

THE EVALUATION OF FINANCIAL PERFORMANCE IN THE PUBLIC HEALTH SYSTEM – GENERAL INFORMATION

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Abstract:

Establishment of public sector performance is not an easy thing. The definition of performance in public organizations has some barriers: the meaning that it has the concept of performance, the way in which performance is achieved and, not least, the aspects related to its assessment.

The financial performance evaluation of public health system plays an important role in setting the direction in which a health care system should move and in establishing public health policies. In order to obtain financial performance of the public health system it is required the system to be based on clearly formulated health policies which are directed towards improving the health system, towards reforms and implementation of programs of public health policies and development of issues related to improving health of the population.

Key words: *evaluation, , performance, financial performance, indicators, public health system*

JEL classification: *H00, I10, I19*

Introduction

The concept of public health reflects "*... the identification of health needs and organizing comprehensive health services at population level, thus including the information process in order to characterize the health of the population and mobilizing resources to intervene on this state. Since population health is the essence of public health, this includes organizing staff and medical units to provide all necessary health services for health promotion, disease prevention, diagnosis and treatment of diseases and physical, social and professional rehabilitation.*" (Frenk quoted in Vladescu, 2004, p.7).

Analysis of health policies and systems requires the understanding of two concepts: health and disease, and the relationship they have with health care and other factors that influence them.

Health concept has many meanings and definitions in the *stricto sensu* but health can be defined as the absence of disease, in *lato sensu* health is more than a simple listing of negations - the absence of unpleasant conditions, objectively defined by experts as a disease.

The definition given by WHO in 1948, on the concept of health: "*Health is the state of physical, mentally and socially wellbeing, not just the absence of disease or infirmity.*" (World Health Organization, 1948, p.1), is among the statements that bring to the fore the importance and the role that the three dimensions plays, physically, mentally and psychologically, in the context of disease.

Today, thanks to the awareness of the impact that health has on quality of life, it is considered by many dimensional perspectives: emotional, physical, intellectual, social and spiritual. These dimensions are interrelated and contribute to the welfare of a

person's condition.

World Health Organization considers that the quality of life plays a major role in assessing programs of public health and brings to the attention of specialists five dimensions of quality of life that must be taken into account:

- Reduction of disease symptoms;
- Promoting positive thinking, the wellbeing and optimism;
- Foster positive human relationships;
- Preservation of cognitive skills;
- Ability to work and to ensure a decent living.

And, in our view, health is a complex concept that involves much more than the absence of disease, a process that contributes to well-being and balance. Health is among the factors acting to conduct life and business in optimal conditions.

Improving health sector performance should be a national priority due to the undeniable role that health plays in any society.

Donatien (2006, p.13) proposes the following definition of performance: "*Performance is the ability or level of an organization to achieve its aims, objectives or programs which it has established, with the lowest costs and in the best time.*"

Lebas (quoted in Dohon and Berland, 2007, p.4) believes that there is performance only if it can be measured and that this measure is not just about knowing the outcome. So the results should be evaluated with reference to either the desired results, either to be appreciated reported to specific results (Bouquin quoted in Dohon and Berland, 2007, p.4). In this situation, performance evaluation can be treated as "benchmarking¹".

1. The concept of measuring financial performance

Establishment of public sector performance is not an easy thing. The definition of performance in public organizations faces a barrier: the meaning that it has the notion of performance, how performance is achieved, and not least the aspects related to it is assessment.

Performance of public organizations is determined by how the human, material and financial information are used to achieve its objectives at the level of expectations of the services' users.

We believe that when discussing the performance evaluation of public organizations, an analysis based on the purpose and objectives set by them is required, as well as an approach based on internal and external references that organization reports to.

Any organization, whether private or public, should lead a policy aimed at obtaining a continuous performance, which is due to the importance that performance plays in the development process and in recording the progress.

As Osborne and Gaebler says (1992, p. 147) „ *If you don't measure results, you can't tell success from failure, and if you can't see success, you can't reward it, respectively if you don't recognize failure you can't correct it.* ”

Performance appraisal is the process by which an organization sets the parameters by which programs, investments and acquisitions achieves the desired results. Performance evaluation has as a fundamental goal to improve performance. This

¹ A methodical process regarding the identification, investigation and comprehension of the best working practices and methods taken over from other organisations and their adaptation to the company's own activity in order to increase its efficiency and performance.

evaluation process requires the use of performance indicators to measure performance. These indicators form, overall, a system of performance indicators for assessing the organization where each indicator is treated separately, and is either granted a certain importance or is ignored.

The indicators selected must meet the following criteria:

- between indicators and objectives of the organization must be a relationship of correlation;
- to reflect a true picture of organizational performance they must not exceed a certain number. (Ciobanu, 2006, p.8).

It is estimated that, in general, in a system of performance evaluation there are three interconnected elements (Neely cited in Ciobanu, 2006, p.25):

- individual indicators to measure performance;
- aggregated indicators to measure overall performance;
- a system by which data are subject to processes of collecting, sorting, analysis, interpretation and dissemination.

The major problem facing modern societies is the efficient management of resources in the event that more and more requests for services more and more complex and expensive will appear, coming from the people. Increasing public sector increases the volume of public expenditure so requires a greater involvement of the state in economic and social life.

Efficient allocation of resources is a condition *sine qua non* of financial performance in public organizations. Pauly and Culyer (quoted in Vladescu, 1999, p.22) believe that an efficient allocation of resources must imply at the same time the existence of the following conditions: resources are not allocated poorly, the produced results are the one that people value the most and are minimum-cost products.

The financial status of public organizations is a key element in assessing financial performance. It is imperative to have an assessment of the financial situation of public organization in order to form a just opinion and a clear and accurate presentation of income, liabilities, costs and financial efficiency. Evaluation of financial status has as a fundamental objective to illustrate the interest sectors of the financial condition, as well as of the management of the organization.

Public organizations must prepare financial statements that reflect a true picture of assets, liabilities, financial position and financial performance but also the result of their heritage. They are required to prepare quarterly and annual financial statements under the provisions of Ministry of Finance.

The financial situations of public organizations is the main way to get information about the situation of the state patrimony and of territorial administrative units, as well as information related to the execution of budget revenues and expenses.

Both the quarterly and annual financial statements provides information on the annual financial performance of public organizations and consist of the following essential and mandatory components:

- Balance sheet;
- Account of the results of heritage;
- Statement of cash flows;
- The situation of changes in the structure of assets ;
- Account of budget execution;
- Annex to the financial statements consisting of accounting policies and explanatory notes.

In order for the annual financial statements to be properly elaborated, an inventory is required: inventory of all assets and liabilities and other assets and valuables under the management of public organizations.

According to some authors (Stefanescu Aurelia et. Al. 2010, p.238), measuring the financial performance of public organizations through financial statements is done by measuring the financial performance indicators corresponding to each component of the financial statements. Thus, in the case of your account balance and account of patrimonial result, the indicator for measuring financial performance is represented by the patrimonial outcome, cash flow statement has as an indicator of financial performance measurement the results of the treasury, the changes in structured asset / capital has as an indicator the overall outcome, respectively the budget execution result for the financial situation has as an indicator the budgetary execution account.

In terms of International Accounting Standards for public sector, financial performance measurement in public organizations is based on measuring the following indicators:

- Surplus / net surplus of the period;
- Cash result;
- The overall result.

2. The Evaluation of Financial Performance

Performance evaluation of public health organizations plays an important role in setting the direction in which to move a system of health care and public health policy making.

The starting point in evaluating public health organizations must consist of the definition of the following dimensions (Vladescu, 2004, p.16):

- technical - efficiency - technical efficiency principle is to use a minimum cost no matter what is produced. This implies effective combination of resources - doctors, nurses, equipment, medicines, etc., considering the costs to be paid for them.
- cost - efficiency - a criterion that is objective and involves combining services that were produced efficiently in order to maximize a certain measure of population health.
- allocative - efficiency - comes from the sphere of economics and is an alternative to cost - efficiency. It is a subjective utility criterion and requires resources to produce goods that meet the utmost desires of the individual, based on his own tastes and preferences.
- equity in health sector - this criterion supports a fair distribution of:
 - o effects – health state;
 - o products - use of health care;
 - o opportunities - access;
- cost / economic sustainability - the criterion of cost / economic sustainability brings into question both the results outside the health sphere and those in health. This criterion draws attention that even a cost effective and efficient system can be considered too costly and therefore can not be sustained economically.
- economic - equity - refers to the distribution of health sector financing burdens.
- quality - quality refers to two aspects, namely:
 - o technical quality refers to how well the system is working in terms of decision-making and related to skills in providing care;
 - o service quality that refers to accessibility to services, the level of offered facilities, convenience, the way the patients are treated etc.

The evaluation of financial performance in the public health system requires the use of a system of indicators showing a large number of financial medical issues.

In order to analyze the performance in the public health system from Romania is necessary to compute some financial indicators, as follows:

- The cost of hospitalization day - is the ratio between total costs and the number of days of hospitalization.
- The cost per patient hospitalized - is calculated as the ratio between total expenditures and number of hospitalized patients.
- The cost of a hospital bed - is calculated as the ratio between total costs and number of beds.
- Specific investment – the indicator that reflects the investment effort to achieve a new medical object, development and modernization of existing ones or to compare the investment alternatives. The investment value is calculated by reference to the utilization capacity.
- Fixed capital value of the new / modernized - expresses the total amount of resources spent on medical devices purchase and commissioning.
- Expenses processing - volume indicator which reflects the financial resources necessary to ensure medical staff training to use the new devices.
- The expenditure pattern according to types of services depending on sources of income.
- The percentage of own income from the total hospital income means all the income that is obtained from contracts with health insurance house, also from subsidies from the local budget, state budget, donations, sponsorships and other revenues that are collected by the hospital.
- The percentage of the total costs of hospital personnel refers to budget provisions for staff expenditure, and here it is included the expenditure on residents and on staff on practice supervised in relation to the provisions of the budget total hospital spending.
- The percentage of the total drugs costs in relation with hospital budgetary provisions on medicines expenditure.
- The percentage of the expenditure of the total capital is in relation to hospital budgetary provisions for capital expenditure.

Financial indicators play a key role in evaluating financial performance because it provides information to users. They reflect the issues in depth, regarding how financial performance can be measured and analyzed.

3. Conclusions

In our opinion, the financial performance is not only a good result recorded in a certain period of time, but it means much more- it should be viewed and analyzed over a longer period of time.

Public health professionals have as fundamental objective to improve health. But for this objective to be achieved successfully and for the results to reflect the performance, they should assess the effects of public health actions.

Financial performance evaluation in public health system plays an important role in setting the direction in which to move a health care system and in establishing public health policies.

An effective evaluation is a systematic way to improve public health care system.

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