

A REFLECTION ON THE WAVE OF AMALGAMATIONS IN THE ROMANIAN HEALTH SECTOR

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Abstract:

In the context of New Public Management (NPM) and good governance, in the last decade the Romanian public health system has undergone a reform process. One of its consequences is the wave of public hospitals amalgamations that have occurred especially since the adoption of the new health law. Thus, in 2011 the Ministry of Health has made public a list of proposed amalgamations of hospitals (around 25% from total hospitals with beds that existed in that period). The aim of this research is to examine the wave of hospital mergers that occurred in Romania between 2011 and 2012. In particular, the study focuses on the drivers, social impact, typology and purpose of the analysed amalgamations. The study uses primary resources documents and it is based on a content analysis of 25 Government Decisions and Substantiation Notes from 2011 to 2012. An important generalization of the paper is that all the amalgamations from the analysed period are involuntary and are selected on territorial criteria and depending on the distance, the specific health services for the purpose of efficient use of human and material resources in order to enhance public health services. Additionally, the expected social impact of these events is materialized mainly in improving the quality of medical services provided to the population and providing unconditional access to medical services for policyholders. The expected changes include: reduction of staff costs; efficient use of public services; classifying the amalgamated hospitals in a higher category; reduction of management positions; optimizing medical activity in terms of economic efficiency; and achieving a management capable of the best use of existing financial resources.

Key words: Amalgamations, Hospitals, Health system, Reform, Romania

JEL classification: H51; H75; I18.

1. INTRODUCTION

In the current worldwide economic environment, governments must take policy and financial decisions with broad consequences in response to the financial crisis. The Romanian government is not an exception. Thus, in 2009 the World Bank has committed to provide financial assistance to Romania in the form of Development Policy Loans. On the other hand, becoming a member state of the European Union (EU), this country continues to make political and economic reforms to meet the EU requirements as well as to implement the “*acquis communautaire*”. All these circumstances request a review of national regulations and the defining of a new strategic approach that lead to new trends in local governance with implications for the management of public services.

This paper contributes to a growing body of literature on hospitals amalgamations and health reform, considering that there are few studies which examine these events in the context of Romania. It is important to understand the motivations and the essence of the radical programme of hospital closure realized by the Romanian Ministry of Health. In the light of an in-depth documentary research the study looks at the issues raised in the pre-amalgamation phase by public sector entities combinations at four main levels: drivers, the expected social impact, typology and purpose of the analysed amalgamations. Thus, the following section of this paper summarizes the reform and the current strategies in Romanian health system, before reviewing the literature devoted to hospitals amalgamations. The next two sections present the methodological approach

and the research results. Finally, in the last section of the study we draw conclusions and offer suggestions for future research.

2. REFORM IN ROMANIAN HEALTH SYSTEM: ANALYSIS OF CURRENT STRATEGIES

In Romania, public health assistance is guaranteed by the state and protection of public health is an obligation of public authorities. Thus, the health system is organized both at central (Ministry of Public Health) and county level (42 county public health authorities). In the last two decades, this country has gone through three main periods of health system reforms, which have occurred alongside great political changes and under the influence of different international organisations (e.g. IMF, EU and World Bank). These three periods are: from 1989 to 1996 (after the revolution), between 1997 and 2005 (the introduction of the health insurance system) and after 2006 (Health Reform Law from 2006). In the context of good governance and NPM, the government has currently developed a strategy to strengthen the focus on a comprehensive reform process for spending cuts in the public sector. The restructuring and rationalization of public health system are considered as priority tools for improving control of expenditure. Moreover, they represent the basis for the preparation of a new loan from the World Bank, based on results (Result-Based Financing).

The essence of the current reform (i.e. Health Reform Law from 2006), consists mainly in reaching a modernized and better performing health system through restructuring and reorganization of hospital services. There are medical and economic arguments for including the hospitals on the list of reorganization. Thus, the reform refers to the reorganization of small and inefficient hospitals. Additionally, it refers to the hospitals with debt and which need financial support. The policy initiatives also include: sustaining the development of a private health insurance system, increasing the efficiency in the provision of health services by reducing costs at the hospitals level, providing an adequate financing of the medical system, and decreasing the corruption in the health system. Furthermore, the reform focuses on the management decentralization process and the accountability of local authorities towards the health needs of the population in the concerned areas. In particular, there is an emphasis on 8 regional authorities and changes in the line of authority.

The government acknowledges the importance of health sector, considering that it has increased the public funds available for this sector in the last years, especially after 2005. However, the health system legislation is very instable, considering that the regulations are amended and supplemented frequently, having consequences in management decision-making process.

In accordance with art.188 of Law no.95/2006 on healthcare reform, as amended and supplemented, hospitals are public institutions financed from their own funds and operate on the principle of financial autonomy. Moreover, since 2011, the unprofitable hospitals with beds that are not able to meet certain conditions do not benefit from the contract with the National Health Insurance House. Thus, due to lack of funding the local authorities were put in the position to close some of the public sector entities. In 2011, according to a project of the Ministry of Health that was part of the reorganization of the hospital system, from 435 hospitals with beds that existed in that period, 182 units were proposed to be closed. In accordance with this project, 111 units are proposed to be reorganized through amalgamations as outer sections and the rest of 71 units will be changed in homes for elderly persons or permanent health centers. These institutional changes have continued to take place against a backdrop of bad press. Thus, a purpose of the study is to assess the level of planned and on-going amalgamations activity within the Romanian public health sector two years after the project implementation.

3. A RESEARCH BACKGROUND ON HOSPITAL AMALGAMATIONS

The phenomena of entities combinations appear in both the private and public sectors, also known as “mergers” and “amalgamations”, both having the same meaning. The research of private

hospitals mergers and acquisitions has demonstrated that in the long term most of these events often produce little financial benefits (Dafny, 2009; Harrison, 2011). This is also acknowledged in the recent body of literature on public sector healthcare amalgamations (Fulop et al., 2002; Gaynor et al., 2012; Ahgren, 2008). For instance, Gaynor et al. (2012), after analysing the hospital mergers between 1997 and 2004 in UK, conclude that public sector performance does not improve due to a merger. Moreover, labour productivity does not rise and financial deficits increase. Fulop et al. (2002) also argue that mergers, amongst London-based NHS trusts, have unintended negative consequences, and the evidence for the actual benefits of these mergers remains patchy and contradictory. This view is supported by Ahgren (2008) who uses a questionnaire to assess the various responses of 498 employees regarding the merger of Blekinge Hospital from Sweden. His study concludes that the merger has neither generated economy of scale advantages nor substantial quality improvement. However, there should not be drawn any parallels between the research findings regarding the hospitals amalgamations from the public sector and the hospitals mergers and acquisitions from the private sector, because these two sectors operate in very different environments (Cereste et al., 2003:8).

On the other hand, there are researchers who sustain that amalgamations bring benefits. For instance, Markham and Lomas (1995) suggest four main types of potential amalgamations' benefits: economic and financial; quality of services; human resources; and organisational and managerial benefits. In addition, there are different obstacles of bringing different public hospitals together such as organizational culture (Denis et al., 1999). Other researchers have focused also on the role of management in organizational change (Kotter, 1996; Gillett, 2000). In addition, it is important to examine the amalgamations both in the pre-amalgamation phase (e.g. Choi & Brommels, 2009) and in the post-amalgamation phase (e.g. Gauld, 2003; Gaynor et al., 2012).

The majority of studies in this area of research analyse also the impact of drivers on public hospitals amalgamations. The available literature suggests that these drivers fall into three main categories: economic and financial drivers (Dranove & Lindrooth, 2003; Fergusson et al., 1997), clinical quality (Bogue et al., 1995), and political drivers (Gulland, 2001; Choi & Brommels, 2009). Additionally, there are usually "unstated drivers" that only appear once the merger is in progress (Fulop et al., 2002). Based on this fundamental idea, theories emphasizing single-factor motivations (such as the need for resources, power, legitimacy, or greater efficiency) are incomplete; a multiple-factors approach provides a more satisfactory basis for theory development (Campbell, 2009).

All these studies prove the fact that combinations of hospitals which occur in the public sector are common events. The mimetic, normative and coercive institutional pressures require a high degree of conformity, especially in public sector (DiMaggio & Powell, 1983; Frumkin & Galaskiewicz, 2004). Thus, new institutional theory through the lens of NPM plays an important role, considering that public sector entities combinations have been seen as an example of this public sector management reform (Kitchener & Gask, 2003). Considering this, the majority of researchers use this theory in analysing the hospital amalgamations from the public sector (e.g. Choi & Brommels, 2009).

4. METHODOLOGICAL APPROACH

The paradigms of public policy-making (NPM and good governance) through the lens of new institutional theory offer so far the best explanation for combinations of public sector institutions. According to this approach the primary reason for amalgamations are the paradigms of public policy-making mentioned above, which inspire mimetic and normative pressures upon the government (Shah et al., 2010). Thus, this study is based on new institutional theory and investigates the amalgamations of healthcare system in the context of NPM and good governance.

The vast majority of researches concerning combinations of entities present these events both in the pre-amalgamation phase (e.g. Choi & Brommels, 2009) and in the post-amalgamation phase (e.g. Gauld, 2003; Gaynor et al., 2012). This research is concentrated on the wave of public hospitals in the pre-amalgamation phase that have occurred between 2011 and 2012, using a

qualitative approach. For showing the particularities of these amalgamations the study uses primary resources documents and it is based on a content analysis of 25 Government Decisions from 2011 to 2012.

The Law no. 95/2006 on healthcare reform is the legislative framework for the reorganizations (including amalgamations) of hospital system. According to this law, as subsequently amended and supplemented, the public hospitals under the Ministry of Health shall be set up, respectively, are dissolved by Government Decision. On the other hand, all Government Decisions have Substantiation Notes, which are legal instruments of presentation and motivation of the legislative acts and ordinances (simple and emergency). Thus, the data are collected from all the Government Decisions and Substantiation Notes regarding hospital reorganizations that are available on the Romanian Government official site. Additionally, the research implies the content analysis of these documents and data analysis methodology. The examined elements in the paper are: county, factors, social impact, typology, drivers and purpose of analysed amalgamations. We have chosen these elements, because they represent the main issues that are included in the Government Decisions and they are important in analysing the pre-amalgamations phase. For instance, the financial, clinical and political drivers are very much presented and debated in the research literature (e.g. Dranove & Lindrooth, 2003; Fergusson et al., 1997; Bogue et al., 1995; Gulland, 2001; Choi & Brommels, 2009).

5. PRE-AMALGAMATION PHASE: ANALYSIS AND RESEARCH RESULTS

Even though in 2011 the Ministry of Health has made public a list of 111 proposed amalgamations of hospitals, only 30 of them have occurred in Romania between 2011 and 2012. These events led to around 6.89% of hospitals disappearing from 19 counties (Figure 1). The amalgamations, given the focus on removal of spare capacity, have occurred more in urban areas than in rural ones. All the combinations from the analysed period are involuntary and are selected on territorial criteria and depending on the distance, the specific health services for the intended purpose of efficient use of human and material resources in order to enhance public health services.

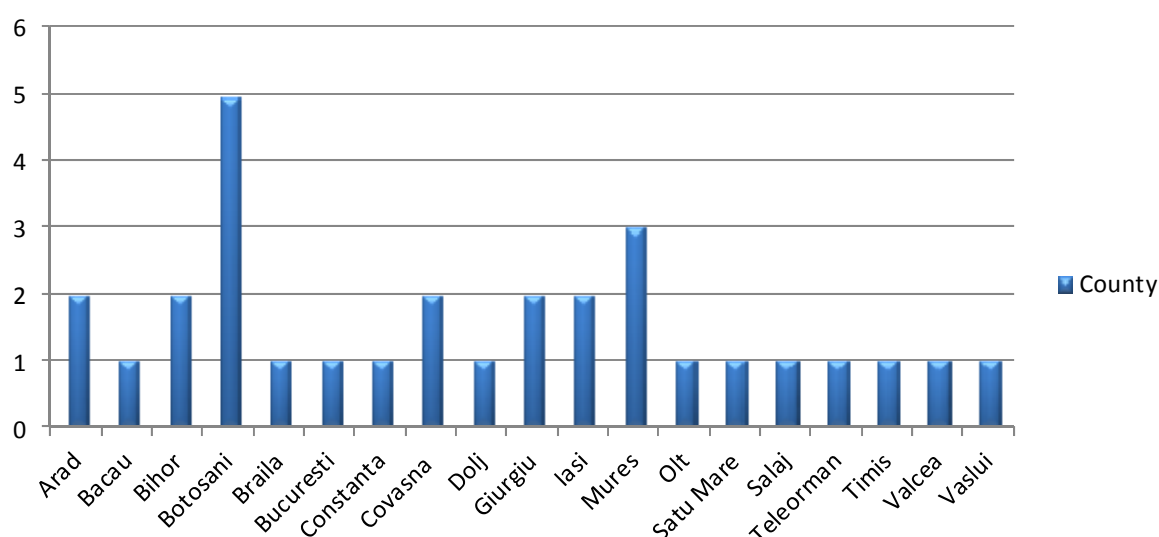


Figure 1. Number of hospitals amalgamations by county

Source: Authors

The findings reveal the fact that the absorption is the predominant typology of Romanian hospitals amalgamations (there is only one merger). On one hand, the majority of acquiring institutions (79.31%) are emergency hospitals - general hospitals with county residence; complex

surgical specialties; and emergency receiving units that provide medical and surgical emergencies and specialized medical assistance, including serious cases in the county that cannot be solved at the local hospitals level. On the other hand, most of the acquired institutions (61.29%) are specialized hospitals - the hospitals that provide medical care in a specialty in conjunction with other complementary specialties.

Additionally, there are seven health centers, three institutes, a sanatorium and a preventorium, which participate in the amalgamations process (Figure 2). According to the law on healthcare reform, the health centers represent units with beds that provide specialized healthcare in at least two specialties for the people in several nearby localities. The institutions represent the specialized healthcare units and activities with teaching and scientific research, medical, methodological guidance and coordination in their fields and continuing medical education. The sanatorium is a health unit that provides nursing beds using natural healing factors associated with other methods, techniques and therapeutic means. Finally, the preventoriums are health unit beds that provide prevention and combating of tuberculosis for children and young people, as well as for tuberculosis patients clinically stabilized and noncontagious.

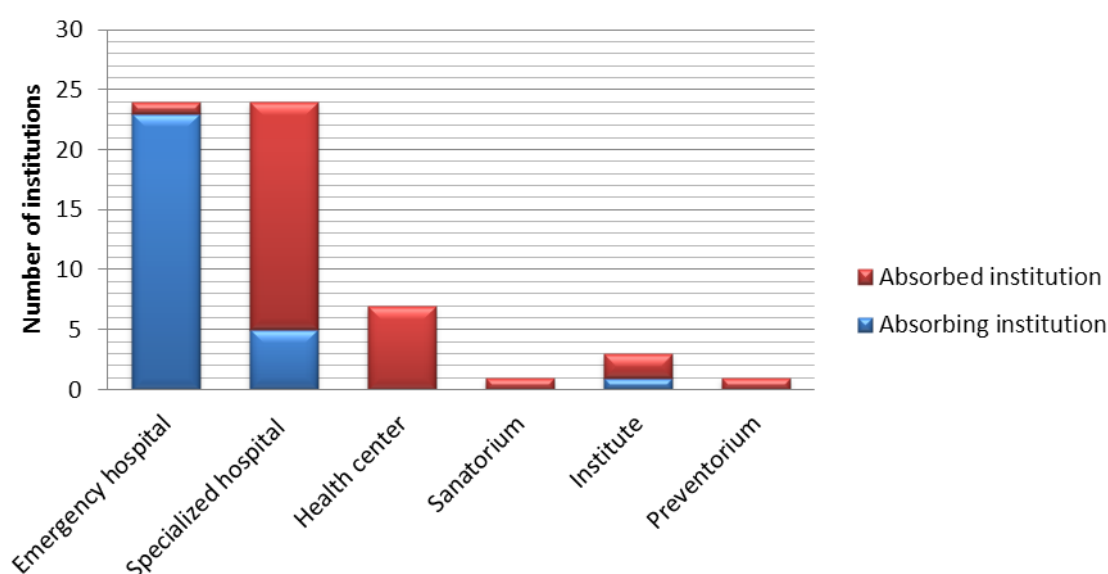


Figure 2. Number of amalgamations by type of hospitals

Source: Authors

Centralized data also show that generally the amalgamated hospitals are managed by local authorities, especially by county councils (Figure 3). There is only one amalgamation in which both the absorbing and the absorbed institution are subordinated by the Ministry of Health. The management of healthcare provided in Romanian hospitals with beds can be transferred from one public authority to another public authority, by Government Decision, with the agreement of both parties. Considering this, the analysed combinations involve bringing two or occasionally more independent public hospitals into one, with the removal of management from one public authority to another public authority. Furthermore, the technical, economic, administrative and maintenance staff which operates in the health units which are dissolved, is taken by the absorbing units. The reorganizations as well as organizational structure of resulting hospitals are approved by the administrative directors of the institutions, with the approval of Ministry of Health within 30 days after the enforcement of the Government Decision.

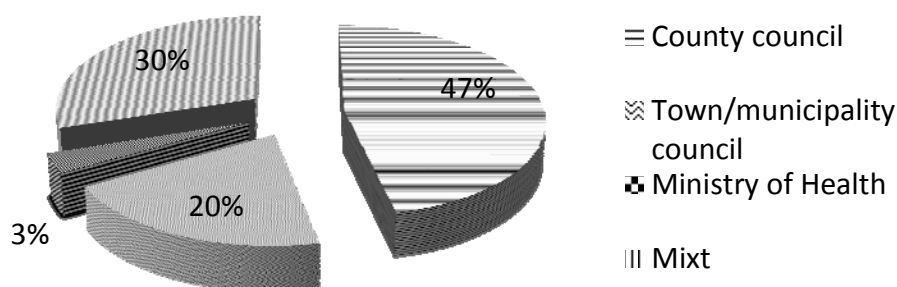


Figure 3. Number of hospitals amalgamations by subordination

Source: Authors

Due to lack of funding, local government strategy, both in the short and medium term, aims to identify solutions to reduce maintenance and other operating costs of hospitals. In addition, the local authorities aim to improve the technical basis in hospitals from the municipality network, by integrating the existing services or newly created ones. More specifically, the expected changes include: optimizing medical activity in terms of economic efficiency; reducing the staff costs; efficient use of public services; classifying the amalgamated hospitals in a higher category; reduction of management positions; patients will be treated for different diseases within the same hospital; and achieving a management capable of the best use of existing financial resources, according to the county's health policy and of the objective priorities outlined in the demand of health services (Figure 4). The government also expect to have a unitary organization of activities, structures that will meet the demand for medical and complex surgical services and to achieve efficient hospitals with complex surgical specialties able to provide healthcare to patients from the county.

As can be observed, the financial pressures are important drivers of amalgamations during this period. Also, the expected social impact of these events is the belief that the reconfiguration of public services will improve the quality of medical services provided to the population and will provide unconditional access to medical services provided to policyholders. The results of this paper are consistent with other studies from the available body of literature regarding hospitals amalgamations. Thus, in the context of Romanian hospitals amalgamations, there are also economic and financial drivers (Dranove & Lindrooth, 2003; Fergusson et al., 1997), clinical quality (Bogue et al., 1995) and political drivers (Gulland, 2001; Choi & Brommels, 2009).

Taken together, these results suggest that the Romanian health system is influenced by the public-policy paradigms (NPM and good governance). The elements of good governance that are mirrored in the Government Decisions regarding the analysed amalgamations are: transparency, lawfulness, sustainable growth, public sector efficiency, citizens' satisfaction, participation and accountability. Also, there are elements of NPM such as: decentralisation, effective management and performance orientation. Additionally, there is an extensive government role (with the influence of international organisations), considering that the reform strategy is a central issue of government's overall policy. Due to the lack of financial and human resources, local government and county councils have a minor influence on health policy development. Thus, whether a hospital in Romania is amalgamated or not depends on financial and clinical performance, as in the private market, but also on national political and legislative measures.

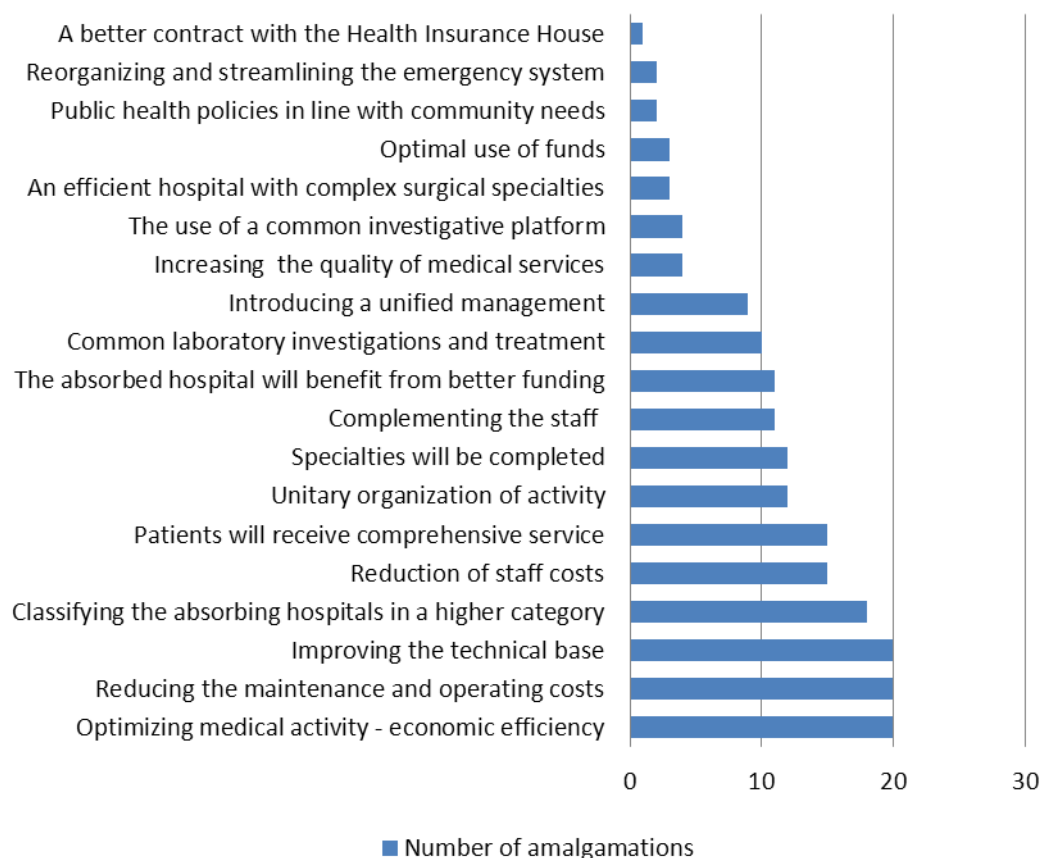


Figure 4. Number of hospitals amalgamations by expected changes

Source: Authors

6. CONCLUDING REMARKS

In summary, the Romanian government undertook a radical programme of hospital closure between 2011 and 2012, which resulted in 30 hospitals amalgamations that were co-located geographically. The research findings of this paper provide a practical insight into the concerns and challenges of hospital amalgamations in the pre-amalgamation phase in the context of reform process in public health system. The Romanian authorities use for this reform decision a top-down approach. Thus, the reorganization of these public sector institutions is part of the Ministry of Health strategy of hospital system efficiency and of a system in which the entities meet the requirements of current health.

Although the current study is based on a small sample of amalgamations and focuses only on the pre-amalgamation phase, the findings suggest that the government (influenced by international organisations) has an extensive role and the political and financial pressures are the dominant drivers of amalgamations during this period in Romania. Therefore, the results of this paper are consistent with those of other studies and suggest that amalgamation decisions in the public sector may not necessarily result from stated and economic drivers only (Fulop et al., 2002; Choi & Brommels, 2009).

According to Government Decisions regarding hospital amalgamations, the rethinking of local governance in health system offers essential opportunities for public hospitals to enhance the public health services and to be strategic in the local reconfiguration of these services. Based on this fundamental idea, further research needs to be done to assess the effectiveness of this strategy and to establish whether in the case of Romanian hospitals, the configuration of the health system by government and local public authorities results in the promised gains. On the other hand, the amalgamations of institutions have happened relatively often in the worldwide public sector in recent years and it is expected that these kinds of public sector combinations will continue to

happen in the future. Thus, future studies may wish to explore these events using a cross-country perspective.

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