

Organisational Studies and Innovation Review

Vol. 5, no.2, 2019

Effects of Privatisation on Non-financial Performance Measurements in Healthcare Sector

Aiman Farran *

*Umm Al-Qura University (KSA) and University of East Anglia**

Abstract:

This paper aims to define the literature gap in order to contribute to filling this through the research project, which will investigate the impacts of privatisation on non-financial performance measurements in privatised public healthcare sector. This research project will be based on a contingency approach to investigate the privatisation influences on non-financial performance measurements by focusing on contingent factors changes resulted by the implementation of privatisation. This is a desk-based study of existing literature, analysed through influences of privatisation on non-financial performance measurements based on a contingency theory approach. This paper considers the contingency framework though defining different contingencies which have been affected following the implementing of privatisation, according to the related literature, as follows: organisational strategy, structure, culture, size and technology. This review concludes the literature gap affording an opportunity for scholars to contribute to knowledge by filling this gap

Keywords: Privatisation, non-financial performance measurements, healthcare sector, contingency theory

Introduction

For several decades, the public sector suffers to provide public services and products in the developing countries especially for services sector such as healthcare services. The scholars noted that the governments in developing countries have limitation in operating public entities because usually the government is regulator, operator, supervisor and funder of public services. The developed countries embark to use the management style such as manufacturing industry style in public services sector. Consequently, most of developing countries have decided to follow developed countries to improve their public services provision. The most common solution to implement privatisation for public entities. This paper has attempt to present in depth of understanding about privatisation implementation and its effects on performance measurements.

Privatisation definition and objectives:

Since the 1980s, many countries have faced difficulties in organising the public entities which provide public services and goods to their citizens. Thus, the negative performance of public bodies has been of significant concern in both developed and developing countries. Moreover, these entities are a huge burden on government expenditures (Claessens *et al.* 2001). Accordingly, there was a need to solve the disadvantages of public entities' performance and reduce government expenditure through a reform program for these entities. As such, privatisation occurred as an attempt to reduce the negative effects of public entities. Hence, privatisation programs have become a common restructuring

method used in public service providers worldwide (Nellis, 2005). Shernanna (2013) stated that most of the world's countries use reform programs for their public service providers to transfer the government role in areas such as transportation and energy suppliers to the private sector.

There is not a specific definition of privatisation because it is multi-dimensional and different definitions depend on broad or narrow concepts. Different researchers' perspectives will be explored in an attempt to show a comprehensive understanding of privatisation. Simply put, privatisation has been defined as an economic phenomenon (Savas, 2000; Abdussalam, 2006). In a broad concept, Weizsäcker, *et al.* (2005) explained privatisation as a program which supports private companies to use society's resources to offer public services and goods. Rose (2005) has defined privatisation as the transformation of operating and organising the public entities from the government to private corporations. In contrast, under the narrow concept, privatisation is a transformation of entities ownership from the state to the private sector (Savas, 2000). In addition, many authors have argued that different meanings of privatisation are adopted according to its implementation processes in different countries. In other words, in some countries the role of government disappears totally, while, in others the ownership of public entities remains under the government, but its role is reduced.

Praker and Kirkpatrick (2005) stated that privatisation objectives are different from country to country because the objectives of privatisation depend on the motivation of its implementation. Hence, setting the objectives before embarking on the implementation processes is very important in order to obtain successful privatisation. Many researchers, such as Praker and Kirkpatrick (2005), Dayoup (2006), Faleh (2008) and Jubouri (2009), have concluded that the most significant objectives of privatisation are: improving efficiency, reducing government expenditure, expanding the ownership base, development of capital market and attracting local and global investment.

Performance measurement (PM):

Previous literature has emphasised the importance of PM in order to support the management function within organisations' activities. PM aims to support decision and policy making in three main functions; planning, evaluation and monitoring (Garengo and Bititci, 2007; Carri *et al.*, 2015). It is used to measure the efficiency and effectiveness of organisational performance (Neely *et al.*, 2005). Jääskeläinen *et al.* (2012) investigated the contingency factors affecting PM in a services contexts. They reviewed around 80 different literature which related to the interaction between contextual factors and PM. Their study recommended a foundation framework for future PM in services research. The following is a contingency framework for approaching performance measurement development in services operations. It helps in understanding the connections between contingency factors and PM and helps researchers in developing dependent and independent variables. This framework is very helpful to conduct empirical research to develop the research conceptual framework. The following section highlights financial and non-financial performance measurements by exploring an example of each type of PM.

Financial Measurements:

Recent research compares financial PM to traditional PM. In other words, organisations were just adopting financial PM to provide financial information to support decision-making within an organisational management function (Neely, 1999). Financial measurements played a main role in supplying necessary information to the top

management team (Cooper and Kaplan, 1991). However, adopting academic and professional suggestions for decision-makers has to concern both financial and non-financial information in order to ensure efficiency decisions (Chanhall, 2003; Franco-Santos and Bourne, 2005). Neely *et al.* (2005) argued that recent environmental business requires organisations' managers to address financial and non-financial information in their decision-making. Moreover, Kuwaiti (2004) stated that financial information alone cannot reflect correct performance measuring. In this regard, a financial performance measurement has been explored in the next section. It then moves on to look at another kind of PM (non-financial).

Budgetary:

Previous literature has concerned the limitations in using MAPs, such as budgeting in operational decisions in developing countries (Enthoven, 1977; Abdul-Rahman *et al.*, 1997). Budgeting was a topic of topic discussed in previous MAPs literature. This section aims to present an overview of budgeting studies in the public sector focusing on the public healthcare sector.

Tsamenyi and Mills, (2003) investigated the perceived usefulness of budget in organisations in a developing country. Their research examined the budgeting processes in four large-scale organisations within the public sector in Ghana. They noted that budgeting is a planning and control tool. Finally, they found the resource of budget allocation role as a useful purpose. This study was empirical evidence on budgetary concerns as MAPs in developing countries. It explored the usefulness of budgeting in organisations' decision-making-decision and illustrated the implementation of a budgeting process in practice. They divided budgeting processes implementation into nine stages, as following: initiation of budget figures, the actual budget formulation process, the vetting process, top management's involvement, the legitimisation process, the budget implementation process, the budget control process, the budget review process and budget performance reports (Tsamenyi and Mills, 2003, p. 95).

It is thought that budgeting plays an important role in organisations. For example, Renzio's study investigated the role of General Budget Support (GBS) in improving budget systems. He analysed how the budget and public financial management reform supported increased state ownership as well as improving domestic accountability (Renzio, 2006). Dollery and Graves (2009) examined budgeting effectiveness in local government of a South Africa municipality. They argued that the Municipal Finance Management Act was developed by experts to be a guideline of the budgetary process and observed that the budgetary process had not improved since the last revision of the act (Dollery and Graves, 2009).

Non-Financial Measures:

As was mentioned earlier, the business environment requires organisations to address non-financial information when they measure their performance in order to support their decision-making. Consequently, non-financial PMs have emerged (Lee *et al.*, 2007; Verbeeten and Boons, 2009). Recent studies have reported non-financial PM as a management accounting innovation and advanced PM (Said *et al.*, 2003; Chan, 2004). One of the non-financial PMs is balanced scorecard (BSC) and was suggested by Kaplan and Norton (1996) to offer non-financial information to help decision-makers in organisations within a variety of industries. In this respect, the next section has analysed the BSC literature and its current satiation within the public healthcare sector.

Balanced scorecard:

This is one of the most common performance measurements and was established by Kaplan and Norton during the 1990s. It helps an organisation to evaluate itself from different aspects by providing a comprehensive picture which reflects the organisation's current situation. It also supports to improve organisational performance because it is founded on learning and feedback. The balanced scorecard includes financial and non-financial measurements. Moreover, it also concerns the quality of services of product. Thus, it focuses on customers' perspectives and on developing the internal processes. Kaplan and Norton explained how to implement the balanced scorecard by illustrating the linking between performance measures and strategy map so as to reach to the strategic management process rather than performance measurements (Kaplan and Norton, 1996; 2001). This practice is an extremely common adoption in different sectors. The author conducted many studies to investigate the balanced scorecard, especially in the healthcare sector, such as Santiago (1999), Inamdar, Kaplan and Reynolds (2002) and Kollberg and Elg (2011). This section has attempted to overview the BSC in evaluating organisational performance and supporting decision-makers.

Performance measurements in the public healthcare sector:

Healthcare organisations are required to provide transparency, accountability and high quality healthcare services for a variety of stakeholders. These are the most significant motivations to propose using PM in healthcare organisations. Performance is the process to attain the final product or services. This can be made clear by exploring the simple definitions of PM. According to Joint Commission on the Accreditation of Healthcare Organisation (JCAHO), "*Performance in health care is composed of nine definable, measurable, and improvable dimensions; including, efficacy, appropriateness, continuity, safety, efficiency, effectiveness, availability, timeliness, and respect and caring*" (JCAHO, 2002, p.13). Thus, it defined PM as "*Quantifying processes and outcomes, using one or more of those dimensions*" and PM as a "*Variable or quantitative tool that reveals an organisation's performance in relation to a specific process or outcome*" (JCAHO, 2002, p.13).

Previous literature has discussed performance measurements (Chenhall and Langfield-Smith, 1998; Anderson and Lanen, 1999; Hoque, 2004) and budgeting (Bruggeman and van der Stede, 1993; Abernethy and Brownell, 1999; Ljungman, 2009; Guess and LeLoup, 2010; King *et al.*, 2010; Joharji, 2014). These studies concerned PMs within the public sector. However, this paper aims to present a clear understanding of PMs within the public healthcare sector. Thus, this part highlights performances measurements in detail. This practice has been proposed to be discuss the influences of contingencies in the proposed research project.

Smith (2005) overviewed PM history in a public healthcare context, assessing the PM effectiveness and then explored the significant challenges associated with PM development as well as emphasising future priorities for policy makers. Finally, this study afforded a comprehensive overview of the PM situation. Thus, it is academic literature evidence for the role of PM in the public healthcare sector. Moreover, Carri *et al.* (2015) examined a performance evaluation system in the public healthcare sector. However, they conducted their study in developed countries. In this regard, the role of PM should be appreciated in order to understand how contingencies influence PM as MAPs. The following part of this

section of this review will highlight some of studies related to the connection between contingencies and PMs.

Demartini and Trucco (2017) argued that the strategic use of performance measures system (PMS) in the healthcare sector is significant element which leads to improving processes. Their research contributed to the literature discussing the design and implementation of a non-financial performance measurement. They concluded that strategic use of PMS encourages the managers concerning strategic opportunities and threats in order to improve organisational performance (Demartini and Trucco, 2017). It is a clear evidence of the healthcare sector having introduced strategic use of PMs through its design and implementation influencing the improvement of the processes.

Awio and Northcott (2001) discussed the influences of decentralisation on budgeting as MAPs. They conducted their study within the public healthcare sector in Uganda as a developing country. Their research provided a brief overview of the Ugandan public healthcare budgeting process before and following decentralisation implementation. In this regard, they argued that decentralisation demands the managers and administration team to achieve the requested skills-level to participate in the budgeting process as a part of their everyday management functions. Thus, they argued that decentralisation positively affects improving budgeting practices in developing countries (Awio and Northcott, 2001).

Chu and Rask (2002) analysed the impacts of reform, decentralisation and privatisation influencing budgeting and accounting systems in the Chinese healthcare sector. They explored the main stage of the public sector over the last three decades. Consequently, their study is evidence of improving the accounting system at the organisational level to meet the requirements of healthcare system reforms (Chu and Rask, 2002).

Agrizzi *et al.*'s (2016) study examined the influences of the implementation process of an accreditation programme on performance management systems employed in Iranian hospitals. They argued that hospitals should be changed in order to adopt the programme. This means that hospitals should be incentivised to create required organisational change, although they assumed the accreditation programme as a regulatory control system. Finally, they suggested that accreditation may result in the creation of organisational activities (Agrizzi *et al.*, 2016). This study is empirical evidence of the role of performance measurements within the healthcare sector in developing countries. Although, their study was conducted in both sectors of healthcare in Iran, public and private, the public sector aspect is important for this review as the review does not concern the private healthcare sector.

The Relationship between privatisation and performance measurements:

Privatisation is a significant element which helps to improve a weak economy in less developed countries' LDCs (Uddin and Hopper, 2003). Moreover, Boycko, *et al.* (1996) have argued that, when the state implements privatisation, it will obtain greater productivity and allocative efficiencies. Many authors refer the advantages of privatisation to the differences between the two sectors, public and private. It is argued that the private sector can play the government's role more effectively, especially in reducing operational or production cost to obtain the same results. Moreover, researchers have highlighted the positive effects of privatisation on organisational performance in developed countries (Nestor and Nigon, 1996).

New activities have contributed in improving financial control systems and reducing the shortages of previous operational strategies, such as management buy-outs, employment

contracts, negotiating machinery and facilitating the franchising of subsidiaries by small and medium corporations (Espeland and Hirsch, 1990; Ogden and Anderson, 1999; Wright, *et al.*, 1993). In addition, Alroqy (2011) has pointed out that privatisation leads to a change in the internal and external environment of organisations. Thus, as a result of these changes, management control systems are improved in privatised organisations. Further, he highlighted that the main aspect is a reward system for employees, which plays a significant role to improve the economic performance of post privatisation organisations (Alroqy, 2011). It is a good signal of the positive effects of privatisation because Alroqy conducted his research in Saudi Arabia where this research will also be conducted. Moreover, it is evidence of the possibility of successful privatisation reform in the Saudi Arabian economic environment. However, previous research related to the relationship between privatisation and management accounting control systems did not note privatisation's negative impact. Consequently, this paper has concluded to apply contingency approach to analysis the impacts of privatisation on non-financial performance measurements.

References:

- Abdul-Rahman, A., & Hailes, S. (1997, November). Using recommendations for managing trust in distributed systems. In *Proceedings IEEE Malaysia International Conference on Communication* (Vol. 97).
- Abdussalam, S. (2006). *Privatization and its future implications in Libya: a case study of the Libyan National Textile Company* (Doctoral dissertation, Northumbria University).
- Abernethy, M.A. and Brownell, P., 1999. The role of budgets in organizations facing strategic change: an exploratory study. *Accounting, organizations and society*, 24(3), pp.189-204.
- Agizzi, D., Agyemang, G. and Jaafaripooyan, E., 2016, June. Conforming to accreditation in Iranian hospitals. In *Accounting Forum* (Vol. 40, No. 2, pp. 106-124). Elsevier.
- Alamri, A., 2016. Management Accounting Change in the Saudi Public Health Sector: A Neo-Institutional Perspective (Doctoral dissertation, University of Essex).
- Al-Omiri, M. and Drury, C., 2007. A survey of factors influencing the choice of product costing systems in UK organizations. *Management accounting research*, 18(4), pp.399-424.
- Alrabeah, A.H., 2015. The influence of workforce national cultural diversity on TQM application in Saudi hospitals (Doctoral dissertation, Glasgow Caledonian University).
- Alroqy, F. A. (2011). *The impact of privatisation on management accounting control systems: a case study of two Saudi Arabian privatised companies* (Doctoral dissertation, Newcastle University).
- Anderson, S.W. and Lanen, W.N., 1999. Economic transition, strategy and the evolution of management accounting practices: the case of India. *Accounting, Organizations and Society*, 24(5), pp.379-412.
- Awio, G., & Northcott, D. (2001). Decentralization and budgeting: the Uganda health sector experience. *International Journal of Public Sector Management*, 14(1), 75-88.
- Boycko, M., Shleifer, A., & Vishny, R. W. (1996). A theory of privatisation. *The Economic Journal*, 106(435), 309-319.
- Bruggeman, W. and Stede, W., 1993. Fitting management control systems to competitive advantage. *British Journal of Management*, 4(3), pp.205-218.

- Carri, A., Chiapponi, L., Giovanelli, R., Spaggiari, L., & Segalini, A. (2015). Improving landslide displacement measurement through automatic recording and statistical analysis. *Procedia Earth and Planetary Science*, 15, 536-541
- Chan, A. P., & Chan, A. P. (2004). Key performance indicators for measuring construction success. *Benchmarking: an international journal*, 11(2), 203-224.
- Chenhall, R. H. (2003). Management control systems design within its organizational context: findings from contingency-based research and directions for the future. *Accounting, organizations and society*, 28(2-3), 127-168.
- Chenhall, R.H. and Langfield-Smith, K., 1998. The relationship between strategic priorities, management techniques and management accounting: an empirical investigation using a systems approach. *Accounting, Organizations and Society*, 23(3), pp.243-264
- Chu, D. K., & Rask, K. J. (2002). The transformation of China's health care system and accounting methods: Current reforms and developments. *Advances in International Accounting*, 15, 13-43.
- Claessens, S., Demirgüç-Kunt, A., & Huizinga, H. (2001). How does foreign entry affect domestic banking markets?. *Journal of Banking & Finance*, 25(5), 891-91
- Cooper, R., & Kaplan, R. S. (1991). Profit priorities from activity-based costing. *Harvard business review*, 69(3), 130-135.
- Dayoup, M. (2006). "Prerequisites for a Successful Privatisation" (in Arabic). Tishreen University Journal for studies and scientific research-economic and legal science, 28(2), 95-115.
- De Renzio, P., 2006. Aid, budgets and accountability: A survey article. *Development Policy Review*, 24(6), pp.627-645
- Demartini, C., & Trucco, S. (2017). Are performance measurement systems useful? Perceptions from health care. *BMC health services research*, 17(1), 96.
- Dollery, B., & Graves, N. (2009). An analysis of budget compliance measurement in South African local government best-practice financial management technical assistance programs, 2001—2003. *Public Administration and Development: The International Journal of Management Research and Practice*, 29(2), 101-116.
- Enthoven, A. J. H. (1977). Accountancy systems in third world economies.
- Espeland, W. N., & Hirsch, P. M. (1990). Ownership changes, accounting practice and the redefinition of the corporation. *Accounting, Organizations and Society*, 15(1-2), 77-96.
- Faleh, A. (2008). Privatisation and its Economic Effects (in Arabic). Amman: Dar Ossama
- Franco-Santos*, M., & Bourne, M. (2005). An examination of the literature relating to issues affecting how companies manage through measures. *Production Planning & Control*, 16(2), 114-124.
- Garengo, P., & Bititci, U. (2007). Towards a contingency approach to performance measurement: an empirical study in Scottish SMEs. *International Journal of Operations & Production Management*, 27(8), 802-825
- Guess, G.M. and LeLoup, L.T., 2010. *Comparative public budgeting: Global perspectives on taxing and spending*. Suny Press
- Hayes, J., 2014. *The theory and practice of change management*. Palgrave Macmillan
- Hoque, Z. (2004). A contingency model of the association between strategy, environmental uncertainty and performance measurement: impact on organizational performance. *International business review*, 13(4), 485-502.

- Inamdar, N., Kaplan, R. S., & Reynolds, K. (2002). Applying the balanced scorecard in healthcare provider organizations/Practitioner's Response. *Journal of healthcare management*, 47(3), 179.
- Jääskeläinen, A., Laihonen, H., Lönnqvist, A., Palvalin, M., Sillanpää, V., Pekkola, S., & Ukko, J. (2012). A contingency approach to performance measurement in service operations. *Measuring Business Excellence*, 16(1), 43-52
- JCAHO, (2002) *Accreditation guide for hospitals*, The Joint Commission available online: https://www.jointcommission.org/assets/1/18/171110_Accreditation_Guide_Hospitals_FI_NAL.pdf (access on 14/11/2019)
- Joharji, G. and Willoughby, J., 2014. The Saudi Arabian budgeting system: an institutional assessment. *Public Administration and Development*, 34(1), pp.63-80.
- Jubouri, S. K. (2009). "Privatization as a Mean of Achieving Economic Reform in Iraq" (in Arabic). *Journal of Qadisiyah for administrative and economic studies*, 11(3), 151-171.
- Kaplan, R.S. and Norton, D.P., 1996. Using the Balanced Scorecard as a Strategic Management System. *HARVARD BUSINESS REVIEW*, p.75.
- Kaplan, R.S. and Norton, D.P., 2001. Transforming the balanced scorecard from performance measurement to strategic management: Part II. *Accounting Horizons*, 15(2), pp.147-160
- King, R., Clarkson, P.M. and Wallace, S., 2010. Budgeting practices and performance in small healthcare businesses. *Management Accounting Research*, 21(1), pp.40-55
- Kollberg, B. and Elg, M., 2011. The practice of the Balanced Scorecard in health care services. *International Journal of Productivity and Performance Management*, 60(5), pp.427-445
- Kollberg, B., & Elg, M. (2011). The practice of the balanced scorecard in health care services. *International Journal of Productivity and Performance Management*, 60(5), 427-445.
- Kuwaiti, M. E. (2004). Performance measurement process: definition and ownership. *International Journal of Operations & Production Management*, 24(1), 55-78.
- Lee, S., Jagannathan, B., Narasimha, S., Chou, A., Zamdmer, N., Johnson, J., ... & Pekarik, J. (2007, December). Record RF performance of 45-nm SOI CMOS technology. In *2007 IEEE International Electron Devices Meeting* (pp. 255-258).
- Ljungman, G., 2009. *Top-Down Budgeting: An Instrument to Strengthen Budget Management* (No. 9-243). International Monetary Fund.
- McDonald, B., 2012. A review of the use of the Balanced Scorecard in healthcare. *Newcastle: BMCD Consulting*.
- Neely, A. (1999). The performance measurement revolution: why now and what next?. *International journal of operations & production management*, 19(2), 205-228.
- Neely, A. (2005). The evolution of performance measurement research: developments in the last decade and a research agenda for the next. *International Journal of Operations & Production Management*, 25(12), 1264-1277.
- Nellis, J. R., . (2005). *Reality check: the distributional impact of privatization in developing countries*. Brookings Inst Press
- Nestor, S., & Nigon, M. (1996). Privatisation in Europe, Asia and Latin America: What Lessons Can Be Drawn?. *Privatization in Asia, Europe and Latin America. Paris: Organisation for Economic Co-operation and Development (OECD)*, 9-23.

- Nor, M., 2000. Privatisation and changes in organisation: a case study of a Malaysian privatised utility (Doctoral dissertation, University of Lancaster).
- Ogden, S. G., & Anderson, F. (1999). The role of accounting in organisational change: promoting performance improvements in the privatised UK water industry. *Critical Perspectives on Accounting*, 10(1), 91-124.
- Parker, D., & Kirkpatrick, C. (2005). Privatisation in developing countries: A review of the evidence and the policy lessons. *Journal of Development Studies*, 41(4), 513-541.
- Rose, P. (2005). Privatisation and decentralisation of schooling in Malawi: default or design?. *Compare: A Journal of Comparative and International Education*, 35(2), 153-165.
- Said, A. A., HassabElnaby, H. R., & Wier, B. (2003). An empirical investigation of the performance consequences of nonfinancial measures. *Journal of management accounting research*, 15(1), 193-223.
- Santiago, J. M. (1999). Use of the balanced scorecard to improve the quality of behavioral health care. *Psychiatric Services*, 50(12), 1571-1576
- Savas, E. S., & Savas, E. S. (2000). Privatization and public-private partnerships
- SHERNANNA, H., 2013. Critical Perspectives on the Efficient Implementation of Privatisation Policies in Libya: Assessing Financial, Economic, Legal, Administrative and Social Requirements (Doctoral dissertation, Durham University).
- Smith, M. (2005). *Performance measurement and management: a strategic approach to management accounting*. Sage.
- Tsamenyi, M. and Mills, J., 2003. Perceived environmental uncertainty, organizational culture, budget participation and managerial performance in Ghana. *Journal of Transnational Management Development*, 8(1-2), pp.17-52
- Uddin, S., & Hopper, T. (2003). Accounting for privatisation in Bangladesh: testing World Bank claims. *Critical perspectives on accounting*, 14(7), 739-774.
- Verbeeten, F. H., & Boons, A. N. (2009). Strategic priorities, performance measures and performance: an empirical analysis in Dutch firms. *European Management Journal*, 27(2), 113-128.
- Weizsäcker, E. U. V., Young, O., & Finger, M. (2005). *The Limits to Privatization* (No. BOOK). Earthscan
- Wright, M., Thompson, S. & Bobbie, K., (1993), "Finance and Control in a Privatization by Management Buy-Out" *Journal of Management Studies*, Vol. 30, No. 1, 75-99.