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Understanding competition between healthcare providers: Introducing an intermediary inter-organizational perspective

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ABSTRACT

Pro-competitive policy reforms have been introduced in several countries, attempting to contain increasing healthcare costs. Yet, research proves ambiguous when it comes to the effect of competition in healthcare, with a number of studies highlighting unintended and unwanted effects. We argue that current empirical work overlooks the role of inter-organizational relations as well as the interplay between policy at macro level, inter-organizational networks at meso level, and outcomes at micro level. To bridge this gap and stimulate a more detailed understanding of the effect of competition in health care, this article introduces a cross-level conceptual framework which emphasizes the intermediary role of cooperative inter-organizational relations at meso level. We discuss how patient transfers, specialist affiliations, and interlocking directorates constitute three forms of inter-organizational relations in health care which can be used within this framework. The paper concludes by deriving several propositions from the framework which can guide future research.

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1. Introduction

Rising healthcare expenditures [1], demographic challenges, and technological advancements compel nations to find appropriate ways to organise their healthcare systems [2]. Policymakers face the challenge to control health expenditures at the macro level while incentivising efficiency at the micro level [3]. Between the 1970s and the 1990s regulated systems were the most common way for Western countries to organise their healthcare sector [4,5]. Although they were able to control macro-level health expenditures, these systems were burdened by imbalanced supply and demand and a lack of efficiency stimuli [2,5]. Several countries consequently introduced legislation spurring competition within their healthcare system in an attempt to stimulate efficient healthcare delivery and resource allocation [2,5–9]. Yet, competition in health care is controversial topic and its potential adverse effects have left some policymakers hesitant to introduce pro-competitive reforms [6].

In health care markets competition is often referred to as 'managed competition' which is defined as a set of 'rules for competition' between care providers designed to obtain maximum value for money [10]. Value is the best possible health outcomes achieved per dollar spent, which is what ultimately matters for patients and society [11]. Competition can furthermore occur between third-party purchasers such as insurers who compete for enrolees

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or between healthcare providers (i.e. organizations) who compete to be (selectively) contracted by purchasers [12,13]. In this paper we refer to the latter. Supporters of competition argue that it stimulates providers to seek a competitive advantage over each other, which boosts efficiency and ultimately benefits patients [12,14,15]. However, antagonists argue that the characteristics of health care render competition in the sector ineffective [16].

Empirical studies regarding the impact of competition on health outcomes have produced positive as well as negative results in price-competitive as well as non-price competitive systems (i.e. systems where prices are regulated or pre-determined) [17,18]. In price-competitive systems like the United States or The Netherlands purchasers selectively contract services from providers based on freely negotiable treatment prices [13,19]. The theoretical prediction that this drives down treatment price is supported by several empirical findings [e.g. 20–22]. But findings regarding the effect of price competition on various indicators of quality of care are mixed. Some studies find that it increases quality [e.g. 23,24–26] while others display opposing or no significant effects [e.g. 27,28]. In non-price-competitive systems on the other hand, quality is the primary differentiating factor for providers, which can result in a so-called 'Medical Arms Race' (MAR) [29]. The theoretical prediction that this increases overall health expenditures [13,30] is supported by several empirical findings [e.g. 31,32,33], while findings concerning the effect of non-price competition on indicators of quality of care are also mixed [24,34–41].

Most of these empirical studies have been rooted in the traditional neoclassical perception of competition. It assumes that outcomes are a result of an industry's structural characteristics which influence rivalry and organizational behaviour [42,43]. The Structure-Conduct-Performance (SCP) paradigm, in which market structure (e.g. concentration) is associated with outcomes, has hence served as the primary empirical approach. However, the approach is typically applied in a cross-sectional way to analyse markets in an equilibrium, whereas healthcare reform is an inherently dynamic and ongoing process [44,45] that makes markets unstable and changing. It has furthermore been criticized for overlooking organizational behaviour in empirical testing [46,47] and inter-organizational cooperation has been explicitly described as difficult to capture within the traditional competitive paradigm [48]. The dynamic nature and failure to account for inter-organizational behaviour could very well explain the mixed findings of empirical research. As a result, our understanding of the effectiveness of competition in healthcare settings remains limited and a conclusive answer to the question whether policymakers should or should not introduce pro-competitive reforms to improve value for patients is lacking.

In order to foster a more detailed understanding of competition in healthcare markets, some researchers have suggested that the institutional context (i.e. macro level), behavioural features of healthcare providers (i.e. meso level), and health outcomes (i.e. micro levels) should be considered simultaneously when analysing healthcare reforms [49,50]. Scant academic attention has however been paid to the complex interplay between the policy (macro), inter-organizational (meso), and outcome (micro) levels. This paper aims to advance the understanding of the interplay between these levels. It does so by formalizing a conceptual framework that can support future research regarding the role and evolution of cooperative inter-organizational relations between healthcare organizations as intermediary between policy reforms and health outcomes.

2. Theoretical approach

We have conducted a narrative review of academic literature regarding (1) the relation between macro level reforms and meso level healthcare markets, (2) the meso level healthcare market and health outcomes, (3) the role of cooperative inter-organizational relations between healthcare providers in determining health outcomes, (4) how inter-organizational relations form networks of healthcare providers, and (5) the types of inter-organizational relations which exist in health care. We have synthesized the findings from these bodies of literature by formalizing a cross-level conceptual framework (see Fig. 1). The framework highlights the interplay between macro level policy reforms, meso level healthcare markets, and micro level outcomes. At the meso level, the role of inter-organizational relations between healthcare organizations is emphasized. The framework seeks to facilitate research regarding the effect of pro-competitive policy reforms on patient level outcomes within the healthcare domain. In order to guide such future research, several testable propositions have been derived from this framework.

3. Results from the literature review

3.1. *The need for an inter-organizational network perspective to health care*

Despite the fact that the neoclassical rules of competition have been well-established, many scholars have also recognized the fact that cooperative inter-organizational relations between independent autonomous organizations are essential to an organization's goal attainment [51]. This notion has for example been formalized in concepts such as the relational view (RV), which proposes that dyads of organizations create additional value through sharing knowledge and utilizing complementary resources [e.g. 52,53], 'coopetition', which refers to the simultaneous cooperation and competition between organizations [e.g. 54,55], and strategic networks, defined as purposeful long-term relations between separate organizations to pursue a competitive advantage [e.g. 48].

Although it was not specified as a differential factor by Arrow [16] in his influential work on the differences between the healthcare industry and other industries, much of the initial work regarding cooperative inter-organizational relations has stemmed from non-profit and specifically the healthcare industry [e.g. 51,56]. The non-profit nature of the industries in which inter-organizational relations were commonly discussed initially led strategy scholars to pay little attention to the concept [48]. However,

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