Public hospitals: Higher competition results in better management and higher performance levels

A new study published online in The Review of Economic Studies shows that stronger competition results in better management quality and higher hospital performance in the English public hospital sector. Adding a rival hospital increases an index of management quality by 0.4 standard deviations and increases heart attack survival rates by 8.8%.

In every country, healthcare costs have been rapidly rising as a proportion of national income and as a result there is great emphasis on improving efficiency. One possible lever to achieve this is through competition, which may put pressure on hospitals to improve management and therefore raise performance standards.

In this new study, Professor John Van Reenen and colleagues at LSE’s Centre for Economic Performance analyse the causal impact of competition on management. They looked at 100 NHS hospital trusts in England, interviewing a mixture of clinicians and managers in cardiology and orthopaedics. They covered 61% of all NHS providers of acute care in England. The measures of hospital performance included clinical quality, staff satisfaction, length of stay, waiting times, infection rates, and government regulator assessment. The clinical outcomes used were the in-hospital mortality rates following emergency admissions for heart attacks (acute myocardial infarction – AMI) and surgery.

The study uses a novel “natural experiment”: political marginality. Closing hospitals in areas where the governing political party is expecting a tight election race is rare due to fear of electoral defeat. After controlling for demographics like age and population density, these marginal constituencies tend to have a greater number of hospitals and therefore more competition.

This study shows that adding one extra hospital in a neighbourhood significantly improves management, and reduces death rates by 8.8%.

“We have found that competition improves a core set of management practices that are likely to improve hospital productivity. However, a concern is that ‘better management’ in these indicators may not actually improve welfare in a public service environment,” comments Prof Van Reenen. “For example, smarter managers may simply be able to better game the system, meet formal targets, and improve hospital finances without improving clinical outcomes. It is reassuring that in our findings,
outcomes for patients and workers as measured by emergency AMI survival rates and staff turnover rates also improve, suggesting that the benefits of competition are widely shared.”

He added: “The reforms of the mid-2000s that increased patient choice in an environment of high NHS investment seem to have benefited patients and staff. Allowing competition of public sector hospitals on quality, but not on price was important for this policy success. It is very unclear whether recent reforms to decentralise NHS budgets to Clinical Commissioning Groups in the context of very tight NHS spending will increase competition or performance in the same way.”

For further information, or to request a copy of the paper, please contact:
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Notes:
‘The impact of competition on management quality: Evidence from public hospitals’ by Nicholas Bloom, Carol Propper, Stephan Seiler, John Van Reenen

*The Review of Economic Studies* aims to encourage research in theoretical and applied economics, especially by young economists. It is widely recognised as one of the core top-five economics journals, with a reputation for publishing path-breaking papers, and is essential reading for economists.

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