



BRIEFING NOTE #9

PAY FOR PERFORMANCE IN HOSPITAL SERVICES

OCTOBER 6, 2013

PURPOSE: To review pay for performance as applied to hospital funding.

BACKGROUND

Pay for performance in health care is an appealing concept which suggests that hospitals would receive more or less funding based on its performance. The concept has its difficulties.

There are at least two possible scenarios. In one, the funding allocation model could be adjusted to incorporate increases or decreases in funding levels based on hospital performance the previous year. The second possibility is that hospitals receive their basic funding using the usual allocation process and hospitals which demonstrate good performance could receive additional funding from a fund held back for this purpose.

1. Adjusting the hospital funding model

In this scenario, the allocation of funds to hospitals could be adjusted in such a way that hospitals performing well get a higher allocation than they otherwise might based on performance. The proportion of adjustment for this purpose would be determined but likely would be 5 or 10%.

2. Adding incentive payments based on performance

In this scenario, prior to allocating funds to hospitals, a percentage of the available funds could be withheld in a special account titled "performance incentive fund".

After all other funds are allocated, the special fund could be distributed at the end of the year or after each quarter to recognize good performance.

ANALYSIS

There are fundamental problems with the principle of performance pay.

- In Albania, we do not have sufficient information to support any such system. Even in countries with very sophisticated information systems, it is difficult to use the information for purposes of pay for performance.
- Hospital management in Albania is neither sufficiently skilled nor committed to understand how to improve performance and if they were, the current line by line budgeting approach does not leave them with the flexibility to make the appropriate changes to improve performance.
- If a hospital receives extra funds for performance, the question is for what purpose should the funds be approved. It could be used to provide a bonus for the management team, assuming the good performance was due to the management team. It could be distributed among all staff or among patient care staff assuming they deserve credit for improved performance. If the funds were simply made available to improve care, there would be little incentive for staff to improve.
- If performance bonuses are approved for 2 or 3 or more years for well performing hospitals and

not the worst performing hospitals, it must be recognized that these funds are obtained at the expense of the poor performing hospitals. It could be argued that these are the hospitals needing additional funds in order to make improvements.

RECOMMENDATIONS

It is recommended that:

- HII continue to increase and improve the information collected from hospitals and that HII continue to improve their capacity for data analysis.
- Good information should continue to be used to improve the equity of funding to hospitals.
- Improved information should be used to generate better comparisons between hospitals especially among hospitals of like type or peer group (for example Regional Hospitals, District Hospitals with surgery, District Hospitals without surgery etc).
- Hospital management should be provided with seminars as to how this information may be used to improve their decision making abilities.