2. Hospital decision-making

I am Pedro Pita-Barros, a professor of Economics at the New University of Lisbon. I have worked in health economics for over 20 years. We apply economics to the health sector. It is usually fun, challenging and always a pleasure to deal with all the disciplines that are involved in the discussion. One topic in health economics is hospital organization. It is very often said that hospitals are like companies and you can apply the same concepts to companies and hospitals. That is not an accurate depiction of what happens in a hospital. One of the particular features that we see in hospitals is that there are 2 chains of command: 2 different sources of power inside the organization, which you will not find in companies. In a company you clearly have a CEO the boss – who can be the owner – then the managers and workers. You have several layers. It is a clear chain of command. You know that the board gives the instructions, that middle managers implement the board's instructions and then command the workers beneath them. It is clear who runs the show. You know that the board's instructions will go all the way to the workers. We have a clear, common and controlled structure for companies a clear definition of power in terms of who decides what to do and when. When you look at a hospital things are quite different because there are two sources of power. Both are legitimate sources of power. One, we have the administration performing the role of managers in any other company. They have to form a board, decide on the use of resources and find resources to finance the activities they want. They have their own structure within a hospital: there is the board, middle managers, maybe other managers below them. But there is another source of power: clinical decision-making. Clinical decision-making is the power of doctors. They decide what to do for each patient and which treatment is applicable to them. They do this with little regard for the cost of the treatment for each patient. We do not want doctors, when they have to decide whether to give a treatment or not, to think of the cost of treatment for a particular case. We want them cost-conscious but when making a decision for a patient we want them to use their expertise to decide the best course of treatment. There is a clear chain of authority going from senior doctors to less senior doctors and sometimes to nurses who are given orders to help the patients or even to auxiliary personnel on things they should do. That power has nothing to do with administrative power: is it based on their knowledge. If you think about it you do not want a surgeon, when operating on someone, for a heart surgery to wonder which administrator will sign the order for a different pacemaker than they picked initially. All the issues related to clinical decision-making are handled separately from the administrative decisions. That source of power does not exist in companies. In a regular company, no one has the power to decide what to do regardless of what management thinks. That makes a huge difference in the way hospitals operate compared to how a company operates. It is hard for a manager to tell a doctor they should take a certain action for a certain patient. If you want doctors acting in a coordinated way with a certain pattern of treatment for everyone you can create clinical guidelines which are a consensus between doctors who have the same expertise and try to take into consideration all aspects including economic aspects. But when it comes to a patient you actually ask the doctor, under those guidelines, to decide to follow them or not. Even with those guidelines coming from the clinical side they can still make a different decision on an individual case. This makes them behave differently than they would be expected to in a company. Anything tied to the core structure of a hospital is going to be very different from a company.

- The policies you have in a company along with the incentives and payment structures would not necessarily work in a hospital. The same goes for human resources and the acquisition of consumables – everything tied to administration.
- The best way to think of a hospital is probably not as a company due to these two sources of power which are documented in the literature but to think about the hospital as a place where people demand resources – the clinical decision-makers who need resources to treat patients – and you have another group, the administrators who try to give the resources the doctors want for the patients. In hospitals there is bargaining and negotiation between these two sides between the managers with administrative duties finding money and ensuring it is well-spent and the hospital decision-makers, the clinicians trying to use the resources they have and claiming more resources if needed by negociating with the other side. This makes the hospital more like a market with negotiation between parties but without a price involved. Thus when thinking about structuring incentives in a hospital and organizing a hospital you have to keep in mind that this is not a company but something different. That implies the usual mechanisms used in companies may not work well in hospitals. That is also why sometimes we see doctors acting as managers can obtain better management results than managers without medical decision-making knowledge. Doing so creates a good environment to apply economics differently than we usually do. Think about hospitals as particular organizations with two sources of power negotiating resources between one another.