

EXPERT CONTRIBUTION

Cost efficiency measurement in the health sector



The increasing growth of health-care costs in recent years has raised policy makers' interest in identifying sources of cost inefficiency. Various researches have identified the potential for considerable savings in hospitals. Analysis and measurement of cost efficiency in hospitals is a complex undertaking as institutes differ in various aspects. In particular, it is challenging to properly measure the outputs and quality of a hospital. In response to this complexity, economists have successfully adapted approved techniques from network industries to the health sector.

In a nutshell, these economic cost efficiency measurement methods relate the cost of a hospital to its outputs, quality of service and individual characteristics, and identify best practices in the sector. The most promising techniques include applications of stochastic frontier analysis. Besides accounting for cost, quality factors and multiple in- and outputs these techniques are able to decompose the unexplained rest into inefficiency and statistical noise. Repeated observations over time moreover make it possible to handle unobserved heterogeneity, i.e. unobserved factors that are out of a management's control, but that influence the hospital's performance.

There are a number of obstacles that need to be resolved to successfully implement stochastic frontier analysis in the health sector. In particular, the measurement of outputs is a challenging task. There is a vast number of different diseases and hardly any course of disease is like another. To a large extent, the problem is resolved in countries that have introduced diagnosis related groups (DRG). DRG is a system of classification based on expected use of hospital resources assigned by patented computer programs using information on diagnoses, complications/comorbidities and procedures, as well as a patient's age and gender. Standardized DRG are a sound basis, therefore, to compare outputs and finally to aggregate the data for the use of cost efficiency measurement techniques.

In order to provide incentives for productive efficiency, Switzerland has introduced DRG in 2012, and hence uncoupled hospitals' actual costs and reimbursements. With this change, cost efficiency measurement in Swiss hospitals has become very promising, given that approved techniques and accurate data are applied and statistical analysis is performed carefully. The cost saving potentials are considerable for the health sector and hence for the national economy.

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IMPRINT

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CALENDAR

7 APRIL 2012

WORLD HEALTH DAY

This year's World Health Day is dedicated to the theme of "Ageing and health: Good health adds life to years". Accordingly, the World Health Organisation (WHO) will highlight this priority area of concern with a global campaign. The focus will be on how life in later age can still be lead in a full and productive manner. This theme is special in that ageing concerns each and every one of us.

For more information please see:
<http://www.who.int/>

3 MAY 2012

HIGH LEVEL CONFERENCE ON EU HEALTH PROGRAMMES: RESULTS AND FUTURE PERSPECTIVES, BRUSSELS

The results, success stories and the future perspectives of the first and second Health Programmes will be presented at this conference which is organised jointly by the European Commission's Directorate-General for Health and Consumers and its Executive Agency. Speakers will include John Dalli, Commissioner for Health and Consumer Policy, as well as Matthias Groote, chair of the Health Committee of the European Parliament.

For more information please see:
<http://ec.europa.eu/>

23-25 MAY 2012

6TH EUROPEAN CONFERENCE ON RARE DISEASES & ORPHAN PRODUCTS, BRUSSELS

While February 29th marked this year's international Rare Disease Day, the 6th European Conference on Rare Diseases & Orphan Products provides for a forum across all rare diseases across all European countries. The program offers the opportunity to evaluate the state-of-the-art of the rare disease environment, monitoring and benchmarking initiatives. The conference is organised by EURORDIS and DIA, and supported by the European Commission.

For more information please see:
<http://www.rare-diseases.eu/2012/>