

# 2010

## **Conditions to assess the future performance of Dutch hospitals**

**Marjorie van Maasacker**

Master Thesis - University Twente

Business administration

ING Domestic Bank Nederland

10 November 2010



# **Conditions to assess the future performance of Dutch hospitals**

***‘Which conditions should a hospital meet to determine whether they have enough potential for a structurally profitable business in ever changing circumstances?’***

---

## **Master thesis**

Business Administration

Mastertrack: Financial Management

Date : **Wednesday, 10 November 2010**  
Author : A.M.M.M. (Marjorie) van Maasacker  
Email : marjorie.van.maasacker@gmail.com  
Studentnumber : s0209406  
Phone : 06-27 57 87 84  
Institute : University Twente, Enschede  
Faculty : School of Management and Governance

## **Graduation Committee**

Supervisor : Dr. R.A.M.G. (Reinoud) Joosten  
Institution : University Twente, Enschede  
Faculty : School of Management and Governance  
: Department of Finance and Accounting

Supervisor : Ir. H. (Henk) Kroon  
Institution : University Twente, Enschede  
Faculty : School of Management and Governance  
: Department of Finance and Accounting

## **Company supervisors**

Supervisor : Drs. E.H.M (Erwin) Snijders  
Function : Sr. Sector manager health care ING

Supervisor : Mr. M.E.M. (Machel) Nuyten  
Function : Sr. sector economist health care/public sector – Economics  
Department ING

## **Table of content**

<b>FOREWORD</b> .....	<b>4</b>
<b>MANAGEMENT SUMMARY</b> .....	<b>5</b>
<b>1. INTRODUCTION</b> .....	<b>7</b>
<b>2. THE ORGANIZATION</b> .....	<b>8</b>
<b>3. THE DUTCH HEALTH CARE SECTOR</b> .....	<b>10</b>
3.1 DESCRIPTION OF THE DUTCH HEALTH CARE SECTOR .....	10
3.2 DEVELOPMENTS IN THE DUTCH HEALTH CARE SECTOR .....	11
3.3 ING AND THE HEALTH CARE SECTOR .....	11
<i>The rating model</i> .....	11
<i>The policy paper</i> .....	12
<i>The benchmark</i> .....	12
<b>4. RESEARCH DESIGN</b> .....	<b>13</b>
4.1 THE RESEARCH.....	13
4.2 DATA COLLECTION .....	14
<i>Literature study</i> .....	14
<i>Interviews</i> .....	14
4.3 DATA ANALYSIS .....	15
<b>5. THEORETICAL FRAMEWORK</b> .....	<b>16</b>
5.1 PERFORMANCE MANAGEMENT .....	16
5.2 STRATEGIC MANAGEMENT .....	20
5.3 ORGANIZATIONS IN THE HEALTHCARE SECTOR.....	24
<b>6. ANALYSIS INTERVIEWS</b> .....	<b>27</b>
6.1 EXTERNAL AND INTERNAL INTERVIEWS.....	27
6.2 AFTER THE INTERVIEWS .....	31
<b>7. CONCLUSIONS AND RECOMMENDATIONS</b> .....	<b>33</b>
7.1 CONCLUSIONS.....	33
7.2 LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH .....	40
<b>8. BIBLIOGRAPHY</b> .....	<b>41</b>
<b>APPENDIX</b> .....	<b>43</b>
APPENDIX I – INTRODUCTION LETTER (IN DUTCH).....	43
APPENDIX II – INTERVIEW QUESTIONS (IN DUTCH).....	45
APPENDIX III – CHECKLIST EXTERNAL INTERVIEWS (IN DUTCH).....	47

## **Foreword**

This report marks the end of my study Business Administration, with the specialization financial management, at the University of Twente. This master thesis is the result of a six months research project executed at the ING Domestic Bank Nederland in Amsterdam. In this thesis I report about my study to characteristics of successful strategies for Dutch hospitals which have a positive effect on the performance.

The entire process has been long and challenging. When I am writing this text I realize that it was an instructive project in many ways. I have learned a lot about the content of performance and strategic management and the Dutch health care. Besides the above I have learned also a lot on a personal level, like working in a professional organization, with all professional people. I developed my personal skills like presenting myself and my research to others.

During this process I obtained support from many people. Therefore, I would like to thank my supervisors at the ING; Erwin Snijders, senior sector manager health care and Machel Nuyten, senior sector economist health care and public sector, for the opportunity they gave me to execute this research within the ING Retail Bank. I am grateful for their input, support and advice during this research. I would like to thank my supervisors of the University of Twente, Mr. Joosten and Mr. Kroon for their feedback and advice. They helped me finalize this project.

I also would like to thank the persons that I have interviewed for the time and information they gave me. It was a privilege to speak with all these people.

Finally, I would like to thank my parents, boyfriend and brother for their support, patience, time and the opportunity they gave me, not only during this master thesis but during my whole educational career. Finalizing this report means the end of six years studying, it is time to say goodbye and to say hello to a new world.

I am really proud of the result of this report and I hope you will enjoy reading it.

***A.M.M.M. van Maasacker***

***Amsterdam, 10 november 2010***

## **Management summary**

On behalf of ING (Internationale Nederlanden Groep) Domestic Bank Nederland we performed this study. The Dutch health care sector and especially the Dutch hospital sector are central subjects in this report. The central question in this report is.

***'Which conditions should a hospital meet to determine whether they have enough potential for a structurally profitable business in ever changing circumstances?'***

The aim of this report is to advise ING how they can judge whether a Dutch hospital has the potential to perform well on the longer term.

We can conclude that a hospital with a good, clearly defined and well-reasoned policy, has the potential to perform better in the future than a hospital which has not an obvious policy. The literature states: *'clear formulated goals have a positive effect on the performance of an organization'* (Locke and Latham [1990a, 2002, 2007]). Clear formulated goals specifically influence the choices, efforts and perseverance of the employees (Latham, Borgogni and Petitta [2008]). Defining clear goals should be covered in the policy process. The ever changing circumstances make it difficult for a hospital to follow their own course. Besides this, a company in the public sector has a large number of influential stakeholders who influence the policy process. This makes the process of defining the policy much more complex than for a firm in the private sector (De Wit and Meyer [2004]).

For ING it is important to get insight in the policy of a hospital, in this way they can judge whether a hospital has clear formulated goals. Describing a clear-defined policy is not enough. ING has to have good knowledge about the choices made by a hospital regarding their policy.

A good policy process starts with an internal and external analysis. Based on its results a hospital can define their mission statement and vision. After a literature study and interviews, we can conclude that the mission statement should include the following subjects.

- Customers - who are the clients of the hospital.
- Positioning - the environment where the hospital is situated (demography and competitors).
- Products and services - the functions a hospital offers to their clients.
- Employees - the attitude of the hospital towards the employee.

The vision shows the long-term goal that the hospital wants to achieve. When the long-term goal is clear, defining the strategy can start. The strategy starts with the sub-objectives. Other crucial elements are the activities and tasks to be performed, which employee is responsible for each activity and task, which resources should be used, how to measure the progress (milestones), the desired results and corresponding indicators. These elements are essential seen the strategy must be translated to the entire organization. With a clear defined strategy, a hospital will be able to implement the strategy into the organization without too many problems.

Finally, it must be clear who the stakeholders are and the degree of influence they have with respect to the hospital.

Overall, it seems that a clear description is enough. Nevertheless, this is not true. A good strategy without well-defined motivations is worthless. The motives a hospital gives for the choices made are more important to get a good understanding of the situation.

Besides the motives, a hospital must show how they implement the strategy into the entire organization. Only than ING can judges whether a hospitals policy is good enough.

### **The Dutch hospital sector**

In the Netherlands 85 general hospitals are registered (in 2010 at the Vereniging van Ziekenhuizen (NVZ)). Hospitals are important clients for ING concerning credit facilities and payments. However, the health care sector is changing. The essence of this is the modifying relationship between the health care providers, insurers, patients and the Dutch government. An example is the declining controlling role of the Dutch authorities which means increasing responsibility for the health care institutions. Although the regulating role of the Dutch government will decline, they will always be part of the Dutch health care sector. Therefore it is important for a hospital to deal with this changing environment. A hospital has to act more and more like an entrepreneur. Entrepreneurship is associated with risks and uncertainty. The size of the risks is fluctuating. Doing business with a hospital brings uncertainties concerning a credit application from a hospital to a bank.

Currently, ING uses three tools to assess a hospitals' creditworthiness. The *rating model* is a statistical instrument developed by ING. It monitors the likelihood that a hospital is not able to meet their short term obligations with respect to the bank. With the outcomes of this model ING can determine the price of credit facilities, the higher the risk the higher the price of the products/services of ING. The *policy paper* answers the question whether credit can be provided and under which conditions. With the help of qualitative and quantitative criteria a hospital will be evaluated. The *benchmark* provides insight into only financial characteristics of a hospital compared to other hospitals. The annual report of all hospitals serves as input for the benchmark.

In addition to these three tools, ING wants to explore whether there are identifiable indicators for estimating the longer term performance of a hospital.

### **The research**

The research is divided into two parts. For a theoretical background we started with a literature study. Central subjects are: performance management, strategic management and the public sector. To get more insight in the policy process and content of hospitals we have conducted 10 interviews with experts from ING and health care experts.

### **Recommendation**

It is essential for ING to up-date their policy paper with the results of this investigation. We recommend ING to add some critical questions to the policy paper, regarding the policy process. Especially the subjects: internal/external analysis, mission statement, vision, goals and strategy are important. A hospital should make clear which choices concerning the policy they have made and why they made these choices. A hospital must be able to show how the policy affects the hospital and in which way it is implemented in the organization. Besides a focus on the policy process, ING should focus on the stakeholders of the hospital. A hospital should make clear to ING:

- Who are the stakeholders of the hospital.
- Whether stakeholders have influence on the business of the hospital.
- To what extent these stakeholders have influence.
- On what areas these stakeholders have influence.

When a hospital can show all this, ING can expect that the hospital is able to deal with the changing environment and to conduct their business on a structural profitable way. Unfortunately, it is not possible to process these questions in a questionnaire, ING should ask the questions during a conversation with the hospital.

## **1. Introduction**

We performed this master assignment on behalf of ING (Internationale Nederlanden Groep) Domestic Bank Nederland, Institutions. The study focuses on the healthcare sector. The sector can be divided into four subsectors; to limit the scope, only the subsector hospital is focal point during this research.

The Vereniging van ziekenhuizen (NVZ [2010]) supposes that health care will remain a combination of public and private interests in the next years. The health care sector has to live with intervention from politics and government. However, demand-oriented care will prevail, and this will connect all parties and branches. For this reason a hospital must be seen as a business organization and no longer as a public institution. Strategic choices must be based on a sound analysis and information. In addition to its existing tools ING would like an overview which characteristics are important to identify hospitals to be stable enough to withstand the coming changes. In that case ING can determine in a later stage which hospitals are expected to play a constant sufficient role in the future.

At the moment ING uses three tools, the rating model, policy paper and the benchmark to evaluate a credit application. These tools primarily look at past performance, how a hospital performed the last year. A small part of these tools look towards the future. To evaluate the credit application more precisely ING wants to look further into the future. Therefore the following research question should be answered.

***'Which conditions should a hospital meet to determine whether they have enough potential for a structurally profitable business in ever changing circumstances?'***

The results of this research lead to an extension of the three tools. These tools are further discussed in this report. For ING it is important to know how they can evaluate the potential of hospitals on future performance.

The research started with desk-research. A literature study is carried out. The literature study was focused on literature from the private sector. Whether the results are applicable in the public sector is the central question during the interviews. A second question to be answered during the interviews is: which characteristics are essential at a policy.

### **Report structure**

This report describes the research process, the outcomes of the literature review, the interview outcomes and the overall conclusions. The report is structured as follows. First some general information about ING is given in Chapter 2. Chapter 3 gives information about the environment in which the research was performed. The research question and how the research was carried out are described in Chapter 4. The result of the literature study is written as theoretical framework in Chapter 5. The results of the interviews (external and internal) are described in Chapter 6. Finally, in Chapter 7 the research question and sub-questions are answered and recommendations for ING are made.

## 2. The organization

To illustrate where in the organization the study is conducted, we start with an introduction of the organization ING. ING is a financial institution of Dutch origin. It was created in 1991 through a merger between the Dutch insurer Nationale-Nederlanden and the Dutch bank NMB Postbank Group. ING has grown into a multinational, operating in more than fifty countries.

ING has a two-tier board structure consisting of the executive board and the supervisory board (website ING group [07 June 2010]). ING made a distinction between their two businesses, banking and insurance, this distinction is translated into the management board. The management board exists of two boards, the management board banking and the management board insurance. The banking and insurance businesses are each organised in three business lines. Figure 2.1 illustrates this structure:

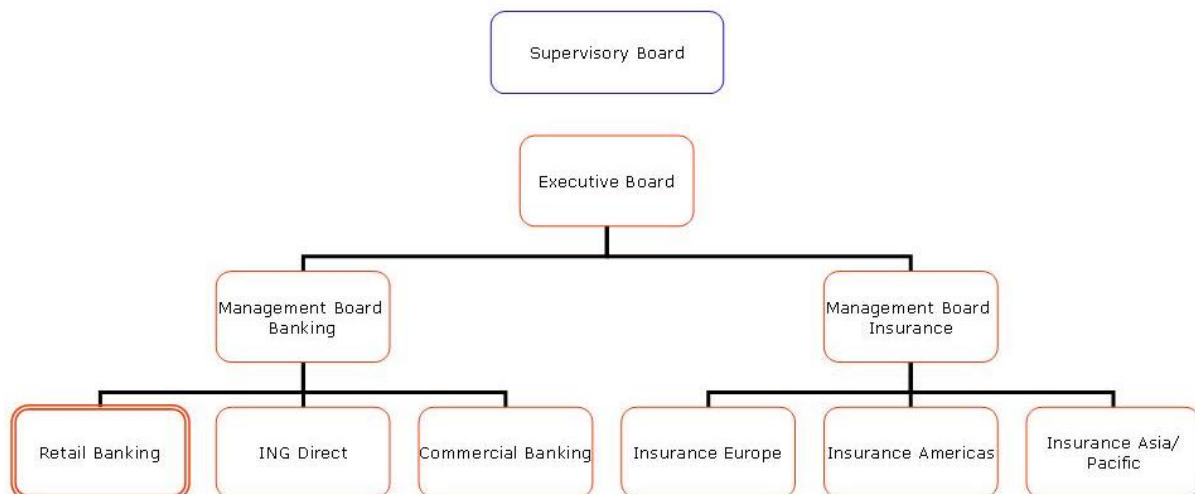


Figure 2.1 Business structure of ING (website ING Group [07 June 2010]).

With the help of the services within each business line the employees of ING try to meet the needs of a broad customer base. ING has about 105.000 employees all over the world. About 70,000 of them work in the banking business and about 35,000 in the insurance business (website ING Group, [18 September 2010]).

The mission statement and vision of ING are illustrated below.

---

### **ING's mission**

***'To set the standard in helping our customers manage their financial future.'***

***ING aims to deliver its financial products and services in the way its customers want them delivered: with exemplary service, convenience and at competitive prices. This is reflected in their mission statement.***

---

Figure 2.2 The mission statement of ING (Annual report ING [2009]).

---

### **ING's vision**

***'We will concentrate on our position as an international retail, direct and commercial bank, while creating an optimal base for an independent future for our insurance operations (including investment management).'***

---

Figure 2.3 The vision of ING (Annual report ING [2009]).

The banking division of ING is the initiator of the assignment; therefore Figure 2.4 shows the banking strategy of ING.



---

### **Banking strategy**

*'ING's long-term goal is to be a leading European retail and commercial bank. Our banking activities will be based on the proven strengths of gathering savings, distribution leadership, simple propositions and strong marketing. We will be predominantly focused on Europe with selective growth options elsewhere.'*

*'Over time, we will build on our current strong market positions to maintain our financial performance through commercial and operational excellence, high customer satisfaction, and a strong capital position.'*

---

Figure 2.4 The strategy of ING (Annual report ING [2009]).

### **Retail banking**

The business line Retail Banking exists of nine domains (ING intranet [2010]).

- HR.
- CFO/CRO.
- COO.
- Marketing.
- Producten.
- Advies & Kantoren.
- Business Banking.
- Private Banking & Beleggen.
- Verkoop & Service Direct.

Business Banking is the domain within this research is conducted. Currently ING has a stable market share in the business segment (one third of the market). Because ING has a big share, the goal for the next years is at least to increase the market share. Despite the recession this goal is not directly under pressure. Expected government measures will slow the growth, but some expansions will still remain. This can be done by increasing market penetration (new customers), or by attracting prospects and extending the services at existing customers (ING intranet Business Banking [2010]). The business banking department can be further divided into six sub-domains.

- Sales.
- Midoffice.
- Kennis- & formulemanagement.
- Businessmanagement.
- Event Finance.
- Instellingen.

Hospitals are covered by the sub-domain 'Instellingen', this sub-domain exists of different divisions. Per sector a manager is responsible for the current state of affairs within this area and the developments which affect the service that the bank offers. Health care is one of these sectors. More information about the activities of ING regarding health care will be described in the next chapter.

### 3. The Dutch health care sector

#### 3.1 Description of the Dutch health care sector

The health care sector consists of different components. Figure 3.1 gives a schematic overview of these components<sup>1</sup>. The health care sector is economically a very important sector. The health care sector has a market size over €70 billion per year. This is more than 10% of the GNP. More than 1 million people are employed in the sector.



Figure 3.1 The national atlas public health.

The Dutch health care sector consists of different institutions; ING 'Instellingen' makes a distinction between the following health care institutions.

- General medical and surgical hospitals (including university hospitals).
- Psychiatric hospitals.
- Nursing care facilities.
- Residential mental retardation facilities.
- Insurers.
- Others.

#### Hospitals

Hospitals<sup>2</sup> can roughly be divided into three categories.

- General hospitals (85 – members of NVZ).
- University hospitals (8).
- Specialty hospitals (35 – members of NVZ).

A general hospital provides facilities for research, treatment and care. In addition, the main part of those hospitals has facilities to teach doctors and nurses. Besides a number of functions that correspond to the general hospitals (regular patient care, top clinical care and job training for medical specialists), a university hospital has a 'topreferentiefunctie', a 'workplace function' (academic research and education for the medical faculty) and a development function (development of new medical technologies and treatments). Finally specialty hospitals focus on a particular category of patients, examples are rehabilitation, cancer and dialysis centres.

In this study, we only focus on the 85 general hospitals.

<sup>1</sup> Source: [http://www.rivm.nl/vtv/object\\_document/o4236n21143.html](http://www.rivm.nl/vtv/object_document/o4236n21143.html).

<sup>2</sup> Source: [http://www.rivm.nl/vtv/object\\_class/atl\\_ziekenhuis.html](http://www.rivm.nl/vtv/object_class/atl_ziekenhuis.html).

### Functions of hospitals

The types of care that a hospital provides can be divided into four functions:

- Acute care.
- Elective care.
- Chronic illness.
- Complex care.

### 3.2 Developments in the Dutch health care sector

There are a number of changes planned in the health care sector over the next years, this is stated in a report published by the 'Raad voor de Volksgezondheid en Zorg'. The changes can be divided into the following four headlines.

1. A growing and changing demand.
2. More medical options and more knowledge about the alternatives by the patients.
3. Citizens take a more critical attitude and are increasingly looking for a healthy life.
4. Although demand is growing there is a double slow down on this growth potential: the labour market and the health care budget.

Due to savings by the government and the aging of the population, the changes in the sector result in a shortage of money and people. Because of these shortfalls the whole sector should be re-designed. This leads to a new health care infrastructure. It is expected that, as a result of this, the number of hospitals will decrease the next few years by means of merger, acquisitions, cooperation and alliance formation (NVZ [2010]). Hospitals have to act more like an entrepreneur. It does not mean they become an entrepreneur, but they have to make more autonomous decisions and the organizational structure should be modified. The question for ING is: which hospitals will survive in this new healthcare infrastructure?

### 3.3 ING and the health care sector

The total market size of the health care sector is more than €70 billion per year, of which ING has a substantial market share. Because of his substantial market share ING has many interests in the sector. ING wants to focus on the health care institutions which will be stable enough to survive in the future. Therefore ING wants to know which characteristics can predict if a hospital will be stable enough to withstand these changes. In this way ING can adjust its strategy and focus on the hospitals which will perform structurally well.

At this moment ING uses three tools to get insight into the performance of a hospital; rating model, policy paper and benchmark. The combination of these three tools assists ING in identifying the performance of healthcare institutions, it gives an overall view of the past performance of each single institution. The three tools are very useful, but one essential element seems still missing. The tools only look at the past, it would be very helpful to add an element which will look to the future performance of a hospital. Currently, the ranking model identifies the performance of healthcare institutions one year ahead. This is not sufficient, for a better insight ING should get impression in the performance on the longer term, especially because the future is so uncertain and full of changes.

Below a brief explanation of the current three tools is given.

#### *The rating model*

The first tool is the rating model for Dutch health care institutions, including a focus on hospitals. The rating model is a pure statistical tool. It calculates the probability of default, this means the likelihood that a hospital cannot fulfil its obligations the coming year. This model consists of three parts. It starts with the measurement of seven risk-

drivers: the management, cash flow forecast and reliability, profitability, solvency, sickness absenteeism, cash flow and business magnitude (turnover). Using a multiple choice questionnaire the risk drivers will be measured, a score between 1 and 15 is possible. The risk drivers do not have all the same weight. Part two exists of two indicators which influence the score of part one. The first indicator is the quality and timeliness of the annual report and the second is the strategic importance of the hospital. The scores of these indicators will be added to the score of part one. Finally, this score will be put into the overall master scale. The possible score of this master scale is between 1 and 21. The type of funding determines the exact location on the master scale. The higher the final score, the greater the risk and the more money ING should retain as a risk premium.

This model has been developed by ING, tested by an external consultant and has been subsequently approved by the Dutch National Bank. This institution requires ING to review their customers every year using a rating model.

#### *The policy paper*

The second tool is the policy paper. For health care a policy paper was made in 2009. This document describes the credit policy of ING. It consists of evaluation and financing criteria for the health care sector. Two parts can be distinguished, the qualitative part and the quantitative part.

1. The qualitative criteria
  - Strategic position.
  - Management.
  - Administrative organization/internal control.
  - Cash flow.
2. The quantitative criteria
  - Financial criteria.
  - Sickness absenteeism.
  - Risk in organization structure.
  - Legal One Obligor – concentration risk.
  - Guarantees regarding other lenders.
  - Financing maturity.

The criteria are the same for all institutions within the health care sector, but each group of institutions has different standards. Some criteria are the same as in the rating model, like the management, strategic position and sickness absenteeism. Because both tools have a different purpose (measuring risk factor and credit policy) it is necessary to look in different ways to the criteria.

ING evaluates this tool annually. ING looks whether there are reasons to adjust funding standards or other criteria. Fundamental changes in the sector can lead to periodic adjustments. Any information that the risk profile changes or developments with commercial background will be taken into account. ING mainly looks at the aspects that are already named in the policy paper, but these subjects are not exclusively important.

Besides this general credit policy, the Policy Paper also describes a credit policy especially for large (building) investments.

#### *The benchmark*

The benchmark compares the financial situations of all Dutch hospitals, it is a snapshot based on the annual reports. Several comparisons can be made. A hospital can be compared with all Dutch hospitals, competitors at the same region or hospitals of the same size.

## **4. Research design**

The health care sector is becoming a very dynamic world, it is a world in which 'past performance is no guarantee for the future'. The tools ING uses for a credit application are helpful to get a good view of the past performance of a hospital. ING misses one very crucial part, future performance. Therefore ING wants to add a new aspect to one of the current tools.

### **4.1 The research**

The general hospitals play a central role during this research. We exclude university and specialty hospitals to avoid a too complex situation.

The purpose of this research is to advice which conditions ING can use to predict Dutch hospital performance on the longer term. The main question that will be used to support this goal is:

***'Which conditions should a hospital meet to determine whether they have enough potential for a structurally profitable business in ever changing circumstances?'***

In order to give an answer to the main research question we have formulated several sub-questions. They are divided into two groups, sub-questions regarding the literature study and regarding the interviews.

Sub-questions regarding the literature study:

- How estimating future performance?
- How does it process looks like?
- What are the differences between the private and public sector?

Sub-questions regarding the interviews:

- Are the outcomes of the literature study applicable to the health care sector?
- What are the key elements of the mission, vision and strategy of a hospital?
- What are frequently mentioned goals?
- Which indicators can be identified for the hospital sector?
- How do stakeholders influence the business of the hospitals?

### **Research objectives**

- To get insight how to forecast business performance.
- To get insight in the latest literature regarding this subject.
- To get insight in the practices regarding this subject.
- To get some concrete characteristics regarding future performance.

The result of this research will be an addition of the aforementioned policy paper. At the moment the policy paper mainly looks at the past performance. With the help of this research we hope we can add conditions which help to look to the future performance of a hospital.

### **Research methodology**

We divide the study and also this report in two parts. The first part consisted of a desk-research. Relevant literature is collected and the most useful theories are used. The goal of this first part is identifying and defining the characteristics. After finishing the literature review and before we can advice ING what the most important characteristics are, interviews with experts are needed. With their experience the outcomes of the literature study can be discussed and some practical insight will be given. The section data collection will give more details about the interviews. The results will be used to advise ING on which characteristics they should pay attention on.

The study concentrates on identifying and defining characteristics that can help to predict future performance of Dutch hospitals. It will not focus on weighting and ranking the hospitals, this is not part of the assignment. Of course this can be done in a later stage.

### **Type of research**

Babbie [2007] identifies three purposes of social science research, one of these purposes is exploration. This approach occurs when a researcher examines a new interest or when the subject of the study itself is relatively new. It is used when problems are in a preliminary stage. The purposes of an exploratory study are:

1. To satisfy the researchers curiosity and desire for better understanding.
2. To test the feasibility of undertaking a more extensive study.
3. To develop the methods to be employed in any subsequent study.

The first two purposes are important during this research. The third purpose goes beyond the goal of this research.

## **4.2 Data collection**

### *Literature study*

The theoretical literature search was conducted with the help of a few academic article websites, like sciencedirect, jstor and scopus. Keywords used during the search were: 'performance management', 'performance indicators', 'the private and public sector', 'decision-making models' and 'strategy and goal setting'.

Specific information about ING and the hospital sector were collected from journal and websites of the NZa (Nederlandse Zorgautoriteit), NVZ (Vereniging van ziekenhuizen), Zorgvisie, Ministry of VWS and NMa (Nederlandse Mededingingsautoriteit). Besides the above also the input of my supervisors from ING is used for background information, because they have many years of experience in the health care sector.

With the help of this literature study we hope to find the answer to the sub-questions regarding the literature study (see Section 4.1). First we want to find out if the literature describes some circumstances in which an organization performs better than other companies. When this is clear we need to find out how a firm can reach these circumstances. The literature study will focus on business literature. A hospital is a public organization, therefore it is important to make clear what the differences are between the public and private sector.

### *Interviews*

For the research it is important to clarify the following issues.

1. Checking the findings of the literature study – the process
2. To get insight in the practice – the content

Two types of interviews are carried out, internal and external interviews. When these interviews were conducted, conclusions could be drawn which subjects are necessary to predict the future performance of a hospital. We conducted individual, verbal interviews. The type of interview conducted is called a focused interview, because a specific topic is the subject (Baarda, De Goede, & Teunissen, [2005]).

Babbie [2007] states that a qualitative interview is *'an interaction between an interviewer and a respondent in which the interviewer has a general plan of inquiry, including the topics to be covered, but not a set of questions that must be asked with particular words and in a particular order .. and the interviewer must be fully familiar with the questions to be asked..'* Semi-structured interviews will be used, this means the main questions are defined, but it is allowed to bring up new questions during the interview. This fits well



with the exploratory nature of the research. Before the interview, per topic, a list with a few main questions is prepared. The order of the questions is fixed, but depending on the interview it can be adjusted. Besides the interview questions a checklist is prepared.

During the interviews we hope to get answers on the sub-questions regarding the interviews (see Section 4.1).

#### *External interviews*

The external group of experts consists of members or the secretary of the Board of Directors or employees involved in strategy formulation of hospitals and health care insurers. On the one hand the external experts give new insights on the process from their perspective and on the other they helped to assess which characteristics are useful in practice.

We made six appointments with external experts, a list of the persons can be found in Table 4.1. For a good introduction, an introduction letter was written. The letter explains who we are, what the purpose of the research is, the first results and the purpose of our interview. In Appendix I the introduction letter may be found.

#### *Internal interviews*

The internal experts are professionals working at ING Business Bank, Retail Banking. The internal interviews have the purpose to check the findings of the literature study. Because the interviewees have no particular experience in the health care sector it is impossible to get good insight in the practice. Four internal interviews were conducted.

The list with interview questions of both groups and the checklist can be found in Appendices II and III.

### **4.3 Data analysis**

The answers given during the interviews are incorporated into text. Irrelevant information, which has nothing to do with the subjects, is reduced. The text that remains is used as basic document for further analysis.

The analysis unit is the chosen topics. We use the topics, process, mission statement-vision, strategy, goals and stakeholders, as a label. In consultation with ING we decided to use these labels because these subjects are most interesting items for ING. Before we continued with the reduction of the explicit material we made sure what we want to know, why we want it to know and from which perspective we do research and thus the labeling. Questions with similar content are summarized in one general label. This research is a descriptive study. We tried to find a logical structure for the interview and tried to explain the link between the labels, which resulted in a process model.

A checklist is prepared that should give support during the interviews. The checklist includes all topics to be covered during the interview. In this way we make sure that all issues are addressed. By using the checklist we make sure that each issue gets attention during the interview and thus the data analysis becomes easier. We used a checklist for some reasons.

- We conduct only ten interviews and we have only one hour per interview planned, we have to make sure we get enough information per subject.
- Questions asked will depend on the situation, but the items on the checklist must be answered.
- All interviews have the same structure. Because the interviews are the only reference, so the information arising from the interviews must be equal. In this way analyzing the data becomes more easy and consistent.

## **5. Theoretical framework**

Before we start with the theoretical framework, we shortly describe the process we went through. The goal is to get a grip on the structure of the literature study.

ING wants to focus on hospitals which perform better than others. We started the literature research with performance management. We hoped to find some statements which claimed why some organizations perform better than others. Different studies stated that clear goal setting has a positive effect on performance (Locke and Latham 1990a). Before a firm can formulate well-defined, clear goals the organization has to formulate a clear mission statement (De Wit & Meyer [2004]). Managers must constantly make choices and seek solutions based on an understanding of what their organization is intending to achieve. Therefore it is important to make clear what the company wants to achieve. So we had to find out how to get well-defined clear goals. Strategic management can give some theoretical background, this process started by the mission statement. The theory is based on literature from the perspective of enterprises operating in the private sector. To translate this theory for the public sector it is important to know what the differences are between the private and public sector. The main difference between firms in the private and public sector is their goal. Making profit is the main purpose of private organizations. Public companies have also other goals due to their social role. And second not for profit companies have to deal with more influential stakeholders, which make the business in the public sector more complex than a firm with a commercial background.

### **5.1 Performance management**

*'Performance is defined as the potential for future successful implementation of actions in order to reach the objectives and targets'* (Lebas [1995]). Years later this is still the opinion of Popova & Sharpanskykh [2010] *'measuring and analyzing organizational performance plays an important role in turning organizational goals to reality'*.

#### **Definition of performance management**

The definition of performance management has changed significantly in the recent years. *'It certainly has roots in Taylor's concept of scientific management'* (Smith & Goddard [2002]). Taylor [1911] describes how the application of the scientific method to the management of works could improve productivity greatly. Pollitts [2001] states it is difficult to give one single definition of performance management. He stated: *'it means very different things in different administrative systems, from the most basic management of employee performance in a highly centralised administration, to the vehicle for establishing and managing the highest strategic priorities of government and transforming them into strategic outputs cascading down through organizations to individuals'*. Smith & Goddard [2002] characterize performance management as: *'... an integrated set of planning and review procedures which cascade down through the organization to provide a link between each individual and the overall strategy of the organization'*.

#### **Developments in the performance management domain**

Measuring performance is complex, frustrating, difficult, challenging, misused, abused and important (Sink [1991]). Therefore it is essential to implement performance management gradually.

Performance management was for many years focused on employee behaviour. Nowadays performance management influences not only the individual employee, but the whole organization (Smith & Goddard [2002] and Folan & Browne [2005]). Smith & Goddard [2002] illustrate the performance management process by drawing a schematic representation (Figure 5.1). Performance management from organizational



view is represented by the inner loop. The purpose of performance management is to ensure that the organization is steered in some sense optimally within the inner loop (Smith & Goddard [2002]).

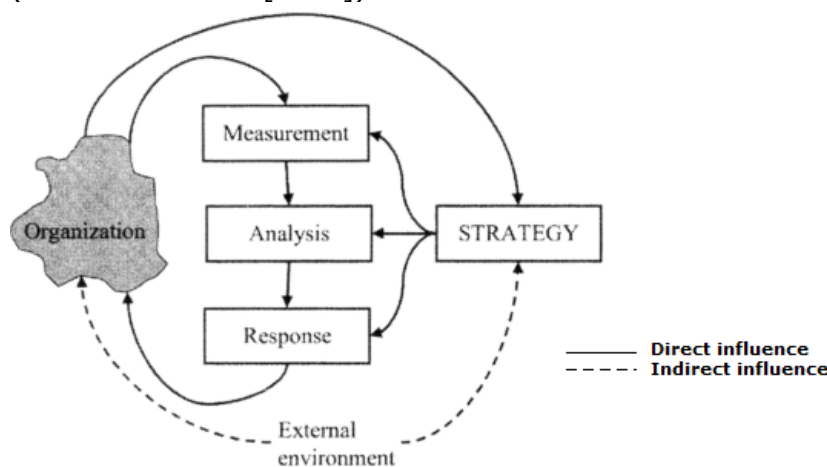


Figure 5.1 Schematic representation of performance management (Smith & Goddard [2002]).

Performance management is further extended, inter-organizational performance management (Folan & Browne [2005]). Performance management has an impact outside the organization, in the external environment (Figure 5.1.) It recognizes that the organization must continually review the context within which performance management is conducted and be prepared to amend strategy if circumstances suggest it is needed (Smith & Goddard [2002]). Folan & Browne [2005] expect that there will be a significant increase in inter-organizational performance management development in the coming years.

### From framework to system

According to Lebas [1995] performance measurement and management follow one another in an iterative process; they feed and comfort one another. Performance management is a philosophy supported by performance measurement. The term framework refers to the active employment of particular sets of recommendations (Folan & Browne [2005]). For performance management a distinction between a structural and a procedural framework can be made. Folan & Browne [2005] describe the structural framework as a specific typology for performance measure management that is *'concerned solely with administrative and selection elements of the performance management process'*. A procedural framework is an explanation of a process how to develop a performance measurement system with strategy as starting point, procedural elements *'helps to determine exactly how the process of performance management should be carried out'* (Folan & Browne [2005]). Compared with the performance management framework, there are a few performance management systems. Folan & Browne [2005] explain that the basic requirements for a successful performance management system are two frameworks, both the structural and procedural one.

### Analyzing performance management methods

Marr & Schiuma [2003] provide an analysis to identify which researchers predominantly influence the field of business performance measurement. Kaplan is the most cited author (154 citations in 2002), followed by Norton (120 citations in 2002). The two articles of Kaplan & Norton [1992, 1996] are the two most cited ones (23 and 18 citations in 2000). According to the research of Marr & Schiuma [2003] Kaplan and Norton are the dominating authors in the business performance measurement field. There exist some interesting tools to measure performance. The 'balanced scorecard' is one of them; this tool has been developed by Kaplan & Norton [1992]. Besides the

traditional financial measures, the 'balanced scorecard' also measures performance from three additional perspectives, for instance customers, internal business processes, and learning/growth. These nonfinancial metrics are so important mainly because they are geared to future financial performance rather than look backwards and tell the story of past events (Kaplan & Norton [1992], Chenhall & Langfield-Smith [2007], Punniyamoorthy & Murali [2008], Popova & Sharpanskykh [2010]).

According to Folan and Browne [2005] the traditional 'balanced scorecard' is a structural framework, this statement is doubtful. Again strategy plays a crucial role in this context. Later Kaplan and Norton add a procedural extension to the 'balanced scorecard'. The 'balanced scorecard' introduces four new management processes. These new processes contribute to linking long-term strategic objectives by using short-term actions (Folan & Browne [2005]). The four new processes are:

- Translating the vision.
- Communicating and linking.
- Business planning.
- Feedback and learning.

The emphasis most companies place on short-term financial measures leaves a gap between the development of a strategy and its implementation. Adding the procedural processes assists organizations to develop a strategy (Folan & Browne [2005]). In the next section these processes will be explained (Table 5.1).

Performance is about the future and data is about the past. Data become information only when it is used in a decision making model or when it is transformed into some kind of predictive parameter value to be used in 'decision making' (Lebas [1995]).

### **Two performance management processes**

The OECD used the following description of the process of performance management (Pollitt [2001]):

- *Setting performance objectives and targets for programmes (and in many cases made public)*
- *Give managers responsibility for each programme the freedom to implement processes to achieve these objectives and targets;*
- *Measuring and reporting the actual level of performance against these objectives and targets;*
- *Feeding information about performance level into decisions about future programme funding, changes to programme content or design and the provision or the provision of organizational or individual rewards or penalties;*
- *Providing information ex post review bodies such as legislative committees and the external auditor (depending on the latter's performance audit mandate), whose views may also feed into the decisions referred to above.*

Kaplan and Norton [1996] define four steps in the process of performance management. Table 5.1 gives a description of each step.

Process	Activity
<b>1. Translating the vision</b>	The top-management has to define general goals to operationalize their vision.
<b>2. Communicating and linking</b>	When the top-management has defined these goals they communicate this down the organization. In this way their strategic objectives and measures are translated into objectives and measures appropriate to department level. For better understanding and management these measures can be broken down to the organization levels. To finalize this process the department objectives and measures can be translate into personal objectives and measures.
<b>3. Business planning</b>	During this process the strategic planning and budgeting will be combined with the objectives and measures. The purpose is to ensure that the financial budgets are adequate for the set objectives and measures. Thereafter, the most important drivers should be identified including milestones to measure their progress.
<b>4. Feedback and learning</b>	This last process is about the evaluation of the objectives and measures. It is good to evaluate your objectives and measures because in this way an employee is able to reflect on inferences and adjust theories about cause-and-effect relations. In this way performance measurement will be improved.

Table 5.1 The procedural framework by Kaplan & Norton [1996].

Both processes start with defining objectives for the organization. The goal setting theory of Locke and Latham [1990a, 2002, 2007] states that:

- A specific high goal leads to higher performance than an easy goal, a general goal or no goal setting.
- Given ability as well as commitment, the higher the objective, the higher a person's performance.
- Variables such as participation in decision making, feedback, including praise, competition and monetary incentives only affects a person's behaviour to the extent that they lead to the setting of and commitment to a specific high goal.

Latham, Borgogni & Petitta [2008] argue that the goal setting has a positive effect on employee or team performance (Locke and Latham [1990a]). Locke, Shaw, Saari & Latham [1981] analyzed two sets of studies regarding the effect of goals setting on performance. Overall, they concluded that *'99 out of 110 studies found that specific, hard goals produced better performance than medium, easy, do-your-best, or no goals'*. This is a success rate of 90%. A goal does not affect only how hard an employee will work, but also what aspects of a task he will focus on (Locke & Bryan [1969]).

Managers recognize that measuring performance indicators is essential for a company (Popova & Sharpanskykh [2010]). The managers put conscious effort in defining company-specific goals, performance indicators and evaluate them. Popova & Sharpanskykh [2010] observe that a more systematic approach is needed regarding defining goals, performance indicators and evaluate them. Nowadays this is usually done in an informal, ad-hoc way.

As said, goal setting has a positive effect on performance, therefore it is relevant to know how a firm can formulate specific goals. However process of performance management by the OECD and the procedural framework of Kaplan and Norton [1996] are more or less the same. We will use the process defined by Kaplan and Norton [1996], because these authors are leading in the field of performance management. The first step in this process is translating the vision. Before a hospital can translate the vision into general objectives, they have to define their vision. *'Top management's vision helps specify what*

*will make the firm great. An elaboration of this vision can be done through a formal statement of objectives. However, it is not the formality of a firm's objectives but rather the excitement and challenge that top management's vision can bring to a firm's manager that is important to the strategy process'* (Chakravarthy & Lorange [1991]). An organization that is effectively implementing an appropriate strategy can set better goals which fit well the purpose of the organization (Otley [1999]).

## 5.2 Strategic management

### Organizational purpose

*'An organization is a goal-directed social entity that consists of deliberately structured and coordinated activity systems; it can be conceived of as an open system that interacts with its environment'* (Thompson [1967]). The mission and vision of a company are part of its organizational purpose.

### Mission statement

The creation of the mission statement is the starting point for most models of strategic management. It serves to set the organizational context within which strategic decisions will be made (Morris [1996]). There are different definitions of the mission statement. *'.. A mission statement is a declaration of an organization's 'reason for being'* (David [1989]). According to Ireland & Hitt [1992] *'an effective mission statement describes the firm's fundamental, unique purpose. An important part of this description indicates how a firm is unique in its scope of operations and its product or service offerings. Baetz & Bart [1996] states 'a mission statement is potentially and valuable tool for formulating and implementing an organization's strategy'. 'The mission statement serves to set the organizational context within which strategic decisions will be made, in its simplest form, the mission statement describes the nature and concept of the firm's future business'* (Morris [1996]). The mission statement aims to provide the firm with strategic focus and direction (De Wit & Meyer [2004]).

Our definition of the mission statement is: The reason for being, the strategic direction of the organization.

The need for a mission statement is certainly not unique for one particular kind of organization, it is important for all types of organizations (Ireland & Hitt [1992], Morris [1996]). There are several reasons why it is important to define a mission statement. Table 5.2 gives an overview of reasons mentioned by several authors.

Author	Reasons for mission statements
<b>King and Cleland [1979]</b>	<ul style="list-style-type: none"> <li>• To ensure unanimity of purpose within the organization.</li> <li>• To provide a basis, or standard, for allocating organizational resources.</li> <li>• To establish a general tone or organizational climate.</li> <li>• To serve as a focal point for individuals to identify with the organization's purpose and direction.</li> <li>• To facilitate the translation of objectives into a work structure involving the assignment of tasks to responsible elements within the organization.</li> <li>• To specify organizational purposes and the translation of these purposes into objectives in such a way that cost, time, and performance parameters can be assessed and controlled.</li> </ul>
<b>Ireland and Hitt [1992]</b>	<ul style="list-style-type: none"> <li>• Only after a mission statement has been developed can objectives and appropriate strategies be formed properly in all segments of a company.</li> <li>• To provide motivation, general direction, an image of the company's character, and a tone, or set of attitudes.</li> </ul>
<b>Baertz and Bart [1996]</b>	<ul style="list-style-type: none"> <li>• To guide the strategic planning.</li> <li>• To define the organization's scope of business operations/activities.</li> <li>• To provide a common purpose/direction transcending individual and department needs.</li> <li>• To promote a sense of shared expectations among all levels of employees, thereby building a strong corporate culture.</li> <li>• To guide leadership styles.</li> </ul>

Table 5.2 Reasons for mission statements.

The reasons mentioned in Table 5.2 are all logical. For our study some reasons are more relevant than others.

- To guide the strategic planning.
- To promote a sense of shared expectations among all levels of employees, thereby building a strong corporate culture.
- To facilitate the translation of objectives into a work structure involving the assignment of tasks to responsible elements within the organization.
- To specify organizational purposes and the translation of these purposes into objectives in such a way that cost, time, and performance parameters can be assessed and controlled.
- To provide motivation, general direction, an image of the company's character, and a tone, or set of attitudes.

To get a better understanding of the content of a mission statement, we tried to find the essential elements. Pearce [1982], Want [1986], David [1989] and Baertz & Bart [1996] all identified a list of components with the content of a mission statement. We compared all those elements and summarized this into nine key subjects. Below a definition will be given of these nine items. The descriptions formulated by David [1989] are the most clear and complete definitions, therefore we use these justifications.

- Customers – Who are the enterprise's customers?
- Products or services – What are the firm's major products or services?
- Location – Where does the firm compete?
- Technology – What is the firm's basic technology?
- Survival, growth & profitability – What is the firm's commitment to economic objectives?
- Philosophy – What are the basic beliefs, values, aspirations and philosophical priorities of the firm?
- Self-concept – What are the firm's major strengths and competitive advantages?
- Image – What are the firm's public responsibilities and what image is desired?
- Employees – What is the firm's attitude towards its employees?

There is no hard evidence that a complete mission statement is directly related to better performance of an organization (David [1989], Bart, Bontis, DeGroot & Taggar [2001]). But indirectly it influences the activities and choice of an organization. This is well-defined by Drucker [1973], he stated: *'A business is not defined by its name, statutes, or articles of incorporation. It is defined by the business mission. Only a clear definition of the mission and purpose of the organization makes possible clear and realistic business objectives'*. This is a very old statement, but it is used in a lot of modern articles.

### **Vision**

While the mission statement is the strategic direction of the company, the vision outlines the future organization goal on the mid- to long-term (De Wit & Meyer [2004], Kaplan & Norton [2008]). Kaplan and Norton [2008] suggest there are three vital components according to the vision:

- Identify a goal.
- Definition of market focus.
- The time line for execution.

It is important to know what the goal is, because then an organization can focus on that purpose. Companies that do not focus run the risk of encountering a number of major problems (De Wit & Meyer [2004]), for instance unclear image, unclear corporate identity, and limits to flexibility. The mission statement is often confused with the vision of a company.

### **Strategy formation**

An organizational purpose can provide a strong guidance during the strategy process. When the organizational purpose is clear, the firm knows what it wants to achieve and which values are important, the managers can state a strategy. Mintzberg [1987] is a well-known person in the world of organization strategies and stated that a strategy has two essential characteristics:

- It is made in advance of the actions to which they apply, and
- It is developed consciously and purposefully.

The strategy formulation starts with an internal and external analysis (De Wit & Meyer [2004], Kaplan & Norton [2008]). This is the input for the classic SWOT-analysis. This analysis creates a good impression which conditions are important in the strategy. Subjects that become clear are the best role for new products, and services, or whether new partners must be acquired and the new market and customer segment might enter. These subjects will become the focus of the strategy formulation process. De Wit and Meyer [2004] state that before the strategy can be formulated all possibilities must be analyzed, especially the goals, actions, tasks, responsibilities, resource allocation, milestones and performance measures are important to analyse.

## Goal setting

Goal setting has a positive effect on performance of a company. A specific high goal affects choice, effort, and persistence (Latham *et al.* [2008]). Commitment plays a major role regarding goal setting, Latham *et al.* [2008] stated that specific high goal leads to persistence until the goal is attained. So, employees play an important role. The organization has to find the right balance, because a too high goal works the other way around. Motivation is highest when performance targets are set at an intermediate level of difficulty. An example of such a balance is illustrated in Figure 5.2 (Merchant & Van der Stede [2007]). The right balance is for every company different.

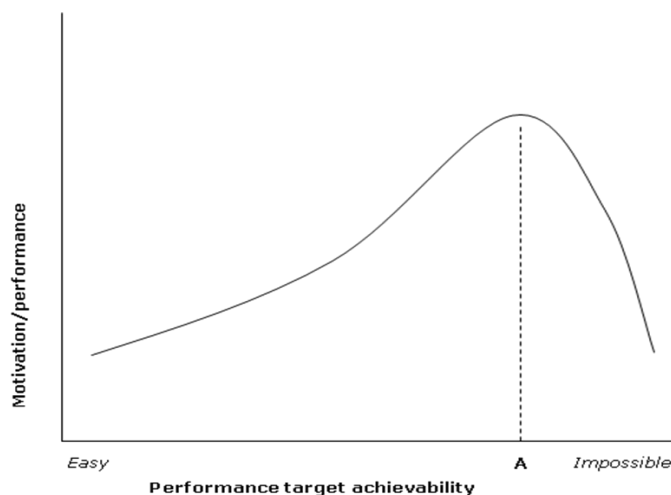


Figure 5.2 Targets influence motivation employee.

It is important to define good, clear goals. When it is not clear which goals should be achieved and how tradeoffs among them should be made, it is hard, if not impossible, to judge how well the control systems or the management team of an organization is performing. Some non-profit organizations strive with this issue. Before the overall control system can be (re)designed, this problem must be resolved first (Merchant & Van der Stede [2007]).

## Indicators

Popova & Sharpanskykh [2010] emphasize that the set of performance indicators to be defined for one organization, can be very large. Therefore, it is important to distinguish between key performance indicators (KPI's) and sub indicators. The choice of KPI's is strongly company-specific, depends on the state orientation and position of the organization on the market, its mission statement and the costs of measuring and monitoring are reasonable. Kaplan and Norton [1996] do not pre-define performance indicators, because they say that the indicators will be developed and formulated during the whole process of the 'balanced scorecard'. The development and formulation of indicators will arise naturally (Folan & Browne [2005]).

To ensure continued success, the organization should monitor its performance with respect to its goals. Much research is done on the effects of goal setting. *'A performing business is one that will achieve the objectives set by the managing coalition, not necessarily one that has achieved the objective'* (Lebas [1995]). Otley [1999] assume that *'an organization that is performing well is one that is successfully attaining its objectives'*. Smith & Goddard [2002] emphasize the importance of communicating the purpose and strategy to the lower organization levels.

The performance is usually evaluated by estimating the values of qualitative and quantitative performance indicators. It is essential for a company to determine the



relevant indicators, how they relate to the formulated company goals and how they depend on the performed activities. Defining an indicator can be done by specifying the following characteristics for each performance indicator (Popova & Sharpanskykh [2010]). Table 5.3 gives an overview.

Name	Name of indicator
<b>Definition</b>	Definition of what must be measured.
<b>Type</b>	Continuous when it is a continuous number or discrete when it is measured in indivisible units.
<b>Time frame</b>	The period of time for which it will be evaluated, for example each year or month.
<b>Scale</b>	The measurement scale for the performance indicator.
<b>Min value and max value</b>	The minimal and maximum value of the scale.
<b>Source</b>	Which internal or external source can provide the information about the PI.
<b>Owner</b>	The role of the source that provide the information about the PI.
<b>Threshold</b>	Weightings.
<b>Hardness</b>	Soft performance indicators are qualitative and hard performance indicators are quantitative.

Table 5.3 Characteristics performance indicator.

### 5.3 Organizations in the healthcare sector

The historical background of a company influences the policy and the policy process of an organization. Moerland [1993] and Weimer & Pape [1999] made a distinction between market-oriented and network-oriented systems. *'Market-oriented systems are characterized by: well-developed financial markets, large scale presence of open corporation with widely dispersed share-ownership and active market for corporate control. Network-oriented systems are characterized by: closely held corporation, group membership of corporations, and substantive involvement of universal banks in financing and controlling corporate firms'* (Moerland [1993]).

The Anglo-Saxon corporate system is an example of the market-oriented systems. The opposite of this Anglo-Saxon is the Rhineland model. In the Anglo-Saxon system the enterprise is primarily an instrument for achieving the maximisation of shareholders. Anglo-Saxon countries are: The USA, the UK, Canada and Australia. The Rhineland model, on the other hand, is concerned much more with a socially corrected market economy. A Rhineland country is the Netherlands. In this model, the role of the enterprise is much broader than value maximisation for the shareholder. While the opponents of the Rhineland model insist on wage restraint, deregulation, and privatization as useful to economic progress (Berghe & Ridder [1999]). The followers of the Rhineland model see especially the relative consensus among the various partners, the good education of the population, stability and the absence of overly sharp abuses as important for the technical-economic development. This model assumes that both labor and capital are necessary and collaboration is important (Berghe & Ridder [1999]).

Berghe and Ridder [1999] linked the Anglo-Saxon model to the shareholders model and it is characterized by the fact that relationships between companies and their shareholders as well as with their employees are temporary in nature. The shareholders model focuses on the short-term. The Rhineland model is a stakeholders model, it characterized that the business management is seeking lasting institutional relationships with all stakeholders, whose interests are monitored in a balanced manner. This model focuses on the medium- and long-term, but this model has other disadvantages; particular in case of conflicting interests and it is less flexible than the Anglo-Saxon



model (Berghe & Ridder [1999]). Table 5.4 below shows the difference between the two models.

	Shareholder value perspective	Stakeholder values perspectives
<b>Emphasis on</b>	Profitability over responsibility	<b>Responsibility over profitability</b>
<b>Organizations seen as</b>	Instruments	<b>Joint ventures</b>
<b>Organizational purpose</b>	To server owner	<b>To serve all parties involved</b>
<b>Measure of success</b>	Share price and dividends	<b>Satisfaction among stakeholders</b>
<b>Major difficulty</b>	Getting agent to pursue principals interest	<b>Balancing interests of various stakeholders</b>
<b>Corporate governance through</b>	Independent outside directors with shares	<b>Stakeholder representation</b>
<b>Stakeholder management</b>	Means	<b>End and means</b>
<b>Social responsibility</b>	Individual, not organizational matter	<b>Both individual and organizational</b>
<b>Society best served by</b>	Pursuing self-interest	<b>Pursuing joint-interest</b>

Table 5.4 Two perspectives regarding organizational purpose (De Wit & Meyer [2004]).

The theory in the previous sections is written from the private sector. We assume that this process and the elements mentioned are also valid in the public sector. The goal setting theory of Locke and Latham [1990a, 2002, 2007] is as applicable for motivating an employee in the public sector as it is to the private (Latham [2008]). To translate this theory into the public sector it is important to know what the differences are between the private and public sector. For this study the stakeholder model will better fit.

The main difference between profit and non-profit firms is their goal. A private company's main aim is making-profit, profitability over responsibility (Table 5.4). In the public sector this is the other way around, responsibility over profitability. Public organizations have a social role. This means that making-profit plays a less important role, but purposes from their social role are more important. De Wit & Meyer [2004] described two perspectives regarding to the organizational purpose of organizations in both sectors. For the private sector it is called the shareholder's value perspective and for the public sector it is the stakeholder's value perspective.

To ensure continued success, the organization should monitor its performance with respect to its goals. Kaplan & Norton [2008] believe that if a company does not measure progress toward an objective, they cannot manage and improve. An organization will be characterized as successful when the stakeholders are satisfied. So during the goal setting, an organization must be taken into account all interests of the stakeholders (Table 5.4). Funk [2003] states that a sustainable organization is '*one whose characteristics and actions are designed to lead to a "desirable future state" for all stakeholders*'. Sutcliffe & McNamara [2001] argue that decision-maker behaviour is depending on the situation and is not simply a function of individual choice. Nowadays an enterprise is a complex entity in which various stakeholders interact. All these stakeholders have their own interests (Steuer & Na [2003]).

De Wit & Meyer [2004] make a clear distinction between the commercial organization who act mainly in accordance with the interests of the owners and the institutions in the public sector that are not or less aimed to make profit, but seek, from their social role, other goals. The difference between profitability and responsibility lead to different organization purposes, which leads to different strategy definition. Stakeholders have all own interests, therefore it will become apparent that more attention will need to be paid

to the definition of performance from the perspectives of relevant stakeholders (Otley [1999], Steuer & Na [2003]).

## **6. Analysis interviews**

### **6.1 External and internal interviews**

We conducted six semi-structured external interviews, the purpose of the interviews was getting answers to the 'sub-questions regarding the interviews' (section 4.1). 85 general hospitals are registered by the NVZ in 2010. We conducted four interviews with members of the Board of Directors of hospitals, this means 4,7 % of the population. With the addition of two external and four internal experts, the results can be considered reliable. The subject is approached from different perspectives which increase the reliability of the research.

The topic was important to all interviewees, because it is an issue that is currently very pertinent to hospitals. They gave much information and were well aware of their own policies. The interviewees were so enthusiastic that it was sometimes hard to apply the predetermined structure. Given the fact that we only had one hour per interview scheduled, we had to interrupt some interviewees, otherwise there would have been no time left for the other subjects. Overall, the interviews went well, the interviews were very interesting. First we give the conclusions regarding the external interviews. In addition the judgement of the internal interviews will be represented.

#### **Process**

We started the interviews with a short explanation about the policy process. Whether this process also applicable is for the hospital sector, we asked the interviewee if this process is recognizable for this sector.

All interviewees recognized the theoretical policy process, but characterized it as an ideal process. Although everyone is aware of the usefulness of such a process, in practice it is not executed exactly like the description.

Some quotes of the interviewees concerning the process.

- *'The various aspects are well covered, but implemented less systematically and it is not always specifically defined'.*
- *'Recognizable, but in practice it went less structured'.*
- *'Good process for the future, but it is not obvious'.*
- *'This is the process, as it ought to be'.*

#### *External interviews*

Two interviews showed that the process description misses two important subjects.

- A well executed regional external analysis.
- Administrative continuity.

It is very important for a hospital to have a detailed policy. But in addition, a hospital should be able to be flexible when changes emerge in their environment. An example is the intervention of the Dutch government. One interviewee stated: *'sometimes it is hard to act in line with the policy, the Dutch health care sector is still highly regulated. That is the reason why a hospital is dependent on the requirements laid down by the Dutch government'.*

#### *Internal interviews*

Obvious during the internal interviews is that the internal professionals pay more attention to the execution rather than defining the process. Some statements of the interviewees to illustrate this: *'Their implementation is often wrong'.* *'Due to the dynamic nature of the sector, hospitals are often focused on the short term, this is influenced by the government'.*

Currently, hospitals have a solid policy, but they often remain in the circle of policy development. The concrete implementation remains a (too) big step.

Summarized, the hospitals are aware of the importance of a good policy and the corresponding process. However, in practice it seems to be difficult, because of the different interests of parties involved.

### **Mission statement – vision**

The content of the mission and vision is often reversed. For ING it will be valuable to know which key elements are essential for a good mission statement and vision of a hospital.

There may be a number of key components characterized by all interviewees as important aspects in the mission and vision. Components which are mentioned by both expert groups:

- Positioning
- Clients
- Products and services
- Employees
- Quality
- Competitors
- Stakeholders

The top four of this list is mentioned most frequently.

#### *External interviews*

In general, it is important to carry out a good internal and external analysis. The first two aspects (Figure 6.1) are all externally oriented and the second two are internally oriented. One interviewee claimed: *'currently hospitals execute a very limited external analysis, hospitals are not aware enough of their environment, the role they are playing and the role they will play in the future'*. A hospital has to look to its external environment to discover what the needs of their clients are and thereafter look to the internal organization how they can meet the demand. Combining both analyses provide the best product-mix for the organization.

#### *Internal interviews*

The internal interviewees agree with the answers of the external interviewees. A well-defined mission statement or vision is not enough. All four interviewees stated the content of the mission statement and vision is important, but more important are the choices they have made to come to this formulation. *'It is about the information on which the choice is based. However it is not an essential aspect of the mission statement, the choices and information must be known by the hospital. With the help of this information, a hospital can further expand and implement its policy'*.

During the internal and external analysis it is important to recognize the developments in the sector in an early stage. *'It is not just about demographic developments, but also economic and technological developments. Also developments regarding hospitals competitors should be identified in time'*.

The component 'employees' is mentioned less frequently by the internal experts. We summarized the conclusions of the external expert and asked the internal professionals for a response. According the internal experts, we can conclude that the employees are not immediately obvious. It is an important element regarding the mission statement, especially because the sector can expect a growing labor shortage.

To conclude two points are important to measure regarding the mission statement and vision. First the content, the presence of the elements: positioning, clients, products and

services and employees. And second the justification, why the hospital chooses for this content.

### Strategy

The theory, described in the previous chapter, shows a few elements that are necessary for a good strategy. The question is if these elements are defined in the current strategy of a hospital. If it is not so, it is important to know if these components should be present in the strategy in the future.

The strategy describes the way one thinks to achieve the organization's vision. According to the interviewees, there are four important aspects that a strategy should include.

- Goals
- Activities
- Results
- Indicators

#### *External interviews*

Frequently mentioned subject in the strategy is co-operation, some quotes of the interviewees:

- *'This will be a win-win situation for all involved parties'.*
- *'It is important to be involved in the health care chain and take the responsibility it belongs'.*
- *'It is important to have good relationships with other health care providers in the region where the hospital competes'.*

In general, all hospitals seek for a situation where the strengths are bundled and they collaborate to realize good health care system for the Netherlands.

#### *Internal interviews*

It is difficult to summarize the answers of the internal interviewees to one single conclusion. Two out of the four interviewees argue the strategy consists of different parts. It starts with the objectives of a hospital, secondly the plan how to achieve these goals should be defined and finally the implementation of the whole plan. During the interview we focused the most on the second part. The internal interviews confirmed the importance of defining the goals, activities, results and indicators.

To point out, although the mission statement and vision contains some necessary elements that are the input for the strategy, the strategy is more important. The strategy is the translation of the mission statement and vision into a practical approach. With the help of clear goals, clarity about activities, results and indicators the employees of a hospital will be able to perform in line with the mission statement and vision.

### Goals and indicators

We have assumed to identify a number of general goals and indicators for the whole hospital sector. But, as already described in the literature we can not generalize some goals to the whole sector. The goals and associated indicators are specific per company. It has to do with the vision of the hospital; what is the organizational purpose? The sub-goals that must be formulated depend on this purpose.

The interviewees mentioned general subjects regarding the objectives. This is still a wide range of subjects.

- Collaboration.
- Financial goals.
- Quality.
- Market position.
- Patient satisfaction.
- Employee satisfaction.

- Absence through illness.
- Labour market.
- Primary process.

#### *External interviews*

Five out of six interviewees stated finance and quality as subject concerning goals for hospitals. Four out of six the interviewees think that market position is a subject that is an aim of a hospital.

One interviewee stated *'goals should be defined concisely. So it is immediately clear what the core message is. The goals are the starting point of the strategy. For each goal actions, desired outcomes and sharp concrete indicators must be defined in advance'*.

The interviews made clear that the translation into the organization is a very difficult part. Actually, it is more complex then assumed. The translation influences different parts of the organization. The policy must fit within the skills, personnel, management, culture, ICT-systems and the organization structure. A hospital must be able to execute their defined strategy. If it does not, the whole process till the implementation will be worthless.

#### *Internal interviewees*

Although it was not intended to go deeper into the goals and indicators during the internal interviews, the above conclusion is confirmed by an internal interviewee. This interviewee stated: *'Objectives relating to finances, quality of care, patients and the role of a hospital in de society, are essential subjects in the strategy'*. Unfortunately more information about this subject cannot be given.

In general we can say, the most frequently mentioned subjects are: collaboration, financial goals, quality and the market position.

### **Stakeholders**

As said before, a hospital has more stakeholders which influencing the business of a hospital than firms operating in the public sector. For ING it is important to which stakeholders are important for a hospital. Beforehand we divided the stakeholders of a hospital into two groups; the internal and external stakeholders.

The most frequently mentioned stakeholders are listed below, Table 6.1.

Internal stakeholders	External stakeholders
Medical staff	Other healthcare providers
	Healthcare insurers
	Local government

Table 6.1 Frequently mentioned important stakeholder according interviewees

#### *External interviewees*

The main internal stakeholder is the medical staff of a hospital. Five out of six interviewees characterized this stakeholder as important, because they have a lot of influence in the organization. Years ago the medical staff was autonomous. This autonomy decreases given the situation of the increasing number of external stakeholders.

Three external stakeholders are important to mention.

- The other care partners.
- The health care insurers.
- The local government.

Five out of six interviewees called the other health care partners. A hospital is required to cooperate with other care providers. In this way they can give their patients the quality of care which they deserve. The health care insurer is responsible for purchasing care and is mentioned in five of the six external interviews. Also five interviewees mentioned the local government as important stakeholder. The cooperation between a hospital and the city is mainly health care related. Others topics that can be discussed with the local government are: the patient safety and the infrastructure around the hospital, so the accessibility.

#### *Internal interviewees*

The external professionals look from a practical perspective to this issue. Which stakeholders have impact and which of these stakeholders do we need to survive. The internal experts look from a different perspective, they look more on the scale of impact. Who are the stakeholders of a hospital, do they have influence and what is the degree of influence. A hospital should monitor the stakeholders with a high degree of influence and it is important to maintain these relationships properly.

One of the interviewees made a distinction between direct and indirect stakeholders rather than internal and external stakeholders. Other experts confirm this, one internal professional said: *'It is not the number of stakeholders that influences the policy of a hospital, it is more valuable to know what degree of influence a stakeholder has. This can vary from high to a low degree of influence'*.

Direct stakeholders: decisions made by these stakeholders have direct influence the policies of a hospital. Indirect stakeholders: this group may influence a hospital in some way. The hospital and these stakeholders are equal, they benefit from cooperation.

After the interviews, we can conclude that for ING it will be more valuable to use the second perspective.

## **6.2 After the interviews**

While completing this report we found a report written by the Roland Berger called 'De Zeven Zorgen'. It describes the developments in the Dutch hospital sector between 2003 and 2008. Moreover, it mentioned important issues to pay attention to in the future. Two of these seven points have an overlap with issues regarding our investigation. Therefore, we will summarize these two points.

#### Healthcare providers are waiting unnecessarily with formulating a long-term strategy

Every company has to know what the critical future environment issues will be, before they can define a decent strategy. Unclear government regulations are a frequently mentioned excuse of hospitals regarding the lack of a strategy. The outlines of the government regulations have remain unchanged since 1994. Hospitals can no longer wait passively, but have to define the strategy to manage their hospital actively. Only in this way they can influence the changing market. Hospitals that focus on their basic objectives and principles of the policy of the Ministry of VWS will be successful in all circumstances.

#### Only a minority of hospitals makes clear choices and collects the resulting benefits

The liberalization of the Dutch hospital sector requires hospitals to make choices. Hospitals are not able to perform excellent on all health care functions and therefore hospitals must focus on those functions they are (potentially) good at. When a hospital made these decisions, it is able to focus on improving these functions, this facilitates gaining a distinctive position on the long term. The annual reports of Dutch hospitals shows that only about 45% of the Dutch hospitals these choices already made. The other

hospitals opt for the traditional hospital approach, which means dividing attention and resources more or less equally over the entire hospital. The researchers at Roland Berger investigate whether a hospital with explicit priorities really perform excellent. They concluded that hospitals with priorities attract, on average, 20% more patients than similar hospitals in the period 2003 – 2008. The priorities of these hospitals also grew faster with an average of 0,7%. Moreover, the choices have also financial consequences. Hospitals with priorities achieved an average annual turnover growth of 0.6%. In addition, the net profit is higher in 2008, 1,5% versus 0.9%. Summarized: making choices regarding healthcare functions and priorities has a positive impact on the operating and financial performance of a hospital.

This emphasizes the importance of a good policy. The figures regarding growth give a bad impression, because these figures are not directly related to the performance of a hospital. ING should not pay too much attention on this research. With our research, we aim to give a more practical insight, so that ING can evaluate both, the policy process and the content of policy.



## **7. Conclusions and recommendations**

### **7.1 Conclusions**

The literature study is done and the interviews were conducted. It is time to answer the sub-questions defined before the research started. Finally the research question will be answered. The main conclusions can be found in the boxes in this chapter.

#### **How can future performance be estimated and how does it process looks like?**

##### *Performance management*

Because of the central question of ING 'estimating *performance* of Dutch hospitals, the literature study started with performance management. Performance management passes through a lot developments the last decades. Initially performance management was focused on the performance of the individual employee, later this was extended to the performance of the organization as a whole. With the latest developments performance management also affects their stakeholders, the so-called inter-organizational performance management (Smith & Goddard [2002]). This last development becomes more and more important for organizations because the stakeholders of a company are interested in their performance. Besides this the performance results will affect the relationship between the organization and their stakeholders. A way the organization is depending on the stakeholders.

Performance management exists of two parts, a procedural and a structural one (Folan & Browne [2005]). The procedural framework is the process how to develop a performance measurement system with strategy as starting point. The structural framework, that is concerned solely with administrative and selection elements of the performance management process. The first step in the procedural framework of Kaplan and Norton [1996] is translating the vision into well-defined general goals. Latham *et al.* [2008] stated that goal setting has a positive effect on employee or team performance. The above statements shows that goal setting is important, but before the goals can be defined first the organization's purpose, the mission statement and vision must be clear. Therefore we add the subject strategic management to the literature study.

---

*Goal setting has a positive effect on the performance of a company.*

---

##### *Strategic management*

The mission statement of a firm is the reason for being (David [1989]), the strategic direction of the company (De Wit & Meyer [2004]). The vision is the goal of the organization on the longer term (De Wit & Meyer [2004], Kaplan & Norton [2008]). An internal and external analysis will give insight in the environment the hospital is situated. Based on this analysis the mission statement and vision can be defined.

The mission statement and vision are the input for the strategy, it describes how the organization will achieve its vision. Goal setting is a part of the strategy. Clear and well-defined organizational objectives must be formulated. Realistic goals can be formulated because a firm had already thought about who they are, who they will be and what they want to achieve. To measure whether the desired results are achieved indicators must be identified. According to Kaplan and Norton [1996] it is not possible to pre-define performance indicators, because the process clarifies the objectives and indicators. The progress toward an objective must be measured, otherwise it cannot be managed and improved on time and it is likely that the targets are not met. As soon as the policy has been defined, the organization must be informed about the plans. It is important to communicate the policy to the organization, so it can be implemented into the different departments. When the outcomes of the evaluation are clearly described the complete process can start all over again with the mission statement. This process is illustrated in Figure 7.1.

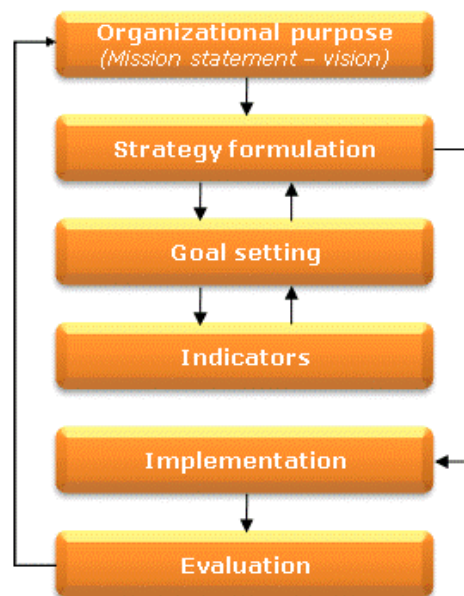


Figure 7.1 Policy process.

### What are the differences between the private and public sector?

The major difference between companies in the private sector and the public sector is the general long-term purpose of a firm (De Wit & Meyer [2004]). Companies should pursue strategies that ensure economic profitability. Besides economical profitability they have certain social responsibilities that must be fulfilled as well (De Wit & Meyer [2004]). For commercial organization profit maximization is a major aim. In the not-for-profit sector this is less important. Their social responsibility plays a more important role. As a result of the social responsibility objective, a non-profit company has more stakeholders. All these stakeholders will influence the public organization and their performance. They

*The literature review can be summarized into a policy process, which is influenced by stakeholders.*

expect that the organization achieves a high performance, because this is good for their own interest (Steuer & Na [2003]). When the stakeholders are satisfied an organization can be defined as successful (Table 5.4). During the internal and external analysis a firm has to make sure who

their stakeholders are and which of these stakeholders should be involved in the further policy process. The involvement of all various kinds of stakeholders makes the process for a public company much more complex than for a profit-oriented firm.

### Are the outcomes of the literature study applicable to the health care sector?

The goal of the assignment was not to examine whether the statement 'clear goal setting has a positive effect on the performance of a company' (Locke & Latham [1990a, 2002, 2007]), is true or false. The purpose of the research was whether the business literature fits within the health care sector.

Although it was not part of the research, we assume that the statement of Locke and Latham [1990a, 2002, 2007] is also true for hospitals.

In some situations hospitals are more focused on their internal and external environment than other hospitals (where everything is going on the 'normal' way). Because of their focus these hospitals are able to find the right balance between demand and supply, which will result in a clear policy. Hospitals that are forced to adapt their policies, because of various reasons, are

*The focus of the policy of a hospital depends on the situation a hospital is in. The history of hospitals and the exceptional positioning of hospitals are examples of reasons why a hospital is more focused.*

more focused than others. During the interviews two situations, in which hospitals are more focused, are recognized.

First hospitals that have a special position in their region are more aware of their strengths and weaknesses. An example is hospitals that are geographically isolated. They use the information, concerning the region they are competing in, as input for their policy. Secondly, hospitals that have had a problematic history are more focused. These hospitals have learned from their problems. They try to avoid the same problems again, by defining a very clear policy. In general, the positioning and settings in which a hospital is operating in and a problematic history of a hospital influences the focus of the policy.

Regarding the purpose of the research, '*whether the business literature is pertinent within the health care sector*'. The results of the interviews show that hospitals are aware of the usefulness of the policy process, but describe it as an ideal process. In practice this process is followed less systematically, because of the controlling function of the Dutch government. A hospital has to respond to the changes in laws and regulations. It is necessary to have a clear strategy and clear goals to manage these changes. By using a clear policy a hospital will be able to achieve, their objectives and on the other hand to respond to the changes in the Dutch laws and regulations.

---

*The policy process is as applicable in the public sector as it is in the private.*

---

After the interviews were conducted we can conclude that the policy process fits within the hospital sector. For that reason we took a closer look to the content of the policy of a hospital.

### **What are the key elements of the mission statement, vision and strategy of a hospital?**

For the content of the policy process of a hospital we asked the interviewee what the mission statement and the vision of their organization is. The key elements can be derived from the answer. When an element mentioned in the literature is not mentioned by the interviewee, the interviewees are asked if those elements are not necessarily for the mission statement or vision.

Overall there can be concluded, there is confusion about the exact meaning of the mission statement and the vision. But the content matters, not the name of the concept.

---

*Before a hospital can define a clear mission statement and vision, they have to conduct an internal and external analysis.*

---

De Wit and Meyer [2005] stated that it is essential to carry out an internal and external analysis before defining the strategy. After the interview we can conclude, that such an analysis has more impact when it will be carried out before formulating the mission statement of

a firm. Based on this information a company is capable to make better decisions based on actual information. Before the mission statement and vision can be defined, the external and internal analyses are very important to conduct.

The hospital must be aware of:

- Which groups of clients a hospital will focus on.
- Which healthcare providers in the region are competitors and with which stakeholders is collaboration a good alternative.
- Which stakeholders can influence the business of a hospital?
- What are the internal strengths and weaknesses of the hospital. And how can this information contribute to future performance.
- Which opportunities offer the external environment of a hospital and of which threats a hospital must be aware of.

When the analyses are conducted a hospital can use this information by formulating its mission statement and vision. The following aspects are characterized as indispensable in a mission statement and vision of a hospital.

The *positioning* means the environment where the hospital competes, who are their clients and competitors. When this is all clear, the *products and services* a hospital offers must be defined and formulated. This means it must be clear which health care functions a hospital offers. The hospital has to respond to the demand of their environment. The aspect 'positioning' is such an important aspect, because it gives the information needed during this definition.

Although not every interviewee mentioned the *employees* directly as an important aspect of the mission statement and vision, when this aspect is proposed to the interviewee they confirmed them as important. Due to the expectation of a shortage of health care employees in the near future, it is important to pay attention to their well-being. Without (good) employees the hospital cannot function and cannot give clients the quality of care they deserve.

During the interviews we asked to describe the elements of a strategy of an organization. Most interviewees answered that the *objectives* they want to achieve are one of the most important aspects. Besides this, the *actions* they will take in order to realize the objectives and the *desired results* are also significant. Some of the interviewees formulated very clearly the exact *indicators* they want to achieve.

Remarkable regarding the strategy of the hospitals is the lack of some other strategy elements. Although essential to the strategy, the interviewees did not recognize certain elements. Initially, none of the interviewees mentioned which person will play an important role in the strategy. Moreover it seemed to be unclear who is responsible for results, which resources are to be used and which milestones to measure the progress. After introducing these elements to the interviewees they recognized them as important aspects of the strategy, without these elements the strategy is not fully complete.

Summarized, a hospital must start with an internal and external analysis (Table 7.1). With these results the hospitals have to define the mission statement – vision (Table 7.2) and strategy (Table 7.3). The following aspects regarding these three steps must be present. The second column of each table will help to indicate whether the component is present or not.

<u>Analysis</u>	<u>Present?</u>
<b>Clients</b>	
<b>Competitors</b>	
<b>Stakeholders</b>	
<b>Strengths</b>	
<b>Weaknesses</b>	
<b>Opportunities</b>	
<b>Threats</b>	

7.1 Necessary information after the analysis.

<u>Mission statement – vision</u>	<u>Present?</u>
<b>Clients</b>	
<b>Positioning</b>	
<b>Products and services</b>	
<b>Employees</b>	
<b>Long-term goal</b>	

Table 7.2 Necessary aspects mission statement – vision.

<u>Strategy</u>	<u>Present?</u>
<b>Objectives</b>	
<b>Actions</b>	
<b>Roles</b>	
<b>Responsibilities</b>	
<b>Resources</b>	
<b>Milestones</b>	
<b>Desired result</b>	
<b>Indicator</b>	

Table 7.3 Necessary aspects strategy.

## What are frequently mentioned goals and which indicators can be identified for the hospital sector?

Although Kaplan and Norton [1996] claimed that '*pre-definition of performance indicators is not possible*', we tried to figure out whether we can define some general goals and indicators for the hospital sector. We concluded that the statement of Kaplan & Norton [1996] is also true for this sector. Since the vision is unique to each hospital, the hospitals have all different objectives which are derived of its vision.

Even though there are no general objectives and indicators to be defined, there are several general subjects to recognize. Goals regarding the subjects quality, finance and market position are frequently mentioned by the interviewees. We assume these are objective subjects that each hospital should have.

When the policy is described, it must be translated into the organization. It is a crucial process which is very complex in practice. When the policy is well articulated, it is not necessarily feasible in the organization. A hospital should pay attention to the different outlooks of the organization on which the policy has influence. Skills, personnel, management, culture, ICT-systems and the organization structure are some of these facets on which the policy may have impact.

*Translating the policy into the entire organization is a very crucial step; a hospital has to illustrate how the policy is implemented in the organization.*

Because of the complex internal and external environment of a hospital, it is necessary to have a clear policy. Seen that hospitals are operating in a complex environment it must

*The Dutch government has a large influence on the policy of a hospital. By defining a clear policy a hospital will be able to respond quickly to changes in laws and regulations made by the government.*

obviously formulate their objectives to every person involved. By using this policy a hospital is able to respond to changes in its environment. So an obvious policy stimulates to be flexible too and helps to take action when the government decides to change laws and regulations regarding the hospital sector

Summarized, the following issues must be present regarding the goals and objectives of a hospital.

Goals and indicators	Present?
<b>The goals are deduced from the vision</b>	
<b>Goals regarding quality, finance and market position are present</b>	
<b>The policy is feasible in the hospital</b>	
• Skills	
• Personnel	
• Management	
• Organization culture	
• ICT-systems	
• Organization structure	

Table 7.4 Necessary aspects strategy

## How do stakeholders influence the business of the hospitals?

The policy process at a hospital becomes more complex due to the influence of stakeholders. It is important to know which stakeholders influence the policy process and in what way they influence the policy process.

The hospital as a public organization has a huge number of stakeholders. A hospital must analyse which stakeholders are important for their company and thus they must decide whether these stakeholders should be involved in the policy process. They must define and justify the choices made.

*The policy process of a hospital becomes more complex by the presence of a huge amount of stakeholders.*

We asked the interviewee to identify which stakeholders influence their policy. The answers of the external interviewees can be divided into internal and external stakeholders. Table 7.5 illustrates the most frequently, important stakeholders mentioned during the interviews.

Stakeholders	
Internal stakeholders	External stakeholders
Medical staff	Other health care providers
	Health care insurers
	The local government

Table 7.5 Most important stakeholders mentioned by the interviewees

The internal interviewees look with a different perspective to stakeholders. A distinction between internal and external stakeholders does not give important information. It is more important whether a stakeholder has high or low influential power and whether stakeholders have direct or indirect effect on the policy of a hospital.

It is hard to say how stakeholders influence the policy process of a hospital exactly and actually this question cannot be answered. It should be obvious which stakeholders influence the policy of a hospital in order to take appropriate measures.

Finally, we can answer the research question.

***‘Which conditions should a hospital meet to determine whether they have enough potential for a structurally profitable business in ever changing circumstances?’***

Currently ING uses three tools to get more insight in the performance of a hospital. The rating model calculates the possibility of default, this means the model provides insight into the likelihood a hospital cannot fulfil the requirements of the bank. With the results of this model, ING can determine the price of credit. The policy paper describes the policy of ING regarding credit applications. It describes whether a hospital achieves the requirements to get the credit services and under which conditions this credit service is provided. Finally the financial benchmark compares the financial data of all Dutch hospitals based on the available annual reports. A benchmark will not be assessed with good or bad. Based on the results of all three tools together conclusions can be drawn.

The results of this study have the most influence on the policy paper. During the review of the management and business case in the policy paper, it is essential to ask more specific questions about the mission statement, vision and strategy of a hospital. Which choices are made regarding to the focus of the hospital? Is that focus also reflected in the policy (mission statement, vision and strategy) of the hospital? Is the focus translated into specific objectives and is specified which desired results must be achieved? Is the policy implemented in the organization and can all this be proved?

Eventually, the results may also affect the rating model and the benchmark. Questions regarding the quality of the management can be added in the rating model. For the benchmark it would add value if the results of the financial benchmark are shown in combination with the strategy results. The financial benchmark is not necessarily right or wrong, but different situations can give an explanation of the results. So the situation regarding the strategy will give a broader view.

After the research, with the input of the literature as well as the input of the interviewees, we summarize the entire process (Figure 7.3). It starts with the internal and external analysis and end with the implementation process. During the whole process it is essential to recognize all the stakeholders, ranked at level of influence. The questions below Figure 7.3 are examples of questions ING should asked during the



interview with the credit applicant. It is not possible to develop a questionnaire, at least not in this stadium. Possibly, after further research a questionnaire can be developed and tested. When the answers are positive and a hospital defined clear realistic goals which are a derivative of the vision, ING can assume it has a positive effect on the performance of a hospital and its structural profitable business.

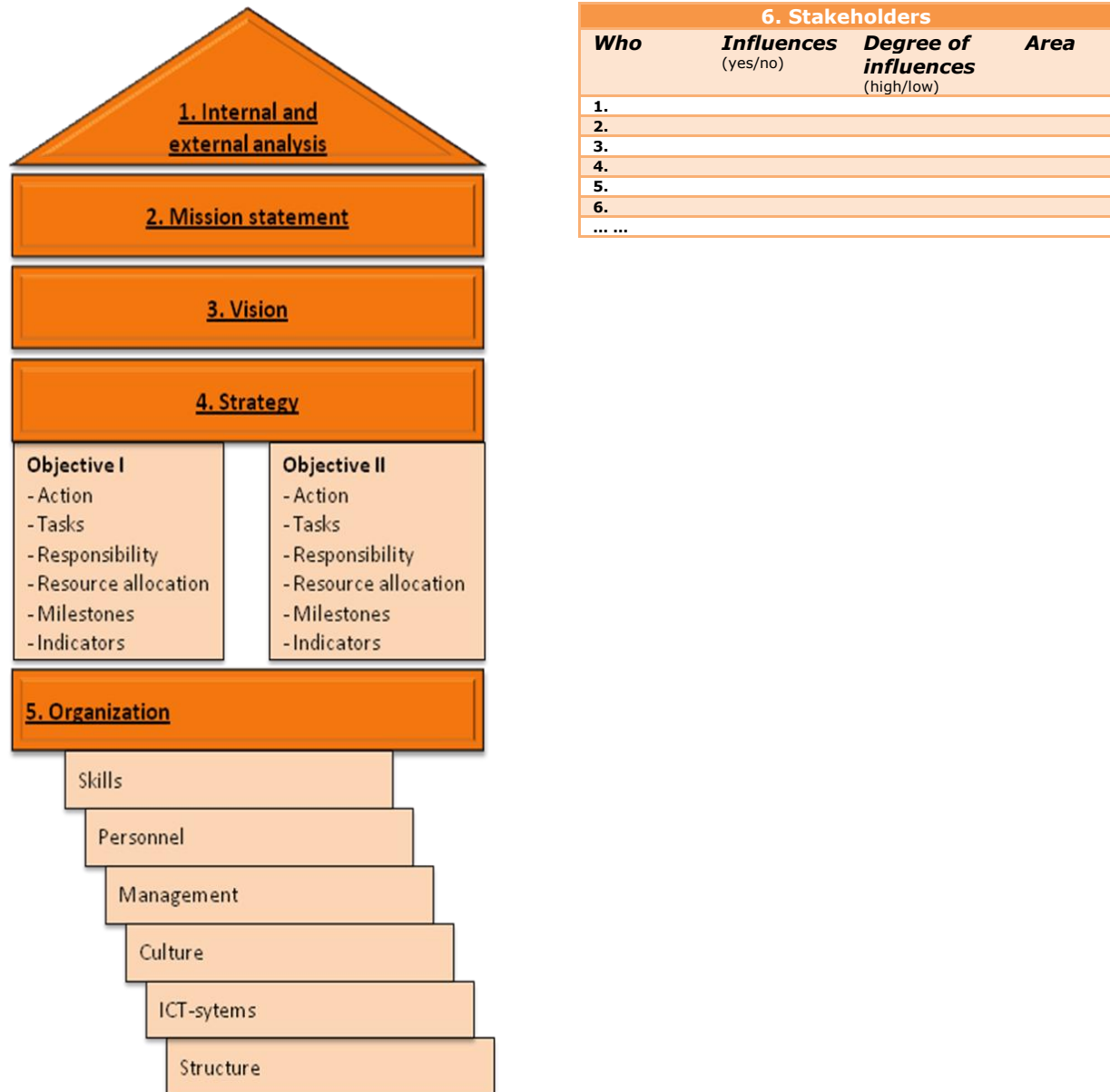


Figure 7.3 Process recommended to be add to the policy paper.

### Questions by process

- **Internal and external analysis.**
  - Has the hospital conducted an internal and external analysis?
  - Has the hospital information about their clients, competitors, stakeholders, strengths, weaknesses, opportunities and threats?
- **Mission statement.**
  - What is the mission statement of the hospital?
  - Are the subjects clients, products/services, positioning and employees described in the mission statement?



- Do the results of the internal and external analysis influence the mission statement?
- **Vision.**
  - What is the vision of the hospital?
  - Is it a long-term goal?
  - The results of the internal and external analysis are taken into account?
- **Strategy.**
  - The long-term goal of the hospital is divided into clear sub-objectives?
  - Is there a clear link with the mission statement and the vision of the hospital?
  - Are the actions, tasks, responsibilities, resource allocation, milestones and indicators per sub-objective described?
- **Organization.**
  - Is the policy in the organization implemented?
  - Which organization facets are influenced by this policy?
  - What were the difficulties during the implementation?
  - How solved the hospital these difficulties?
  - Is this Can this be showed?
- **Stakeholders.**
  - Who are the stakeholders of the hospital?
  - Do these stakeholders influence the business of the hospital?
  - To what extent have these stakeholders influence?
  - In what areas have these stakeholders influence?

## 7.2 Limitations and recommendations for future research

We did not test whether a hospital with a focus and clear goals performs better than hospitals without these focus and goals. Although this would be very valuable, this was not part of the research. After our research Roland Berger published a report with an answer to this question. For example the benchmark can be compared with the degree of focus of a hospital. This is a logical next step, unfortunately given the time frame we have not done it, but as said before, it was not part of the assignment.

At the moment the results are qualitative, it will be enough for the purpose of this research. Perhaps in the future, it will add value to translate the results into quantitative values. In this way a questionnaire will be a possibility, it will be less time-consuming to analyze the answers.

## 8. Bibliography

- Baarda, DB, Goede, MPM, de, and Teunissen, J, 2005, *Basisboek Kwalitatief Onderzoek*, Wolters-Noordhoff Groningen, tweede druk, pp. 229-256.
- Babbie, E, 2007, *The Practice of Social research*, Wadsworth Belmont CA, 11th edition, pp. 88-89.
- Baertz, MC, and Bart, CK, 1996, *Developing mission statements which work*, Long Range Planning 29, 526-533
- Bart, CK, Bontis, N, and Taggar, S, 2001, *A model of the impact of mission statements of firm performance*, Management Decision 39, 19-35
- Berghe, L, van den and Ridder, L, de, 1999, *International standardization of good corporate governance*, Kluwer Academic Publishers, Boston, pp. 40-41
- Boer, RH, de, 2010, *Nederland topzorgland, in de top van Europa*, NVZ vereniging van ziekenhuizen, pp. 3
- Chakravarthy, BS, and Lorange, P, 1991, *Managing the strategy process*, 12  
In: Wit, B, De, and Meyer, R, 2004, *Strategy, Process, Content, Context: an International Perspective*, South-Western Cengage Learning, third edition, pp. 127-130
- Chenhall, RH, and Langfield-Smith K, 2007, *Multiple perspectives of performance measures*, European Management Journal 25, 266-282
- David, FR, 1989, *How companies define their mission*, Long Range Planning 22, 90-97
- Drucker, PF, 1973, *Management: Tasks, Responsibilities, and Practices*, Harper & Row, New York.
- Folan, P, and Browne, J, 2005, *A review of performance measurement: towards performance management*, Computer in Industry 56, 663-680
- Funk, K, 2003, *Sustainability and performance*, Sloan Management Review 44, 65-71
- Ireland, RD, and Hitt, MA, 1992, *Mission statements: importance, challenge and recommendations for development*, Business Horizons 35, 34-42
- Kaplan, R, and Norton DP, 1992, *The balanced scorecard – measures that drive performance*, Harvard Business Review 70, 71-79
- Kaplan, R, and Norton DP, 1996, *Using the balanced scorecard as a strategic management system*, Harvard Business Review 74, 75-85
- Kaplan, RS, and Norton, DP, 2008, *Mastering the management system*, Harvard Business Review January, 1-16
- King, WF, and Cleland DI, 1979, *Strategic Planning and Policy*
- Latham, GP, and Locke EA, 2007, *New developments in and directions for goal setting*, European Psychologist 12, 290-300
- Latham, GP, Borgogni, L., and Petitta, L, 2008, *Goal setting and performance management in the public sector*, International Public Management Journal 11, 358-403
- Lebas, M, 1995, *Performance measurement and performance management*, International Journal of Production Economics 41, 23-35
- Locke EA, and Bryan, JF, 1969, *The directing function of goals in task performance*, Organizational Behavior and Human Performance 4, 35-42
- Locke, EA, and Latham, GP, 2002, *Building a practically useful theory of goal setting and task motivation*, American Psychologist 57, 705-717
- Locke, EA, and Latham GP, 1990a, *A Theory of Goal Setting and Task Performance*, Englewood Cliffs, NJ: Prentice Hall
- Locke, EA, Shaw, KN, Saari, LM, & Latham, GP, 1981, *Goals setting and task performance: 1969 – 1980*, Psychological Bulletin 90, 125-152
- Marr, B, and Schiuma, G, 2003, *Business performance measurement – past, present and future*, Management Decision, 41, 680-687
- Merchant, KA, and Stede WA, van der, 2007, *Management Control Systems: Performance Measurement, Evaluation and Incentives*, Pearson Education

- Mintzberg, H, 1987, *The strategy concept I: Five P's for strategy*, California Management Review 3, 11-24
- Moerland, PW, 1993, *Alternative disciplinary mechanisms in different corporate systems*, Journal of Economic Behavior and Organization, 26, 17-34
- Morris, RJ, 1996, *Developing a mission for a diversified company*, Long Range Planning 29, 103-115
- Otley, D, 1990, *Performance management: A framework for management control system research*, Management Accounting Research 10, 363-382
- Pearce, JA, 1982, *The company mission as a strategic tool*, Sloan Management Review spring, 15-24
- Pollitt, C, 2001, *Integrating financial management and performance management* In: OECD Journal on Budgeting 1, 7-33
- Popova, V, and Sharpanskykh, A, 2010, *Modeling organizational performance indicators*, Information Systems 35, 505-527
- Punniyamoorthy, M, and Murali, R, 2008, *Balanced score for the balanced scorecard: a benchmarking tool*, Benchmarking: An International Journal 15, 420-443
- Raad voor de Volksgezondheid en Zorg, 2010, *Zorg voor je gezondheid! Gedrag en gezondheid: de nieuwe ordening*, 7
- Sink, D, 1991, *The role of measurement in achieving world class quality productivity management*, Industrial Engineering Journal 23, 23-28, 70
- Smith, P, 1990, *The use of performance indicators in the public sector*, Journal of Royal Statistical Society 153, 53-72
- Smith, P, and Goddard, M, 2002 *Performance management and operational research: a marriage made in heaven?* Journal of Operational Research Society 53, 247-255
- Steuer, RE, and Na, P, 2003, *Multiple criteria decision making combined with finance: a categorized bibliographic study*, European Journal of Operational Research 150, 496-515
- Sutcliffe, KM, and McNamara, G, 2001, *Controlling decision-making practice in organizations*, Organization Science 12, 484-501
- Taylor, FW, *The Principles of Scientific Management*, Harper & Row, New York
- Thompson, JD, 1967, *Organizations in Action*, McGraw-Hill, New York
- Want, JH, 1986, *Corporate mission*, Management Review, 46-50
- Weimer, J, and Pape, JC, 1999, *A taxonomy of systems of corporate governance*, Corporate Governance: An International Review 7, 152-166
- Wit, B, de, and Meyer, R, 2004, *Strategy, Process, Content, Context: An International Perspective*, South-Western Cengage Learning, third edition, pp 3-23

### Internet

[www.ing.nl](http://www.ing.nl)  
[http://www.ing.com/group/showdoc.jsp?docid=074061\\_NL&menopt=abo|cog|mas](http://www.ing.com/group/showdoc.jsp?docid=074061_NL&menopt=abo|cog|mas)  
[www.rijksoverheid.nl](http://www.rijksoverheid.nl)  
[www.rivm.nl](http://www.rivm.nl)  
[www.zorgatlas.nl/](http://www.zorgatlas.nl/)  
[www.jaarverslagenzorg.nl](http://www.jaarverslagenzorg.nl)

## **Appendix**

### **Appendix I – Introduction letter (in Dutch)**

#### **Doel**

De sector gezondheidszorg is sterk in verandering. Het kenmerk hiervan zijn de wijzigende verhoudingen tussen zorgaanbieders, zorgverzekeraars, patiënten en overheid. Zorginstellingen, in casu ziekenhuizen, zijn in toenemende mate zelf verantwoordelijk voor de exploitatie. Dit vraagt ondernemerschap van de ziekenhuizen omdat de exploitatie gepaard gaat met het nemen van risico's. Bij de vraag naar kredietverlening door ziekenhuizen aan banken is daarom bottom-line bij banken de vraag of het ziekenhuis onder continue veranderende omstandigheden in staat is tot een structureel rendabele bedrijfsvoering om aan de verplichtingen naar de bank te kunnen voldoen.

Momenteel vormt de ING zich een beeld bij kredietverlening aan de ziekenhuizen met behulp van een drietal instrumenten: een ratingmodel, het kredietenbeleid en een financiële benchmark. Het ratingmodel bepaalt het risico dat een ziekenhuis op korte termijn niet aan zijn verplichtingen kan voldoen. Het kredietenbeleid geeft antwoord op de vraag of krediet wel of niet kan worden verschaft en zo ja tegen welke condities. De benchmark geeft inzicht in de financiële kenmerken van een ziekenhuis ten opzichte van andere ziekenhuizen.

In aanvulling daarop wil ING verkennen of er indicaties te identificeren zijn voor het voorspellen van de prestaties van een ziekenhuis op de langere termijn.

#### **Onderzoek**

Uit literatuuronderzoek blijkt dat organisaties met een voortdurend scherpe focus op hun missie, strategie en doelen, beter presteren dan organisaties met een minder scherpe focus. Het blijkt dat goed gedefinieerde doelen een positieve invloed hebben op de prestaties, het beïnvloedt de keuze, inspanning en doorzettingsvermogen van de medewerkers. Het scherp houden van de focus wordt voortdurend gemeten aan de hand van indicatoren.

De literatuur is veelal beschreven vanuit bedrijven werkzaam in de commerciële sector. Wij veronderstellen dat bevindingen ook opgeld kunnen doen voor de gezondheidszorg en de publieke sector. Echter gezondheidszorginstellingen en instellingen in de publieke sector zijn niet of minder gericht op het maken van winst maar streven, vanuit hun maatschappelijke rol, ook andere doelen na. Deze instellingen staan ook in een ander krachtenveld van stakeholders.

Dit betekent ook, dat het belang van bepaalde indicatoren in de gezondheidszorg kan verschillen ten opzichte van de gezondheidszorg en ook geheel andere indicatoren van belang kunnen zijn. Wij proberen hier meer inzicht in te krijgen.

We zijn een verkennend literatuuronderzoek gestart, onderstaand model is hiervan de uitkomst. Via semigestructureerde interviews willen wij antwoorden op de volgende vragen:

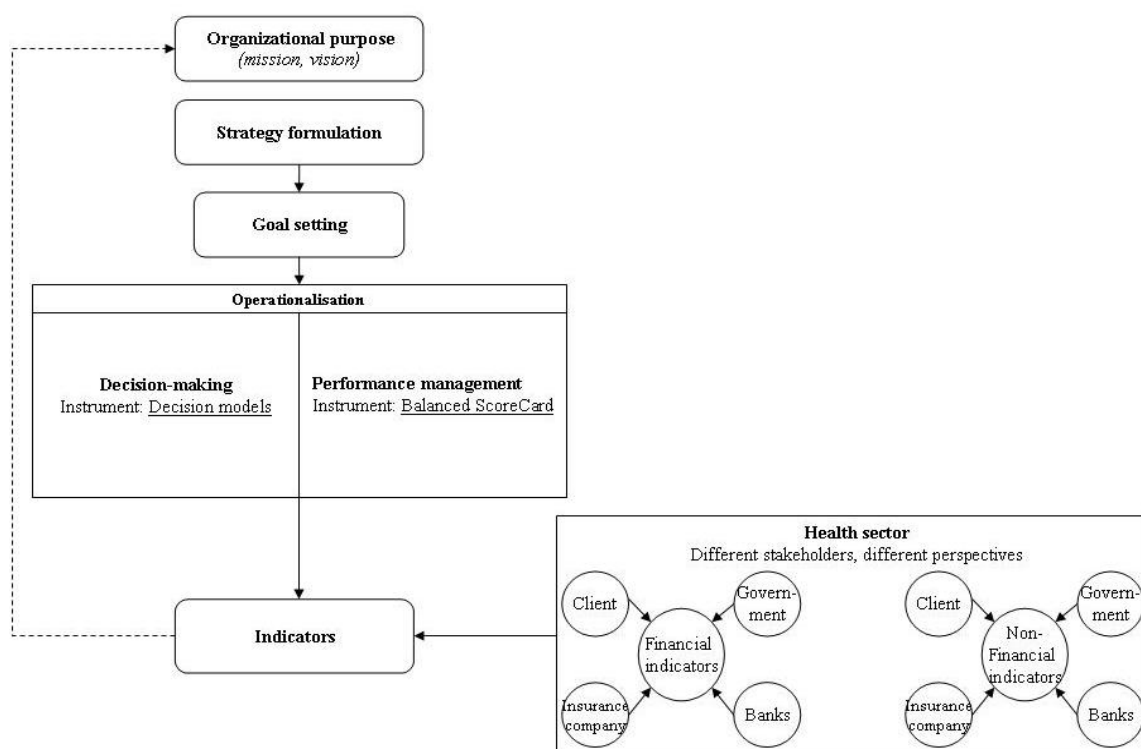
- 1) Is het model herkenbaar voor de sector gezondheidszorg?
- 2) Is het model toepasbaar voor de sector gezondheidszorg in casu ziekenhuizen?
- 3) Leidt het krachtenveld in de gezondheidszorg tot andere indicatoren cq andere na te streven waarden voor de indicatoren die ook in de private sector worden gebruikt?
- 4) Is een beperkte set van indicatoren te benoemen die relevant zijn voor de prestaties van ziekenhuizen op de lange termijn?

Dit onderzoek wordt uitgevoerd door Marjorie van Maasacker, Master-studente Business Administration aan de Universiteit Twente. In het kader van haar afstudeerscriptie voert zij, in opdracht van de ING, dit onderzoek uit. Zij wordt begeleidt door Sr. Sectormanager gezondheidszorg Erwin Snijders en Sr. Sector econoom Machel Nuyten, beide werkzaam binnen de ING.

Het interview zal maximaal een uur in beslag nemen.

De te interviewen populatie bestaat uit twee groepen. Enerzijds de externe groep, dit zijn leden of de secretaris van de Raad van Bestuur cq medewerkers betrokken bij de strategiebepaling van ziekenhuizen en zorgverzekeraars. Anderzijds de interne groep, deze bestaat uit medewerkers werkzaam binnen de ING, die vanuit hun werkzaamheden raakvlakken hebben met dit vraagstuk.

De resultaten van het interview zullen worden voorgelegd en, desgewenst, worden aangepast.



### Contactgegevens

Erwin Snijders

[Erwin.Snijders@mail.ing.nl](mailto:Erwin.Snijders@mail.ing.nl)

T. +31 20 652 3761

Machel Nuyten

[Machel.Nuyten@ing.nl](mailto:Machel.Nuyten@ing.nl)

T. + 31 20 57 61 280

Marjorie van Maasacker

[Marjorie.van.Maasacker@ing.nl](mailto:Marjorie.van.Maasacker@ing.nl)

T. +31 6 275 78 784

## Appendix II – Interview questions (in Dutch)

### *IIa External interview questions*

#### **Introductie**

1. Introductie van de interviewer  
(Marjorie van Maasacker, Erwin Snijders/Machel Nuyten)
2. Master thesis Business Administration, financial management
3. Uitleg opdracht bij ING
4. Doel van het gesprek  
Toetsen bevindingen literatuur studie (proces)  
Inzicht verkrijgen in de praktijk (inhoudelijk)
5. Randvoorwaarden van het interview:
  - a. De resultaten van het interview zullen alleen worden ingezien door de interviewer en de ING en de begeleiders van Universiteit Twente;
  - b. Interview resultaten zullen, indien gewenst, anoniem worden verwerkt;
  - c. Het interview duurt maximaal een uur.

#### **Deel 1: Proces**

Zonder inhoudelijk in te gaan op u eigen organisatie, kunt u zich vinden in dit model?  
Waarom wel/niet?

#### **Deel 2: Inhoudelijk 1/2**

Missie – visie:

Welke afwegingen zijn belangrijk geweest bij het vaststellen van de missie en visie?  
(vb. klanten, product/service, locatie, technologie, voortbestaan, filosofie, sterkten/voordelen, imago, werknemers)

Kunt u in een paar kernwoorden de strategie van uw organisatie samenvatten?  
(vb. kernwoorden doelen, activiteiten, taken, verantwoordelijkheid, middelen, milestones en het meten van prestaties)

Wat zijn de belangrijkste doelen van uw organisatie?  
(5 belangrijkste doelen)

Hoe worden deze doelen gemeten?  
(Indicatoren)

#### **Deel 2: Inhoudelijk 2/2**

Wie zijn de belangrijkste stakeholders van uw organisatie?  
(5 belangrijkste stakeholders)

Welke invloed hebben deze stakeholders op de strategie en doelen?

Waaruit blijkt dat?

Verwacht u dat deze stakeholders uw organisatie ook in de toekomst blijven beïnvloeden?

Waarom wel/niet?

Worden de doelen geëvalueerd?

Worden de uitkomsten gecommuniceerd naar de betreffende stakeholders?

Wat zijn de consequenties als de doelstellingen niet worden gehaald?

*I Ib Internal interview questions*

Herkent u dit proces?

Maakt u onderscheidt tussen de missie/visie en de strategie van een ziekenhuis?

Zo ja:

Welke kernpunten vindt u als bank belangrijk in de missie-visie van een ziekenhuis?

Welke kernpunten vindt u als bank belangrijk in de strategie van een ziekenhuis?

Zo niet:

Welke kernpunten vindt u als bank belangrijk in de missie/visie en strategie van een ziekenhuis?

Met welke stakeholders zou een ziekenhuis rekening moeten houden?

Toelichting waarom we wel een onderscheidt maken tussen de missie/visie en strategie:  
Strategie is de wijze waarop een organisatie denkt haar visie te kunnen bereiken met de kernwaarden beschreven in de missie.



### Appendix III – Checklist external interviews (in Dutch)

<b>Checklist</b>		
<b>Deel 1: proces</b>		
Model	Pluspunten	
	Minpunten	
	Overige	
<b>Deel 2: Inhoudelijke 1/2</b>		
Missie - Visie	Afwegingen	
	<ol style="list-style-type: none"> <li>1. Klanten</li> <li>2. Product/service</li> <li>3. Locatie</li> <li>4. Technologie</li> <li>5. Continuïteit</li> <li>6. Filosofie</li> <li>7. Sterkten en voordelen</li> <li>8. Imago</li> <li>9. Werknemers</li> </ol>	
Strategie	Kernpunten	
	<ol style="list-style-type: none"> <li>1. Doelen</li> <li>2. Activiteiten</li> <li>3. Taken</li> <li>4. Verantwoordelijkheid</li> <li>5. Middelen</li> <li>6. Milestones</li> <li>7. Meten prestatie</li> </ol>	
Doelen	5 belangrijkste	
	<ol style="list-style-type: none"> <li>1. Markt positie</li> <li>2. Kwaliteit</li> <li>3. Financiële resultaten</li> <li>4. Processen</li> <li>5. Klanttevredenheid</li> <li>6. Informatievoorziening</li> <li>7. Kosten</li> </ol>	
Indicatoren		
<b>Deel 2: Inhoudelijke 2/2</b>		
Stakeholders	5 belangrijkste	

Conditions to assess the future performance of Dutch hospitals

		<u>1. Medische staf</u> <u>2. Zorgverzekeraar</u> <u>3. Zorgpartner</u> 4. Raad van Bestuur 5. Raad van Toezicht 6. Ondernemingsraad 7. Overheid 8. Gemeente 9. Bank 10. Toezichthouders 11. Patiënten	
	Invloed		
	Toekomst		
Evaluatie	Communicatie		
	Consequentie		