

# DIAGNOSIS OF ORGANIZATIONAL EFFICIENCY AS A CONDITION OF CHANGES IN PUBLIC MANAGEMENT (on the example of public hospitals in Poland)<sup>1</sup>

Joanna JOŃCZYK\*, Wioletta WEREDA\*\*

**Abstract.** *The aim of this study is to analyze and evaluate the organizational efficiency of one from public hospitals in Poland in the context of governance improvement. The introduction of health care reform in Poland in 1999 changed the perspective of the functioning of the public hospital and that had to deal with the new conditions and institutional – economic environment. Case-study indicates that the hospital accepted the inevitability of continuous adaptation to the requirements of the environment. It learned to react to signals surroundings, made numerous changes in the organizational structure and introduced new management techniques, such as quality management and outsourcing. Moreover, the hospital accepted the inevitability of the proceeds of the National Health Fund (NFZ) as the primary payer in the new health care system. It can therefore be concluded that the organizational changes that have occurred in the hospital over several years after introduction of the reform significantly improved the management in the facility.*

**Keywords:** *organizational structure, management methods and techniques, relations with stakeholders, performance management, public hospital.*

## 1. Introduction

A breakthrough in the health care reforming in Poland was the transformation of health care units and budgetary entities providing health services by the reform in 1999 in the independent public health care facilities (SPZOZ-y). In this way, these units were given a legal personality, which to some extent enabled them to freely manage their resources. At the same time for those entities reform has forced management changes, raising issues of efficiency and effectiveness of the

---

<sup>1</sup> This paper is financed by the National Science Center awarded on the basis of Decision No DEC -2011/03/B/HS4/04544

\* Faculty of Management Białystok University of Technology, Poland

\*\* Military University of Technology in Warsaw, Poland

operation in the new conditions. In these circumstances of particular importance have become established relationships with many stakeholders, such as local authorities, state authorities: the Government, the Parliament, the Ministry of Health, the patients, the National Health Fund, suppliers or other medical facilities. The multiplicity and complexity of these relationships, mainly related to the heterogeneity of expectations of stakeholders, for years did not facilitate the smooth operation and process of change, having the capacity to improve hospitals' functioning. Among the determinants of improvement hospitals most often indicate a change in strategy, organizational structure, operational management, including methods and techniques of management or changes in the relationship with the environment. It should be noted, however, that ad hoc actions are not enough. It is necessary to accept the need to constantly adapt to the requirements of the hospital environment, as well as the development of a culture of change. It is therefore a deliberate action towards "desirable" change, and not independent of the managers result of change. The aim of this study is to analyze and evaluate the organizational efficiency of one of the public hospitals in Poland in the context of improving governance. Subjected to empirical verification, in particular, were issues related to organizational structure, methods and techniques of change of management and relationships with key stakeholders recognizing these elements of management (as literature describes) for strategic success from the perspective of the hospital.

## **2. Theoretical aspects of organizational efficiency**

It is common to say that the organization is an ordered system, which includes the objectives and functions performed by the organization and the resulting tasks, human resources (with their competencies, values, norms and motivations) and physical, financial and information resources, providing an orderly and efficient system of organization is such a design that all the components are internally integrated [1]. Such integration should provide the organizational structure. It reflects the division of labor used and the relationship between the different functions and activities. It also specifies the structure of the hierarchy and power within the institution and shows the layout of responsibility. Generally, organizational structure consists of two basic elements: labor – that is organizational roles and relationships between them – i.e. organizational ties. In the context of

organizational ties the most authors point to the so-called classical or hierarchical structure [2]. Public organizations frequently point to the structure: linear and functional. The essence of the linear structure is the relationship of official organizational bond. Each subordinate is subject to only one supervisor and only his/her command is required to perform tasks. At the same time a manager is responsible for the whole operation run by his/her cell and has the appropriate decision-making powers. Therefore, the linear structure overlaps function and the functional relationship. In turn, the functional structure is dominated by a functional relationship. From the point of view of management, the functional structure allows managers to make decisions based on the system; centralized and hierarchical. Managers are typically promoted within the levels of the organization and have a high technical knowledge in their specialization. Each executive is subordinate at the same time to a number of superiors specialized in the field of well-defined functions. In contrast to the linear structure, it lacks a single manager. This situation requires close cooperation of specialized managers, mutual trust and understanding, effective communication skills, conflict management, which in practice is not easy [3]. In modern conditions the classical organizational structures with static divisions of tasks no longer meet their duties and even began to limit the development of the organization. Therefore, organizations, including hospitals, place new structural solutions, including flexible structures. These structures are in contrast to conventional structures that are characterized by certain characteristics different from those of conventional structures, such as multidimensionality, meritocracy and adhocracy. *Multidimensionality* is a departure from the traditional business ties supporting the functional structure and the introduction of flexible organizational links in the vertical and horizontal systems of interdependence. *Adhocracy* is characterized by fluidity and flexibility of organizational roles and structural solutions. In contrast to the formal, hierarchical systems adhocracy proposes setting up teams for solving one-time tasks. In turn, *meritocracy* is the dominant consideration of the importance of competence in flexible forms of organization created [4]. In the literature of flexible structures, the most frequently mentioned types such as divisional structure, task, matrix, hybrid, which provide a greater opportunity for staff development, a greater opportunity to influence the

decisions of the organization or a sense of commitment to the organization. With the efficiency of the organization it also involves the selection of appropriate management methods and tools. Nowadays in solving these problems, organizations use the help of new methods, such as: *Lean Management*, *Reengineering*, *Total Quality Management (TQM)*, *Benchmarking* or *Outsourcing*. *Lean Management* is about slimming production system and management system. The need to "lose weight" by enterprise occurs when, for example, the level of employment is too large relatively to the level of service performance or production, or when we are dealing with the phenomenon of over-investment, or complex and crucial organizational structures. *Reengineering* is a restructuring procedure, which involves a radical and comprehensive redesign of processes in an enterprise, in order to achieve significant improvements in the functioning of the company, using modern information technology. It aims to optimize the functioning of the company, taking into account three basic criteria: quality, cost and time of implementation. This concept requires a transition from the orientation of the enterprise functions (goods) to the orientation towards processes to then focus on the most important processes – particularly those that are related to customers and external suppliers. *Total Quality Management (TQM)* is a system of quality control that holds the entire organization. Quality control should be organized as to the qualitative side appreciated the work of individuals and teams of people. In addition, the quality must take into account the needs of the buyer, and not just the internal interest of the producer. *Total Quality Management (TQM)* provides, inter alia, involvement of all employees, making evolutionary changes. The main factors accented by TQM include: the pursuit of external customer satisfaction, the pursuit of internal customer satisfaction, through the delegation of authority and powers, appropriate management styles, a system of penalties and rewards, motivation, exploit synergies, striving for continuous cost reduction quality, emphasis on prevention and reducing to a minimum the quality control, quality assurance treatment systems as substrates for building a quality philosophy, emphasizing leadership and its role in the process of change. In turn, the concept of *benchmarking* goes back to the eighties of the 20<sup>th</sup> century. In European Union countries, it can be seen since the early nineties of the twentieth century, when formed systems of information gathering and exchange of

experience in public administration become popular. This method involves the systematic comparison of similar products, processes or functions to best practice in the field. In February 2001, it was created by Public Sector Benchmarking Services (PSBS) – a system of collection and exchange of information on good practices, distinguished by internal and external benchmarking. The first one consists in comparing the methods used within one organization or between subsidiaries, plants in a multisite organization. Internal *benchmarking* inspires learning and may include a comparison between the different organizational units (departments, faculties) and between employee teams. The comparison can be done for the organizational or functional aspects, methods and ways of working. The objective is to find the so-called best domestic policy. External benchmarking involves comparing one organization to another, the best in the field or in a particular geographical area. This type of comparison serves three purposes: to allow for the assessment of the organization in relation to other entities, determination of the strong and weak areas of functioning, and suggest directions for modification. The most common methods of change management in the public sector, especially in health care, should be *outsourcing*, as a concept of improvement in the functioning of the organization. In its essence, it should be carried out before all actions, to reduce the cost of products or services offered to customers, and it relies on the use of services, semi-finished products, which proposes an external producer-bidder [5]. The aim of *outsourcing*, in the most general terms, is to increase the effectiveness and efficiency of operations. As a result of this method a reduction of the organizational structure takes place in the part undertaking and consequently simplifying organizational structures and procedures resulting in the improvement of management. Shifting part of our services to partners from outside can bring together different benefits, of which the main ones are: improving the organization of work, reduction in personnel costs, reduced capital costs, reduced operating costs associated with infrastructure (operators do not have to organize their own departments, to invest in equipment and people), greater competitiveness, and improving quality and efficiency of services with the ability to focus on key tasks for organizations [6]. Moreover, the use of outsourcing allows management to focus on strategic actions in the organization [7]. In turn, among the risks of outsourcing

most often indicated are: the wrong choice of an external company, wrongly worded contract, lack of acceptance and support from the management and staff for the services unbundled externally, for breach of contract by an external company, separating out the services connected to the redundancies performing these services in the organization. It should be noted that this method has been widely used in the process of restructuring of independent public health care.

The last issue subject to theoretical considerations is the relationship between the organization and the environment. In the environment of the organization can be distinguished two layers, namely the general environment (further surrounding) and purposeful environment (direct surrounding). The general environment includes terms in which the organization operates. Most often points to find items such as political, legal, economic, cultural, technical, technological and psychological circumstances. It is setting the environment which has a direct impact on the organization from other organizations, groups and individuals associated with the organization. In the literature it most often belongs to the elements such as customers, suppliers, resources necessary for the functioning of the organization, competitors, public institutions (government, local government), regulators (e.g. government agencies, interest groups, trade unions), strategic allies. Any organization functioning in conjunction with the environment from which it takes resources, enters them interact to form inter-organizational relationships [8]. Organizations, particularly public, are influenced largely by outside environment. This is mainly because of their mission, which is to respond to social needs as closely as possible. It should be noted that in connection with the exercise of their functions, these organizations belong to the state, they are funded and controlled. This causes even greater instability of surrounding public organizations, mainly through continuous changes in the levels of government and the associated changes to the objectives, priorities, and pressure for quick results [9]. Therefore, it allows organizations to function effectively; they must interact with the environment. For every environmental factor diminishes the ability of the organization to acquire the necessary resources (human and material, financial) or to produce and market their products (services) is the force that causes change and the need to respond to it, on which will depend the success of the organization [10]. Illustration of the theoretical

part of the study is to analyze the following organizational efficiency in one of the public hospitals in Poland.

### **3. Organizational efficiency of public hospital – a case study**

Studied district hospital is a separate organization of health care facility that implements the provision of primary care and specialist care. The organization is independent and self-supporting with a legal personality based on an entry in the register of independent public health care facilities. It should be emphasized that the hospital is a public organization, which implies the management of the entity. We cannot speak of a simple transfer of management methods in the private sector to the public hospital, because it is characterized by specific features. First, the objectives of the hospital as a public organization are numerous, multi-dimensional and often difficult to reconcile, for example equality and efficiency. Second, the public hospital is subjected to excessive influence of political parties, interest groups and the mass media [11]. Thirdly, it is characterized by different success criteria - they are not financial criteria, but social – health, well-being and continuous care. Fourth, implementation of management in this organization is held in strict framework of the law, which makes it necessary to reconcile the effectiveness of the principles of legality action [12].

The basic tasks of the hospital are associated with the performance of services in the field of primary care, stationary and outpatient; emergency; diagnostic testing and prevention. Organizational functions are carried out by the following organizational units:

1. central emergency room;
2. emergency rooms located at various hospital wards;
3. wards (obstetric-gynecological neonatal, general surgery, internal diseases of intensive care beds, a division of rehabilitation, children);
4. operating theatre;
5. lab, serology and blood bank;
6. *pro-mortem* room;
7. hospital kitchen;
8. specialized clinics: surgical, ENT, ophthalmology, mental health, neurological, dermatological; tuberculosis and lung diseases,

rheumatology, orthopedic, endocrinology, cardiology, rehabilitation, for women, pain treatment;

9. administration-section of medical statistics, accounting section, section of personnel matters, administrative sections – technical section, organizational section, science section.

Hospital is headed by a Director, cooperating with Financial and administrative Deputy Director, and Medical Deputy Director (if needed). Nursing, Chief Accountant and wards coordinators are performing the tasks arising from the orders of heads of organizational units of the hospital and specialists and persons holding independent positions in the hospital. Advisory body, as in any independent public health care institution is so-called Social Council, which is primarily an advisory body to the Director. The opinion of management of internal processes in the hospital is not valid. Most processes require improvement, in particular, the planning and decision-making by managers. The study shows that in the hospital there is no determination of medium-term and long-term plans. Currently, planning is associated only with plans of NFZ (short-term) and this process is not subjected to systematic analysis and evaluation. In addition, respondents indicated the need to increase the independence of the hospital board in determining courses of action, and to increase the participation of second-level managers (directors of functional divisions) in these activities. At the same time the management of the hospital is becoming more and more aware of the need to use external experts to participate in the planning of the strategic management of the hospital. In the case of the lowest management level (heads of organizational units) to enhance their role and importance, most visible actions should take place in the areas of coordination and accountability than in the planning of activities. Directors appointed that divisional organizational superiors of missions are all managers and subordinates included in the division. They also perform functional supervision over the activities of posts and organizational units of not subordinate business, but pursuing the tasks corresponding to the specialty of division director. The formation of functional divisions resulted in creating two major roles: the role of supporting staff in relation to the chief of the hospital authorities and the role of counseling and supervision in the field of functional specialization carried by cells outside the vertical organization. Generally, the characteristic feature of the organizational structure of the hospital is high

formalization and bureaucracy and the presence of a variety of decision-making procedures. From the point of view of the management structure, the functional divisions enables informed decision making based on centralized and hierarchical system. Managers are typically promoted within the levels of the organization and have a high technical knowledge in their specialization. On the other hand, the structure is very flexible and does not have a high risk tolerance, which limits the ability to efficiently respond to the needs of the environment and the ability to take innovative action. At the same time in the hospital there is a greater focus on the rules and procedures rather than on results, which results in a significant formalization. The basic internal documents at the hospital include: statutes and organizational scheme adopted by the founding body (district/county-poviat) and the documents adopted by the director of the hospital: staff regulations and rules of remuneration. Changes in the above documents shall perform bodies forming them. It should be emphasized that hospital staff is acquainted with these documents and the changes occurring in them. At the same time the hospital did not have a manual flow of documents, which results in frequent inconsistencies between the different procedures and complicates efficient decision making. Interviews suggest that most of the information and commands are transmitted through official channels, in writing. After 2000, hospital organizational structure has undergone changes to adapt to changes in the environment (legal, economic, technological). Structural changes mainly included: the creation of new organizational cells and jobs, elimination of cell organization and jobs, and shifts in subordinate positions. In addition to the transformations in the organizational structure the hospital made the transition in the methods and techniques of management. The studied hospital implemented a quality system (ISO 9001: 2008) and outsourcing. With the introduction of the Quality Management System according to ISO 9001 management pointed to a number of benefits such as:

- Improving the quality of services, ensuring patients the level of care offered may not be lower than that declared by the hospital in the developed quality policy,
- Streamlining and optimizing management processes,
- Increasing efficiency, which in turn will lead to minimize costs and improve the financial condition of the hospital,

- Increased credibility and trust in the hospital,
- Additional points in competitions tenders for contracts for the provision of health announced by the National Health Fund,
- Increasing competition in the market of medical services,
- Improving communication, internal and external, to increase awareness of motivation and commitment of employees,
- Improved cooperation between all parties involved in the process of treating a patient.

Hospital also achieved numerous benefits with the introduction of outsourcing, which took the food service and laboratory diagnostics. Hospital director pointed to the significant improvement of the organization of work, reduction in personnel costs, reduced capital costs, reduced operating costs associated with infrastructure, improving efficiency of medical services with the ability to focus on key hospital tasks associated with the provision of medical services. The last issues subjected to empirical verification in relation to the hospital were examined interactions with the environment. According to the cited in the theoretical concept of stakeholders to the main external entities with which the hospital establishes relationships are: local authorities, state authorities: the government, the parliament, the Ministry of Health, patients, the National Health Fund, suppliers, distributors and other medical facilities and the media. From the point of view of the functioning of the hospital it seem to be the most important relationship with the National Health Fund, founding bodies (local government) and patients. A key stakeholder is the payer - the National Health Fund, which decides what services are to be performed, how many and at what price will the hospital contracted. Although the exchange of information with the NFZ is double-sided, it boils down primarily to issues relating to the execution of contracts. Another stakeholder hospital is its owner, the founding body. This entity inspects and evaluates the activities of the hospital and the work of its director, and in particular the exercise of statutory tasks, the availability and level of service. Local government is expected to hospital on one side offset the revenues and expenditures, on the other hand constantly improving the level of service and patient satisfaction. In the case of an investigational hospital relationships with local authorities are correct, and the hospital is constantly making efforts to improve the functioning

according to the directions established by the county. On the other hand, from a social point of view, the most important stakeholders of independent public health care are patients. In accordance with the constitutional law, patients have a right to health care, regardless of their financial situation, and the public authorities are to ensure equal access to health care services financed from public funds. Examined in the context of hospital-mentioned tasks systematically conducts patient satisfaction studies, the results of which are used in improving the availability and quality of health services. In order to raise the standards of services provided hospital draws attention to the efficiency of organizational solutions (cleanliness, aesthetics) and logistics (e.g. functionality of spaces, time expectations for the visit, the time devoted to it by the staff). Measurable effect of this approach is the quality system functioning in the facility.

#### **4. Conclusions**

Although the practice of management in the audited hospital is only a segment of organizational reality from the point of view of the smooth operation, but allows us to formulate the following conclusions:

- 1) The hospital after the introduction of reforms in 1999 has changed the role of managers from passive administrators to active implementers of strategic goals. Directorate of the hospital is aware of the inevitable changes in the environment and the associated need to make changes within the facility, causing the hospital is open to the new challenges.
- 2) In the hospital after the reform have been numerous structural changes, changes in management methods and building relationships with the environment. These changes were aimed at achieving the objectives of the hospital and in particular the provision of adequate quality while using a relatively modern technical infrastructure, provision of services oriented to the needs of the patient, the constant modernization of existing facilities and equipment, and strengthening the positive image of the institution.
- 3) Tested hospital has a traditional structure resulting from functional divisions. The essential features of this structure are: the formalization

and bureaucracy, which limits the efficient implementation of the strategic objectives of the unit. At the same time, partial changes are gradually taken in the organizational structure designed to lead to a flattening of the organizational structure (e.g. liquidation of organizational and managerial positions) and by increasing the flexibility of its middle management decision-making power and the lowest level power. However, these changes are still very small, although they seem to follow in the right direction, aimed at improving the efficiency of the hospital.

- 4) In addition to changes in the organizational structure, the hospital made a transformation in the methods and techniques of management. The studied hospital introduced two major changes: the quality system (ISO 9001: 2008) and the outsourcing of food services and diagnostics. The information received shows that these processes have led to positive effects: improved the quality of services, streamlined and optimized management processes and increased efficiency, which in turn affected the minimization of the cost and improved the financial condition of the hospital.
- 5) In the hospital setting, the facility should pay attention to many stakeholders, including the strategic role played by the National Health Fund, the founding body and patients. In general, hospital relationships with these entities are positive. The hardest of these is the interaction with the National Health Fund. Although this is a two-way relationship, but NHF dictates financial conditions for medical contracts and for hospital there is practically no alternative but to agree to these terms. In turn, the relationship with the founding body is more affiliate character. As emphasized by the hospital management, both parties depends on good co-operation, in particular, that the operator of incorporation, in the light of art. 59 of the new law on medical activity [13] are fully responsible for the negative financial result of the hospital, in the absence of coverage of it by the same unit. An important for stakeholder of the test facility is also a patient who under market conditions is increasingly recognized by public health care. The results of the study indicate that the hospital systematically shall assess the level of needs and expectations of patients, the results of which are used in improving the quality of services provided by the hospital.

In general it can be said that the changes in the health care system in Poland in the last several years completely changed their institutional - economic reality. Independence, partly limited by the actions of stakeholders (mainly the National Health Fund), restructuring, tough rules of financing, requirement of counting the cost, attention to quality, new relationships with external entities are just some phenomena, unknown to hospitals by the end of the 80's, and which they face after 1999. Bearing in mind that this is just one case study, and it is difficult to generalize these results to other public hospitals, however, there are some common applications for other public hospitals in Poland.

The first-public hospitals have accepted the inevitability of continuous adaptation to the requirements of the environment. Learned to respond to environmental signals and achieve ever greater efficiency in the implementation of change and innovation within the health care system.

Secondly, hospitals have made numerous amendments, which were the most common in the organizational structure and new management methods and techniques. Changes in the structure included the most liquidations organizational positions, including management, setting up teams, committees' ad hoc or permanent, changes in subordinate positions, or ranges of duties. Hospitals increasingly, the model of Western organizations, reach for new methods and management techniques, among which the most popular are quality systems and outsourcing. The practice of Polish hospitals identified numerous benefits associated with the use of these tools in their business, in particular the reduction of personnel costs and operational cost and to improve the quality of services.

Thirdly, the reform changed the public relations hospitals with their stakeholders. Particularly sensitive are contacts with the National Health Fund, which is a strategic contributor for work performed under contracts medical services. At the same time it is important to the quality of those services from the perspective of patients, whose needs and expectations are getting higher, and that public hospitals must face, regardless of financial and organizational conditions of operation.

In conclusion it should be emphasized that public hospitals there is the possibility of creating profits, as in the case of business, so a lack of clear mechanisms to stimulate the improvement of the management. It is necessary, therefore, the search for substitutes which could act as an incentive role in the replacement market mechanisms. The role of such a substitute may act as a strong and wise leadership, which should systematically analyze organizational efficiency in order to continually improve the management of public hospitals.

## REFERENCES

- [1] J. Rouse, *Resource and Performance Management in Public Service Organizations*, [w:] Barnes C., *Management in the Public Service*, London: Chapman and Hall, 1997.
- [2] O. Ingstrup, P. Crookall, *The Three Pillars of Public Management*, DJOF Publishing, Copenhagen, 1998.
- [3] S. M. Shortell, A. D. Kaluzny, *Basics of healthcare management*, University Medical Publishing House "Vesalius", Krakow, 2001.
- [4] K. J. Arrow, S. Bowles, S. N. Durlauf, *Meritocracy and economic inequality*, Princeton University Press, 2000.
- [5] Z. Mikołajczyk, *Managing change in organizations*, Silesian Higher School of Economics Publishing House, Katowice, 2003.
- [6] M. Trocki (red.), *Outsourcing in health care*, [w:] *Management instruments health institutions*, Institute of Entrepreneurship and Local Government Publishing House, Warsaw, 2002.
- [7] D. Brown, *Outsourcing Key to HR Strategic Role*, "Canadian HR Reporter", 2001, t. **14**.
- [8] M. J. Hatch, *Organization Theory*, PWN, Warsaw 2002, p.78.
- [9] A. Frączkiwicz–Wronka (red.), *Public management theory and practice elements*, University of Economics in Katowice Publishing, Katowice 2009.
- [10] J. A. Jończyk, U. Romanek, *Organizational changes in a public hospital – case study*, *Journal of Intercultural Management*, Vol. **4**, no. **4** (2012), s. 170-179.
- [11] B. Kożuch, *Public Management of Polish organizations in Theory and Practice*, PLACET Publishing House, Warsaw, 2004.
- [12] D. Farnham, S. Horton, *Managing Public and Private Organizations* [w:] Farnham D., Horton S. (red.), *Public Management in Britain*, MacMilan Press, 1999.
- [13] The Act of 6 February 1997 on universal health insurance, *Journal of Law* no. **28**, issue. 153, amended.