services in Hospital Fernando da Fonseca are not competitive, even though we are in a incipient experience and without a profound technical discussion, which in evidence does not allow us to get real conclusions from the experience”. Barros (2000) has made an evaluation of performance of Hospital Fernando da Fonseca (with a PPP contract) versus Hospital de Almada (a public hospital), trying to benchmark hospitals with same type of demographic dimension, but with a different type of management. Barros (2000, p. 30) referred “The Hospital Amadora Sintra (Fernando da Fonseca) seems to have higher efficiency, even after adjustment for population differences”, nevertheless Barros concluded “this last implication must, nonetheless, be regarded with caution”.

The doubts about the results of PPP comes also from other countries, as referred by Observatório português dos sistemas de saúde (2003, p. 70), “there is not evaluation work and with an independent view, about this experience (Hospital de La Ribera – Alzira, Valencia), and until now this one was not replicated in Spain or other health system with same characteristics”. This brings us to a new area of the discussion concerning PPP, which is the

regulation of the system, or like referred in Observatório português dos sistemas de saúde (2003, p. 70), “considering the fragilities of the regulation and governance mechanism (...) it will not be legitimate to implement the ten PPP”. Like every other innovative changes in management, the PPP brings new issues that will need to be discussed, which we will try to deal in the next section.

The Portuguese hospital PPP – Topics for future developments

According to the Observatório português dos sistemas de saúde (2003, p. 58), “All this (pressures for organisational diversification in the health care area) in a context of higher limitations of governance, financing and regulation tools, also with a lack of “governance culture” based on tools to fulfil main objectives of health care system and the design of best mix to provide a good answer to citizens needs”, which brings us to a situation in which we will see a mixture of organisational experiences happening in parallel, without a clear and unique model for the entire hospital sector. In this context, it is important to analyse advantages and disadvantages of the PPP. The European Community (2003, p.15) sees greater advantages to the PPP projects, such as:

- Acceleration of infrastructure provision: private capital will replace government budget constraints.
- Reduced whole life costs: the private sector will contribute to a minimisation of the costs, through incentives.
- Better incentives to perform: the private sector will have incentives to perform according to standards defined in a contract.
- Improved quality of service: international experience suggests under a PPP, quality of services will be better, through better economies of scale, the introduction of innovation in service delivery and the incentives and the penalties defined in contracts.

- Generation of additional revenues: spare capacity could be used by private sector to exploit revenues from third parties.
- Enhanced public management: government officials will put more focus in regulatory issues and less effort in day-to-day operations, which could allow them to monitor better the performance of the project. Additionally, this would bring a good benchmark to other public services, in order to increase their competitiveness.

In what concerns disadvantages of the PPP, Observatório português dos sistemas de saúde (2003, p. 70) mentioned:

- The taxes associated with the PPP projects are low, which indicates that the governments do not transfer effective high risk to the private sector.
- The commercial confidentiality of the private contractors contributes to darken the evolution of the projects, which will difficult to monitor permanently its evolution.
- The perspective of a long term PPP contract is negative, due to the difficulties connected with the predictability of the changes and the future demand.

It is also important to try to analyse other variables connected with the hospital organisation, which could determine the future development of the PPP's, such as:

Customer/patient: the pressure of patients will be crucial to all other developments, because they are demanding more quality in an era with the power of choice in its hands. All available statistics show that efficiency and efficacy of the health system, in terms, for instance, life expectancy is improving, and even tough patients demand always a higher level of efficiency and efficacy.

Technology: it represents probably the major source of efficiency and efficacy of the health sector, but also represents the major risk and even threat to future developments conducting to a new managerial model of the health organisation. The rapid obsolescence of technology, the huge costs of their implementation and the difficulty to evaluate the efficiency of new

technologies related with specific and rare disease, will represent a higher source of risks and threats to the health sector.

Taxpayer and government: in an era of public budget constraints, together with a welfare system under pressure from an older population, taxpayers will not accept higher taxes to support a higher budget for the health sector and particularly to the hospitals (probably, the major source of expenses). Governments will have a difficult task, to provide health to the majority of the population, together with taxpayers demanding lower taxes.

Internal stakeholders: from managers to doctors, from nurses to other technical staff, hospitals depend largely from different stakeholders to establish a proper system. It will be difficult to define a new managerial model without the participation of all internal stakeholders, otherwise the success will be difficult to achieve.

Other stakeholders could be also important to the challenges ahead, like the manufacturers of medical equipment, the international sources of competition (international players in the health care sector) and private investors.

The new managerial view brought by the PPP in the health care sector will have to be shared by many actors and their results need to be controlled by those directly involved, like patients, internal stakeholders, taxpayers and the government. Other solution will contribute to a confrontation between actors with enough force to block success of the new managerial view.

Conclusion

The next few years will be crucial to determine success or failure of the new managerial approach to the health care organisations, the PPP. Many European and even national experiences show that PPP approach applied to the construction and financing of projects was successful (European Commission, p. 26), but in what concerns the management of public services the experience almost does not exist, and it will be important to determine effective results, in order to evaluate this new reality.

It will be also necessary to evaluate the success or failure of this new challenge, from the view of different participants, like customer/patient, taxpayer and internal stakeholders, otherwise the view could be seen as too politic (if comes from the government), or too profit oriented (if comes from the private side of the PPP).

Further qualitative and quantitative research will contribute to define the success or failure of this new challenge facing the Portuguese hospital sector.

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