Journal of Global Social Sciences **September 2024, Volume 5, Number 19, 45-55**
ISSN: Print 2735-9328, Online 2735-9336

WHY ARE THERE PROBLEMS WITH BUDGETING IN HOSPITALS?

Langa Esmael KAREM,
Sulaimani Polytechnic University, Sulaimani, Iraq
langa.karem@spu.edu.iq

Abstract

When global hospital budgeting was first implemented in Holland in 1983, it was anticipated to be a far more helpful tool for controlling costs than traditional retrospective output reimbursement. There is a discussion of the underlying presumptions of hospital budgeting, including the following: it will incentivize hospitals to increase their efficiency; it won't have a detrimental effect on the standard of treatment; it partially restores hospital autonomy; and hospital administrators are competent to execute greater efficiency. Additionally, consideration is given to the structure of external budgeting, how it affects the connection between insurers and hospitals, and the relationship between planning and budgeting. Hospital budgeting has several implications, which are covered in the second section. Hospital budgeting appears to be a successful strategy for controlling costs; it is associated with a decline in hospital output and impacts hospital administration, policy formation, and the public-private healthcare system. The widespread consensus is that hospital budgeting has considerably more benefits than drawbacks regarding cost containment.

Keywords: *Budgeting, Management Accounting, NHS.*

DOI: 10.58934/jgss.v5i19.289

1. INTRODUCTION

Budgeting is an issue that has grown in importance during the last few years due to the precarious economic environment. The civil society and the government of the United Kingdom have entered into a dispute after the National Health System (NHS) budget has been affected by severe cuts. It is worth mentioning the healthcare systems are areas that consume the largest part of public money, and this makes the need for improved performance even more desirable.

However, despite public policies' efforts, these organizations' cultures and structures are generally resistant to any type of change. Additionally, the strategies undertaken have been proven silent in action, and academia has proposed a more systematic and proactive approach to developing medical leadership (Rashid, 2023; Karem *et al.,* 2022).

Therefore, this literature review aims to analyze and discuss the existing literature within the spectrum of budgeting healthcare organizations. In this attempt, this thesis will examine the characteristics of budgetary control and its central concerns. With these theoretical aspects in mind, the last part of this work will examine the National Health System (NHS), its problems, and possible solutions identified by the existing literature.

2. LITERATURE REVIEW

2.1.Budgetary Control

2.1.1. Definition

According to Harradine, budgeting is a specific management control system which has or should have more than a simply contribution to financial control (Rashid, 2018; Karem *et al.,* 2022). The previously cited paper underlines that budgeting must have two major objectives: strategy implementation and performance improvement.

Moreover, Harradine's study also underlines that budgeting is more than an instrument for effective managerial control and it also facilitates a considerable amount of empowerment among the staff (Budur *et al.,* 2024). The way in which this can be accomplished is by creating a decision making process where decisions are taken at the nearest point of action. It is generally considered that budgeting system shall determine a continuous performance improvement in an organisation.

At the same time, Abbott understands budgetary control as being 'methodical control of an organisation's operations through establishment of standards and targets regarding income and expenditure, and a continuous monitoring and adjustment of performance against them' (Budur *et al.,* 2024; Ali *et al.,* 2019).

At the same time, Pettersen identifies that accountability in the public sector is mainly linked to the process of budget process (Rashid, 2019; Budur, 2020). As a consequence, managers in public agencies must cope with three different types of accountability, managerial/performance

accountability, professional accountability and personal accountability. The first type is designed to create a decision-making process using planning, budgeting, performance measurement and reporting (Karem *et al.,* 2021; Rashid, 2020). As for health care systems, it seems that budgeting is an important activity and negotiation between clinical managers and top management.

On this note, it has been argued that clinical mangers are aware of their accountability vis-à-vis the cost control but they have no clear vision on their responsibility for strategic planning (Budur *et al.,* 2018; Noori & Rashid, 2017; Fatah & Jaf, 2023). This aspect is also confirmed by Jacobs' research that shows that clinical staff often does not have access to cost and performance information as these matters are managed at higher managerial levels.

However, after the interviews conducted by Patterson, it is suggested that clinical managers have 'the opportunity to exercise medical and other judgement than the managerial accountability to budget frames (Mahmood & Sabir, 2023). Thus, the fact that clinical managers are also financially accountable does not necessarily enables them to have a say in setting or managing the budget.

2.2. Specifics of Budgeting

In order for budgets to lead to development there are a few conditions that must be met. Thus, budgets must be set within the organisation in a rational and transparent manner (Rashid, 2021; Budur *et al.,* 2024). Equally important to this is to obtain feedback about the financial performance of the organisation.

Furthermore, Hoffman claims that there is more than one way to perform budgetary control depending on how responsibility is delegated to what he calls 'responsibility centres' (Rashid & Sabir Jaf, 2023; Karem *et al.,* 2021). Therefore, these centres can be revenue centres, cost of expenses centres, profit centres or investment centres. All these types are different as they consider different aspects as central in the process of budgeting control. Each of these is valid, and selecting a specific type is truly important as it should consider the features of the business, its operational activities, its objectives, and other aspects.

It should be added that budgetary control is essential in determining organizational behavior and its results. Nonetheless, the measures that are part of the budgeting control process must be constantly monitored as it is often proved that some measures may have negative unwanted

outcomes (Jaf & Rashid, 2023; Rashid, 2023). This is also the reason why an organization is encouraged to analyze any potentially undesirable consequences when a strategy for budgetary control is chosen (Ali *et al.,* 2019).

However, in the case of companies with a high number of departments, there is a chance of having separate budgetary control options for each department. This lack of coordination often leads to loss, and necessary measures should be taken to prevent this from happening (Budur *et al.,* 2024; Rashid, 2023).

2.3. Major Issues

2.3.1. Limitations

One of the most critical problems of budgets is represented by their limitation. The limitations are noticeable once a budget is in operation due to its ephemeral condition. A budget is the outcome of a past experience, and it will not be able to match new, unpredicted increases in costs. This is why a company should revise its budget to reduce major fluctuations or variations. For instance, it is quite difficult for a hospital to predict the costs of the treatments in a specific period due to natural disasters or any other unforeseen accident that may occur (Rashid, 2023).

2.3.2. Medics and Managerial Functions

When it comes to the involvement of doctors in budgetary matters, it endorses the existence of discord between their professional values and the organization's objective. They argue that the new approach to the public health system may cause tensions between the business of health and the practice of health. They blame the hybrid clinical organizations where doctors play important roles in both management and clinical spheres. For example, Schafer emphasizes that this dual role may create internal conflicts when patient care and autonomy requirements clash with organizational needs or fiscal constraints. At the same time, internal conflicts may appear when the time dedicated to managerial roles intrudes on the primary job or the clinical role. As Karem *et al. (2022) point out, internal conflicts often demotivate hybrid clinical managers, and there can also be negative implications in terms of the quality of the performances and high turnover among* professionals.

Braithwaite's research also eloquently presents the flaws of hybrid clinical managers. He highlights that these persons spend an insufficient amount of time on strategic and external

planning, data quality, and process management, which must be considered thoroughly in order to achieve long-term benefits and cost-effectiveness.

Nonetheless, to understand how this hybridity works has been applied roles theories in the context of health systems. Their research concludes that the lack of management education and training in this hybridity or duality can produce important tensions. They also argue that even the role of a medic cannot completely match that of a clinical manager due to the unpredictability the former role involves. Thus, it is common for a doctor to prioritize the first roles, and this way, the managerial role is negatively affected.

On the other hand, it argues that there are benefits when doctors control organizational arrangements, as this conduct can lead to the formation of a ‘culture of professionalism. Clark argues that medical leadership and engagement should not be an option anymore. He endorses that doctors should take a more active stance vis-à-vis the management of health organizations. He emphasizes that it is a mistake not to prepare the doctors for these roles as many of them lack the necessary training (Rashid, 2021).

2.3.3. Innovation

One of the purposes of budgeting is to generate innovation. As defined innovation in health delivery and organization is a ‘set of behaviors, routines, and ways of working, along with administrative technologies and systems' (Demir et al., 2022; 2023), which are linked to providing or supporting health care (Budur, 2024), implemented in a planned way, and discontinuous with previous practice and perceived as new by a proportion of key stakeholders, and directed at improvement (Torlak et al., 2024). The question to answer then is whether budgeting can lead to these developments. It follows from the previous definition that innovation is not perceived as something totally new, but something implemented in a new way or of an improved quality.

In this case, organizational and managerial innovations are the eloquent subjects for further analysis. There is evidence that the delivery model has been developed in healthcare as part of organizational innovation, but there is much less to talk about when it comes to budgeting.

3. METHODOLOGY

NHS and Budgetary Control

The financial challenges that have appeared during the last few years within the NHS require imperative changes and the implementation of strong financial strategies that could lead to strategic performance improvement. These scholars propose a comparison with private companies that have experienced globalization's impact. This comparison aims to analyze the existing routes to strategic cost improvement. It was observed that the first step to this accomplishment would be introducing innovation in practice and responsibilities. However, these measures will face obstacles from many directions, and senior doctors are required to be involved in achieving significant organizational modifications. It also noticed that the key to a successful implementation is the emphasis on long-term strategies rather than short-term plans.

According Harradine's control and empowerment argument, the budgetary system should facilitate a decision that is taken nearer the patient. However, there are a few hindrances when it comes to control and empowerment, and, as previously discussed, it is not clear what roles doctors should have, especially when their willingness to engage in other activities is not great. At the same time, senior doctors may not have the necessary knowledge and expertise to engage in these kinds of activities.

This thesis observes that innovation in healthcare is usually produced by pharmaceutical companies that reduce costs through new rugs while clinical practice is difficult to become more efficient. In response, there are several systematic comparisons of innovations that look at different innovations applied in the United Kingdom over the last years. These look at case studies where innovation has been produced in hospitals, and their results show that medical staff plays a more important role in the development of the medical service than any person in a managerial position (Karem *et al.,* 2021).

However, budgeting control in the NHS is a bit problematic mainly because it is public sector, and resources are determined by political decisions. The political system is also responsible for setting priorities, and senior managers are also accountable to politicians. The outputs of this service are clearly not financial, and for this reason, non-financial indicators are used to check the service's performance.

Additionally, there is a high amount of internal and external pressure on the NHS from various sources. Internally, the facilities have been reduced following the government spending cuts, which have had immediate effects on the morale of the staff. At the same time, external factors such as the increasing number of immigrants represent an enormous burden for this service if combined with the decreasing quality and number of staff.

There are also social agents behind the overuse of health services represented by the population's behavior, which is more concerned with preventing medical problems. In this case, patients tend to use the service even in minor cases or when is not necessary, overburdening the system. The same author notices a paradox of modern medicine, which, despite providing more efficient cures, the most complex diseases require long-term treatments that are expensive and drain more resources. At the same time, efforts for social inclusion include free services for disabled and addicted patients who rely on the support received from the NHS.

It appears to be a laborious mission to determine an accurate budget for NHS considering the details that must be taken into account. This can become even more difficult considering that mangers cannot predict how many patients will be cared for in a future period. Moreover, there are always external factors that cannot be determined, and, as a consequence, clinical managers cannot refuse to look after individuals on the basis of budget or available funds because of ethical and moral reasons.

Examples of NHS budget plans show that it aims to save money in every possible way. However, these strategies are created locally, and there is no general consent on what services can be delivered cost-free at all locations. Of course, this is understandable where there are not the necessary resources to provide treatment, but even where this is not the case, some treatments are offered, while in other places, they are not.

The process through which NHS manages public money is transparent and managers must prove that the money is invested most efficiently. These conditions are reasonable because it is about public money and a rigorous assessment is in place to determine the efficiency of budgeting.

However, Clark sticks to the idea that doctors are the future of health organizations' management, and he salutes the NHS's approach to its measures. It is about the joint Enhancing Engagement in Medical Leadership project. It created a Medical Leadership Competency Framework that presents the leadership skills required by a general practitioner, medical

student, or any person involved in a health organization and any clinical profession. This project is meant to encourage junior doctors to put their ideas into practice in order to create a new attitude to medical engagement and leadership among the medical professions (Jaf & Rashid, 2023; Noori & Rashid, 2017).

4. CONCLUSION

In conclusion, the literature reviewed clarifies the matter of budgeting and budgeting control by providing an essential detailed analysis of these subjects. However, when it comes to NHS things are getting more unclear due to the lack of a clear paradigm regarding the role that medical professionals should play in the process of management and budgeting. This is also aggravated by the complexity of the issues health systems are faced with. Therefore, huge pressure is on this institution's shoulders as it must be transparent and efficient while dealing with unforeseeable matters.

The existing literature suggests that further research is needed in this field as a service whose resources are cut cannot cope with an increasing number of patients. Despite the managers' efforts to ensure maximum utilization of their reduced resources, the quality of the service will not be reduced if more efficient and constructive measures are not taken.

REFERENCES:

Ali, H. K., Abdulla, S. M. K., & Karem, L. E. The Impact of International Tourism on Economic Growth: The Case of Turkey. *The Scientific Journal of Cihan University–Sulaimanyia PP*, *174*, 181.

Budur, T. (2020). The role of online teaching tools on the perception of the students during the lockdown of Covid-19. International Journal of Social Sciences & Educational Studies, 7(3), 178-190 .

Budur, T. (2024). Unveiling the Role of Knowledge Sharing and Knowledge Hiding in Enhancing Public Service Motivation: Exploring the Moderating Effect of Organizational Structure. International Journal of Public Administration, 1-15.

Budur, T., Abdullah Rashid, C., & Poturak, M. (2018). Students perceptions on university selection, decision making process: A case study in Kurdistan Region of Iraq. International Journal of Social Sciences & Educational Studies, 5(1), 133-144.

Budur, T., Abdullah, H., Rashid, C. A., & Demirer, H. (2024). The Connection Between Knowledge Management Processes and Sustainability at Higher Education Institutions. *Journal of the Knowledge Economy*, 1-34.

Budur, T., Demirer, H., & Rashid, C. A. (2023). The effects of knowledge sharing on innovative behaviours of academicians; mediating effect of innovative organization culture and quality of work life. Journal of Applied Research in Higher Education .

Demir, A., Budur, T., Omer, H. M., & Heshmati, A. (2023). Links between knowledge management and organisational sustainability: does the ISO 9001 certification have an effect?. Knowledge management research & practice, 21(1), 183-196.

Demir, A., Kiziloglu, M., Budur, T., & Heshmati, A. (2022). Elaborating on the links between declarative knowledge, procedural knowledge, and employee performance. SN Business & Economics, 3(1), 23.

FATAH, R. D., & JAF, R. A. S. (2023). GREEN CONCEPTS AND MATERIAL FLOW COST ACCOUNTING APPLICATIONS FOR MANUFACTURING COMPANY: APPROACH FOR COMPANY SUSTAINABILITY. Russian Law Journal, 11(9s).

Jaf, R. A. S., & Rashid, C. A. (2023). The Role of Accounting Measurement and Disclosure of Social Capital in Improving Financial Performance. *Academic Journal of Nawroz University*, *12*(4), 469-477.

Karem, L. E., Bayz, H. A., Darwesh, M. G., & Ali, D. J. (2022). Impact of monetary and financial policies on the performance of commercial banks in Iraq-BBAC banks and Kurdistan International bank. *The Scientific Journal of Cihan University–Sulaimaniya*, *6*(1), 157-172.

KAREM, L. E., HAMAD, H. A., BAYZ, H. A., FATAH, N. A., ALI, D. J., AHMED, Z. N., ... & QADER, K. S. (2021). Corporate governance and its effect on firm performance in an emerging economy. *International Journal of Environmental, Sustainability, and Social Science*, *2*(3), 281-291.

Karem, L. E., Osman, A. B., & Xwarahm, A. A. (2022). The relationship between intellectual capital and financial performance: a case study of Kurdistan Region of Iraq. *Journal of Global Social Sciences*, *3*(10), 23-51.

Mahmood, S., & Sabir, R. A. (2023). The Impact of time driven activity based costing on Competitive Advantage in the Kurdistan Region of Iraq Economic Unit. *Central European Management Journal*, *31*(2), 674-690.

Noori, T. M., & Rashid, C. A. (2017). External auditor's responsibility regarding to going concern assumption in his/hers report: case of Kurdistan Region/Iraq. *International Journal of Research-Granthaalayah*, *5*(5), 138-152.

Rashid, C. A. (2017). The Importance of Audit Procedure in Collecting Audit Evidence/Case of Kurdistan Region/Iraq. International Journal of Social Sciences & Educational Studies, 4(2), 15.

Rashid, C. A. (2018). Efficiency of financial ratios analysis for evaluating companies' liquidity. International Journal of Social Sciences & Educational Studies, 4(4), 110.

Rashid, C. A. (2019). Pricing policy and its impact on the profitability. International Journal of Finance & Banking Studies, 8(3), 101-108.

RASHID, C. A. (2020). Balanced Score Card and Benchmarking as an Accounting Tool to Evaluate Morrison's Performance. Journal of Global Economics and Business, 1(3), 59-72.

Rashid, C. A. (2021). The Effect of International Financial Reporting Standards 7 on Financial Crisis. *Journal of Global Economics and Business*, *2*(5), 87-100.

Rashid, C. A. (2023). A requirement for fraud investigation professionals. Journal of Global Economics and Business, 4(12), 75-89.

Rashid, C. A. (2023). PESTEL Analysis and Porter's Five Forces as marketing tools to evaluate Morrison's performance and strategy. *Journal of Global Social Sciences*, *4*(15), 75-83.

Rashid, C. A. (2023). Social capital accounting and financial performance improvement: the role of financial information reliability as a mediator. *Journal of Islamic Accounting and Business Research*.

Rashid, C. A., & Sabir Jaf, R. A. (2023). The Role of Accounting Measurement and Disclosure of Social Capital in Improving Quality of Accounting Information. Iranian Journal of Management Studies.

Torlak, N. G., Budur, T., & Khan, N. U. S. (2024). Links connecting organizational socialization, affective commitment and innovative work behavior. The Learning Organization, 31(2), 227-249.