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# The impact of New Public Management on efficiency: An analysis of Madrid's hospitals



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## ABSTRACT

Madrid has recently become the site of one of the most controversial cases of public healthcare reform in the European Union. Despite the fact that the introduction of New Public Management (NPM) into Madrid hospitals has been vigorous, little scholarship has been done to test whether NPM actually led to technical efficiency. This paper is one of the first attempts to do so. We deploy a bootstrapped data envelopment analysis to compare efficiency scores in traditionally managed hospitals and those operating with new management formulas. We do not find evidence that NPM hospitals are more efficient than traditionally managed ones. Moreover, our results suggest that what actually matters may be the management itself, rather than the management model.

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## 1. Introduction

New Public Management (NPM) policies have been introduced into public healthcare across most OECD countries from the 1980s, in response to concerns about rising healthcare expenditures, fueled by technological and medical advances in treatment, as well as an aging population [1,2]. In Spain, NPM reforms were first introduced into the healthcare system from the early 1980s, in parallel with political decentralization.<sup>1</sup> Decentralization

allowed Spain's 17 regional governments to gain autonomy as regards decisions to introduce or reinforce NPM into healthcare, including the adaptation of new hospital management models, such as different forms of public private partnership (PPP) [3]. Since then, regional governments in Spain have increasingly introduced NPM reforms into healthcare, particularly in Catalonia and Madrid [4]. However, vigorous NPM-related reform of the Madrid healthcare system has been highly controversial.

This paper focuses on the reform of hospitals belonging to the Madrid Regional Health Service (henceforth, SERMAS). Emulating healthcare reforms in the UK, Madrid vigorously implemented the use of new hospital management formulas, through the implementation of purchaser/provider split, use of PPPs, contracting out and the introduction of competition between hospitals. Moreover, reforms in Madrid gained increased traction during

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<sup>1</sup> Decentralization took place during the 1980s and 1990s, transferring powers in healthcare management gradually across the different Spanish regions, firstly to Catalonia (1981), Andalusia (1984), the Basque Country and Valencia (1987), Galicia and Navarra (1990) and the Canary Islands (1993). The healthcare decentralization process ended in January 2002,

when the devolution of autonomy and power from the central government to all regional governments was completed [3].