



HEALTH REFORM EVALUATION PROGRAMME REPORT SUMMARY

Provider Diversity in the NHS: Impact on Quality and Innovation

Health system reforms were introduced in the UK in 1990, partially reversed in 1997, and relaunched with the NHS Plan of 2000. The reforms introduced by New Labour (DH 2005a) aimed to encourage a diversity of providers with freedom to innovate and improve service quality. The reforms also involved centralised price setting, decentralised commissioning, and entry reforms to encourage a diversity of providers with more freedom to innovate and improve service quality (DH 2005a).

Commissioners of NHS services were expected to engage with new providers from the for-profit private sector and the 'Third Sector' including voluntary groups, registered charities, foundations, trusts, social enterprises, and cooperatives alongside incumbent NHS providers¹. The promotion of the entry of new providers was designed to stimulate innovation, quality and choice in the provision of health and social care services – yet, relatively little was known about the comparative performance of different types of providers, the barriers to entry and growth which they faced, or how their involvement could best be used to improve quality and innovation in service delivery.

The overall objective of this research project was to assess the impact of provider diversity on

quality and innovation in the NHS. The specific research aims were to identify the differences in performance between non-profit Third Sector organisations, for-profit private enterprises, and

Key messages for policymakers

1. Private providers of inpatient services (specifically ISTCs) supply health services of at least as good quality as traditional NHS providers of the same type of care.
2. All types of providers generate significant innovations, but in different ways. NHS providers excel in product innovations, private providers in process innovations, and third sector providers in market innovations.
3. Strategies adopted by commissioners are an important determinant of the extent and nature of diversity in local health economies. Both private and third sector providers face strong barriers to entry.
4. Entry of new private providers has driven a response among incumbents which have sought to match them with equivalent improvements.

incumbent public sector institutions within the NHS as providers of health care services, as well as the factors that affect the entry and growth of new private and Third Sector providers.

The Health Reform Evaluation Programme (HREP) is funded by the Department of Health Policy Research Programmes and involves researchers from a range of British universities and research centres. The Programme aims to provide independent scientific evaluation of NHS Modernisation and Reform that seeks to transform their effective implementation and subsequent development, and to ensure transparency and public accountability.

This summary forms part of the first wave of research developed to address the Department of Health's (DH) 2005 framework - called the Next Steps Reforms to provide a coherent and mutually supporting set of reforms that together would lead to better care, better patient experiences, and better value for money.

This study used both qualitative and quantitative methods based on case studies of four Local Health Economies (LHEs). Qualitative methods included documentary analysis and interviews with key informants and managers of both commissioning and provider organisations. To focus the study, two tracer conditions were followed: orthopaedic surgery and home health care for frail older people. For hospital inpatient care, data on patient characteristics was also collected from the HES database, the analysis of which provided preliminary estimates of the effects of provider type on quality, controlling for client characteristics and case mix. In addition, a survey of patient experience in diverse provider organisations was analysed to compare the different dimensions of quality of provision of acute services between incumbent NHS organisations and new independent sector treatment centres.

Results

Mapping diverse providers in local health economies

Thus far the extent of involvement of diverse providers in supplying services to the NHS is extremely limited, especially in the social enterprise sector. Strategies adopted by commissioners are an important determinant of the extent and nature of diversity in local health economies.

Performance differences in quality

The research has shown that, in respect of inpatient hospital services, diverse providers supply health services of at least as good quality as traditional NHS providers, and that there is ample scope to expand their scale and scope as providers of services commissioned by the NHS. The research used patient experience survey data to investigate whether hospital ownership affects the quality of services reported by NHS patients in areas other than clinical quality. The raw survey data appear to show that private hospitals provide higher quality services than the public hospitals. However, further empirical analysis leads to a more nuanced understanding of the performance differences. Firstly, the analysis

shows that each sector offers greater quality in certain specialties. Secondly, the analysis shows that differences in the quality of patients' reported experience are mainly attributable to patient characteristics, the selection of patients into each type of hospital, and the characteristics of individual hospitals, rather than to hospital ownership as such. Controlling for such differences, NHS patients are on average likely to experience a similar quality of care in a public or privately-run hospital. Nevertheless, for specific groups of patients and for specific types of treatments, especially the more straightforward ones, the private sector provides an improved patient experience compared to the public sector. Elsewhere, the NHS continues to provide a high quality service and outperforms the private sector in a range of services and for a range of clients.

The research has also shown that there are differences in the way that quality is delivered among the diverse providers. There is greater concern among private sector providers for improved organisation of patient pathways and for improved patient experience, whereas Third Sector providers have brought about quality improvements through a more holistic approach and a greater degree of community involvement.

Concerning innovation, the findings of the qualitative research has revealed that significant process innovations have been introduced by new private, while product innovations have continued to be a strong point of traditional NHS providers. NHS organisations have greater resources to drive innovation in clinical practice, and private and Third Sector organisations have innovated more in organisational and working practices. An important area of innovation among the Third Sector providers has been to extend health care services throughout a broader range of community activities than has been possible through traditional NHS organisations.

The entry of new providers, including the commissioning process

The extent to which new providers can stimulate performance improvements throughout the NHS is limited by the barriers they face to entry and growth. The qualitative component of the research has involved interviews with both

commissioning and provider organisations from public, private and Third Sector organisations. One of the clear messages to come out of the research is the key importance of the strategy of the commissioning organisations towards market making. Commissioners hold the key to the extent of diversity of provision, and their varying strategies have strongly influenced the degree of diversity in each case study area.

The research has revealed the strong barriers to the entry of new organisations, especially to the entry of new providers from the Third Sector, due to economies of scale in the bidding process which disadvantage small niche providers. Resistance from incumbent providers has also been observed. Similar factors have also inhibited the growth of new providers. The growth of private sector providers has been inhibited in more deprived areas by the more extensive demands of patients, suggesting that business models of private providers were not appropriate for the type of population served. Third Sector organisations in such areas have been inhibited from growing their services by the short duration of their contracts.

Impact of the entry of new providers on performance of incumbents

Finally the research has investigated the impact of new entrants on the strategies and practices of incumbents. The research has demonstrated that the entry of new providers has driven a response among incumbents which have sought to match them with equivalent improvements. NHS Trusts have responded to the entry of new ISTCs by introducing new surgical pathways, and have placed a greater strategic emphasis on improving the patient experience. However, information sharing among incumbents has diminished as competition has intensified. The entry of new Third Sector providers in the community health care field has led to a sense of fragmentation in the provision of community health, and to a more competitive orientation of traditional NHS community health care organisations which are themselves being spun off into independent arms length organisations.

Conclusions

Thus far the extent of involvement of diverse providers in supplying services to NHS patients is extremely limited, especially in the social enterprise sector. Nevertheless, there are large numbers of Third Sector organisations operating outside the NHS in each LHE, which indicates there is capacity for further growth of supply to NHS patients from this sector.

Private providers of inpatient services (specifically ISTCs) supply health services of at least as good quality as traditional NHS providers of the same type of care. ISTCs are able to deliver improved organisation of patient pathways. However, there is little evidence of significant difference between NHS and these private providers in respect of overall patient experience, once relevant factors other than ownership type are taken into account. In some aspects of patient experience ISTCs perform better, while in others, NHS providers offer a better experience. This suggests that ownership of healthcare organisations may not be the determining factor of quality of care. Thus, concerns about quality of care may not be a barrier to expanding the scale and scope of private providers of services commissioned by the NHS. Furthermore, since Third Sector providers have brought about quality improvements in respect of a more holistic approach and a greater degree of community involvement, there would seem to be good reasons to encourage and support more entry of Third sector organisations in particular areas. This coincides with current Coalition government policy to increase to use of social enterprises across the public sector (Maude, 2010).

Innovations in the form of technical improvements in products and techniques (e.g. new surgical methods) have continued to be a strong point of traditional NHS providers, while significant process innovations have been introduced by new private providers (e.g. better patient pathways). Third Sector providers have been able to innovate by filling gaps in service provision (e.g. services for vulnerable groups).

Strategies adopted by commissioners are an important determinant of the extent and nature of diversity in local health economies. The extent to which new providers can stimulate performance improvements throughout the NHS

is limited by the barriers they face to entry and growth. This will continue to be the case once GP commissioning consortia are established, and thus the decisions at local level will be increasingly influential in the development of diversity of supply.

Entry of new private providers has driven a response among incumbents which have sought to match them with equivalent improvements. This is particularly marked in relation to ISTCs, whose presence has encouraged nearby NHS Trusts to improve patient pathways. As concerns the Third Sector, there appears to be no equivalent effect of entry on the performance of NHS incumbents because, on the whole, Third Sector providers have entered into sectors of provision which were not covered by the NHS. This may change as Third Sector providers expand their scope, for example into community health services, due to the programme of Transforming Community Services as it develops in the future.

ⁱ The 'Third Sector' includes both not-for profit enterprises and for-profit enterprises which work for a social purpose, such as some social enterprises and the trading arms of charities which focus on fund-raising, as well as workers cooperatives.