Chapter 60

New Public Management Reforms in the Portuguese NHS: The Role of Traditional and Activity-Based Costing Systems in these Reforms

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ABSTRACT

New Public Management (NPM) is a global paradigm that affects all public sectors, health included. Following the course of NPM reforms, Portuguese hospitals adopted a more business-oriented approach. Among various transformations hospitals have been through, the way they are financed changed from a retrospective finance system, based on a budget determined by the previous year’s costs, to “contratos-programa” that are established between each hospital, the provider, and Central Administration of the Health System (ACSS), the financier. Once these “contrato-programa” are based in prices per production lines, it is extremely important to have an effective cost system that can calculate accurate costs for each production line. With this purpose, in 2007 a pilot project was initiated to replace the existing and mandatory cost department method by Activity-Based Costing (ABC) method. In this chapter, the authors analyze the changes performed in the Portuguese hospitals by NPM movement and the role that traditional (cost department) and ABC methods play in it.

INTRODUCTION

The Portuguese National Health Services (NHS) has been under the political spotlight in recent years. An increasing growth in public health care expenditure, particularly since the end of the 1990s, and a growing awareness of waste in the management of NHS resources, especially in public hospital administration have led to extensive discussion among politicians, policy-makers and the media about alternative ways of restructuring the delivery of public health care.
services. This concern increased throughout the 2000s following the difficulties faced by the Portuguese economy in controlling its level of overseas debt. The prospects of economic recession and growing unemployment reinforced the idea that public expenditure, including health care spending, needed urgent cuts (Barros & Simões, 2007). Major changes in health care policy were made in order to force public hospitals to adopt a more business-oriented approach in the delivery of health care. Some of these reforms included the transformation of the NHS hospitals into companies and the establishment of contracts following the introduction of a purchaser-provider split. Furthermore, the budgetary system which was the basis of the former system of hospital reimbursement was replaced by a prospective payment system based on Diagnostic-Related Groups (DRGs) and case-mix accounting. Likewise, an Activity-Based Costing (ABC) system was implemented following claims that the cost accounting systems of public hospitals were too crude and that better costing data was needed to support pricing and cost control in hospitals. These reforms were accompanied by a general belief that the introduction of a market ideology based upon the adoption of private sector management practices would increase the accountability of hospitals and their engagement in the control of public expenditure (Campos, 2004, 2008).

This chapter seeks to analyse the role played by accounting technologies and accountability systems within the New Public Management (NPM) reforms introduced in Portuguese NHS hospitals in the 2000s. NPM is a global paradigm that affects multiple sectors, including health care, and hence there are gains to be obtained by analysing local phenomena in the context of major global trends (Hopwood, 1999; Pettersen, 1999). Furthermore, most of the research on the introduction of market reforms into the health care sector has been conducted in the US and UK, and thus there are few studies from other national contexts, particularly from non-English speaking countries such as Portugal (Lehtonen, 2007; Kurunmäki, 2009; Pettersen, 1999). This chapter is also intended to fill a gap in research on NPM implementation in the health care sector in Mediterranean countries.

This chapter is structured as follows. The next section explores the NPM movement, its supporters, its critics and the role that accounting and accountability assume in the reforms that are taking place in different countries. Then, the reforms that occurred in Portugal are explained, specifically the corporatization of public hospitals. Cost accounting in hospitals is then explored through the discussion of the existence of overhead and the methods available to allocate them. Then it is explained the mandatory cost allocation method for Portuguese hospitals. Following it is presented the adoption of activity based costing method in some hospitals. Future research opportunities are suggested and the chapter ends with an overview of all themes presented and concluding remarks.

NEW PUBLIC MANAGEMENT REFORMS

In a world of global competition in which many domestic economies are no longer controllable, the public sector, still under the influence of the State, has been the object of frequent reforms by governments with the aim of improving its contribution to the performance of national economies (Lapsley, 2008). The literature analysing these reforms points to a common demand for better resource utilisation and the introduction of accountability and managerialism in the sector (Kurunmäki, 2009; Modell, 2009; Hopwood, 1990). Public sector institutions are often described as managing their resources inefficiently and spending too much public money (Hood, 1991, 1995). In this respect the public health care industry is no exception (Eldenburg & Krishnan, 2007). Many