Organizational capacities for change – Insights from the Finnish healthcare reform

Lotta-Maria Sinervo *
Faculty of Management and Business
Tampere University
lotta-maria.sivervo@tuni.fi

Harri Laihonen
University of Eastern Finland
harri.laihonen@uef.fi

Anna-Aurora Kork
University of Vaasa
anna.kork@uwasa.fi

** Corresponding author*

Abstract
Healthcare systems in many countries are under pressure for renewal due, for instance, to demographic changes or service delivery fragmentation. This paper focuses on organizational capacities for change by illustrating knowledge, processes, and resources needed for implementing healthcare reforms at the meso-level organizations. We examine these capacities in the empirical context of the Finnish healthcare reform to find out how the reform goal of fostering social impact in policy documents is expected to be operationalized and managed in the newly established "Wellbeing Services Counties". In our paper, we present four organizational capacities for making social impact: 1) systematic use of effectiveness information in knowledge management, 2) holistic evaluation and measurement system supporting for managing effectiveness, 3) effectiveness as a key principle in resource allocation, and 4) translation of reform policy objectives into organizational goals. However, to achieve the goals and understand the desired change at the level of organizational action, collective sensemaking of social impact would be needed in aligning different interpretations and effective organizational practices. We call for more collective knowledge formation processes in transforming reform objectives into organizational activities to make a social impact.

Keywords – Healthcare reform, organizational capacity, public management, knowledge management *(max 5 words)*

Paper type – Academic Research Paper

1 Introduction

Healthcare systems in many countries are under pressure for renewal due, for instance, to demographic changes or service delivery fragmentation. Healthcare reforms respond to similar challenges such as inequalities, increasing demands or sustainable financing of service provision (see Polin et al., 2021) but the understanding of the processes of change in implementing the healthcare reforms is still limited (Okma & Tenbensel, 2022)

This paper focuses on the role of organizational capacities for change in healthcare reforms. Often motivated by fostering social impact, reforms aim to improve health system performance, quality of care and population health implying a change in structures and financing of the service system (Saltman, 2019; Porter & Teisberg, 2006). With organizational capacities, we refer to knowledge, processes and resources needed to respond to demands of changing environments, such as implementing reform aims. The study scrutinizes organizational capacity that is considered an essential element of performance and understanding of effectiveness and sustainability of public organizations (Meyer et al., 2012), such as health services. We approach effectiveness from the viewpoint of Finnish healthcare reform aim of making social impact through Wellbeing Services Counties (WSC), that are newly established regional level organizations.

Public management perspectives are important for achieving social impact, as reform policy priorities influence the allocation of resources, organization of service provision and the impact measurement through target setting. However, these organizational aspects in fostering social impact are often overshadowed for instance, by the impact assessment of individual care interventions or at the macro level, defined as outcomes at the level of welfare policies linked to the resources and situation of each country (Hurst et al., 2023).

In public organizations, resources are always limited and inherently insufficient compared to ever increasing citizens' needs (Robbins, 1945). For instance, new technologies or the aging population leads to a rapid increase in service demands. To foster social impact, the first challenge for healthcare organizations is to allocate limited resources effectively to promote population health and wellbeing, according to the principles of welfare economics. Moreover, every public organization is expected to use the resources as efficiently and effectively as possible, ensuring cost-effectiveness of care. Also, a debate on evaluating and measuring social impact and organizational effectiveness in healthcare services has been active in recent years (Hurst et al., 2023; cf. Coulter, 2017). This is due to the need for evidence-based decisions to identify the most cost-effective healthcare

interventions and to assess the performance of the service system. Managing and evaluating impact in public organizations is complicated by the fact that the effects of healthcare services can often only be observed in the long term, beyond the political term.

2 Methodology

2.1 Finnish healthcare reform as an empirical context

The empirical context of the study is the Health and Social Services Reform which was recently (beginning of 2023) implemented in Finland. The Finnish reform is exceptional on a global scale of its magnitude as it will shift the responsibility for organizing the healthcare, social welfare, and rescue services from 309 municipalities to the 21 new autonomous regional-level organizations, WSCs. A key starting point for the reform has been the development of value-based social and healthcare. The rationale for social impact in the Finnish reform lies in improving public health, patient experience, and cost-effectiveness (closely linked to the so-called Triple Aim). This requires a shift from volume to value creation. The reform goal of effectiveness is inspired by the Value-Based Healthcare (VBHC) model, which has been applied to health policies and impact management of healthcare organizations in several countries (Kokko & Kork, 2021, Porter & Guth, 2012).

The Finnish reform presents a fruitful empirical context for examining organizational capacity for change since the reform not only reorganized public service provision but represents a wider transformation for organizational performance principles. The reform aims to create social impact emphasizing value-based strategies and outcome-based management in public healthcare organizations. However, the goal achievement requires cultural change in organizations. The reform allows us to critically study organizational capacities for change by illustrating knowledge, processes and resources needed for foster social impact at meso-level organizations.

2.2 Methods and data

The empirical research data consists of key Finnish policy documents that steer provision of health and social services and thus provides guidelines for organizational activities. In selecting the policy documents, we consulted the steering ministries (Ministry

of Finance and Ministry of Social Affairs and Health). Data consists of eight Finnish policy documents which are

- Inclusive and competent Finland – a socially, economically and ecologically sustainable society. Prime minister Sanna Marin's Government Programme, Prime Minister's Office (2019).
- Strategy for Public Governance Renewal. Ministry of Finance (2020).
- General government fiscal plan for 2023–2026. Ministry of Finance (2022).
- Act on Organising Healthcare and Social Welfare Services 612/2021.
- Strategy of the Ministry of Social Affairs and Health Group. Ministry of Social Affairs and Health (2022).
- Ministry of Finance secures future prospects -Strategy of the Ministry of Finance. Ministry of Finance (2022).
- Hämäläinen, P., Kovasin, M.; Räikkönen, O. (2019). Proposals for health and social services steering indicators and for the verification of the knowledge base. Report of the Ministry of Social Affairs and Health 2019:33
- Public sector productivity. Report of Ministry of Finance 19.8.2020. Ministry of Finance (2020).

We applied qualitative document analysis, which provides a systematic method for examining document data (Bowen, 2009). We analysed the data using inductive thematic analysis (Fereday & Muir-Cochrane 2006) involving a careful reading of the documents concerning the goals and means of social impact and its management.

3 Results: Organizational capacities for change / social impact

The results of our study show the abstract nature and ambiguity of the reform policy objectives. Data included different conceptions of how to make social impact that seem to be connected by the idea of organizational effectiveness. This refers to goal achievement (see Cameron, 2015) such as a change in relation to the objectives set for an organizational activity. In our data, social impact management can be categorized in four overarching themes: knowledge management; impact measurement; resourcing; and policy implementation. Next, we will discuss what these four themes means for organizational capacities for changing practices and culture.

3.1 Organizational capacity to manage with knowledge

Our data shows how the importance of knowledge management is highlighted in the management for social impact in WSCs. The Act on Organising Healthcare and Social Welfare Services (621/2021) defines that WSC are obligated to use data on effectiveness both when reporting on the performance of their activities to the guiding ministries and for the knowledge management of their own activities. This legal basis creates a new institutional framework for managing social impact. The importance of knowledge management for health management has been increasingly emphasized in academic literature (for a review see Hujala & Laihonen, 2021). In WSCs knowledge management brings together information on the resources, the functioning of processes and the outputs produced. At the same time, it can provide decision-makers with an up-to-date snapshot of the success of activities. Managing social impact is about understanding and making visible the chains of impact. The different types of data help WSC managers to identify service needs, and to build up an overall picture of how current services meet the needs of the population in the area.

The empirical data illustrates how, in addition to technical capacity, WSCs need capacity to formulate a knowledge strategy and to derive managerial knowledge needs that meet both needs of external reporting and internal decision-making (cf. Hujala & Laihonen, 2023). WSCs also need to connect knowledge management into their other management systems so that it does not remain detached from other developments. Knowledge management has been criticized for focusing too much on solving organizational efficiency problems, which also stresses the importance of turning the focus on social impact of health services, and knowledge management itself (Hujala & Laihonen, 2021). The data also highlights the importance of organizational culture, individual skills and tacit knowledge when developing knowledge management in WSCs. Together these capacities build WSCs intellectual capital and the effectiveness of decision-making and their readiness to handle different situations (cf. Wiig, 2002). Knowledge management in WSC must therefore develop capacity not only for the production of data and measurement information, but also for collective knowledge formation and knowledge-based performance dialogue (Laihonen & Mäntylä, 2018; Laihonen, Kork & Sinervo, 2023). Thus, in addition to information systems and structures, knowledge management in WSCs should focus on interaction and collective decision-making requiring capacity to monitor the defined objectives, but also

capacity to promote active participation of actors in defining and evaluating the objectives and actions of WSCs.

3.2 Organizational capacity to evaluate and measure social impact

Based on our data, improvement of social impact often concerns outcome measurement and much less on impact management. The role of economic evaluations has grown in public organizations, especially in healthcare due to scarce resources and increasing service needs. Capacity to utilize economic evaluation models helps to identify the suitable criteria for decision-making. Organizations often lack data and knowledge about which services and policies are the most effective but also the capacity to find the optimal means to achieve effective action. These kinds of information needs and competencies for development, evaluation and outcome-based management are usually addressed in organizations through performance measurement systems. Our evidence shows that in addition to improve population health, the Finnish healthcare reform has added other performance aspects as well, such as customer orientation, equity and cost containment, which are closely related to the organizational effectiveness of service delivery. For organizations, the complexity of measurement aspects highlights that in practice effectiveness must be assessed from a wide range of social impact perspectives as well as measured multiple levels of individual, organizational, service system outcomes.

It becomes evident for WSC that the evaluation and measurement data requires holistic approach and a better use of performance measurement system. This depends largely on management's willingness and capabilities of renewing organizational evaluation criteria and integrating various information within. Social impact measurement requires responsiveness and a focus on measuring what matters to public (see Coultier 2017). In WSC this means measuring health of the population on their service area, performance and productivity of their service system as well as cost-effectiveness of care episodes and quality of patient interventions. Concrete measurement tools can be for example measures of health-related quality of life reported by professionals (15D, EQ-5D) or patient-reported outcomes measures (NPS, PROM, PREM). As required by the law, social impact management in WSC requires reporting on issues such as process quality, customer satisfaction, patient safety, access to services and productivity. One of the key tasks of managing impact in WSC is to link the impact data generated at their service system and their capacity to build a common interpretation of social impact and the organizational goal

setting. To support impact evaluation and manage complexity, there is also a need for engaging stakeholders and shared learning processes (Kork et al., 2022; Uusikylä, 2019).

3.3 Organizational capacity to allocate resources effectively

The analysis of document data revealed that creating social impact requires organizational capacity not only effectively use but effectively allocate financial and human resources. Resource scarcity fundamentally challenges management and decision-making in WSC. This becomes visible evident in the data as discussions about the sustainability of public finances. From the perspective of organizational management in fostering social impact, utilization of resources requires capacities to make choices, as in public organizations operational logics these choices are influenced by both policymaking and managers interpretations. This means that choices in resource allocations are made in interaction with steering ministries and other stakeholders. For instance, managers of WSCs must consider the optimal use of financial resources in both long-term strategies and annual budgets and operation plans in organizing the services. In WSC, council members as policymakers finalize the decision on allocation of resources. Organizational capacity is needed to balance and formulate a shared view between different values of social justice and financial sustainability (Lennox et al., 2018). The data shows the need for public organizations to act in a sustainable way (cf. Purvis et al., 2019). In public administration scholarship, sustainability is understood as a goal of a public organizations (Wilson, 1992; Simon, 1992), since their purpose is inherently linked to promote wellbeing of citizens with the limited financial resources collected from the citizens themselves (Sinervo, 2014). Public organizations are built on the traditional but converging values of public administration are efficiency, effectiveness and equity. In our interpretation, this means that WSC prioritize and evaluate different needs and preferences. In practice, the key tools for financial management include the WSC budget and investment plans (Sinervo & Laihonen, 2022; Sicilia & Steccolini, 2017: Mauro et al., 2017).

Steering of WSC and public finance plan emphasize cost-effectiveness of service provision. Cost-conscious target-setting can also be interpreted in organizations as a new knowledge base for social impact and financial sustainability, which is to be created through measurement and evaluation tools. In this case, there could be a place for sustainability thinking in the funding policies for WSC, as well as in the allocation of funding in WSC financial management. The document analysis suggests that operational

and financial planning becomes central to financial management of WSC (Sinervo & Laihonen, 2022), as this is where important decisions and choices are made in terms of resources in fostering social impact.

3.4 Organizational capacity to translate reform policy objectives into organizational goals

Reform goal of effectiveness has become part of WSC performance measurement and service provision, both at the organizational level and more broadly as part of health policy (Kokko & Kork, 2021). Important instruments steering the activities of the WSC are legislation, policy programmes and the national budget and the public finance plan, that mostly emphasize cost-effectiveness. The reform policy thus set guidelines for WSC in financing and measuring their service system effectiveness leaving only little space for substantial development. For organizational capacity to translate reform objectives into organizational goals and action, WSC play an important role in interpreting policy objectives in line with guiding ministries and regional policymakers as well as implementing its goal of effectiveness by defining what those actually means in their services. Changing the logic of traditional organizational action towards an impact-based approach implies novel resource allocation processes, evaluation tools, and organizational knowledge management activities that all call for collective goal setting in WSC.

4 Discussion – From organizational capacities to collective sensemaking and knowledge formation

Our results on organizational capacities for change as requested by the reform highlight the relevance of interaction in fostering social impact and an effective service system. The impact management aspects were hardly visible in the documents, although achieving a change in organizational activities is a primary driver in implementing reform objectives. Based on our reform policy data, we are still left without answers regarding how a change to more effective practice is expected to be taken place and leading to social impact. In particular, the so-called 'knowing-doing gap' (see Pferrer & Sutton, 2000) exists in WSC making it difficult for managers to support and guide effective practices in their organizations, especially since cultural change at the operational level is known to be demanding and time consuming.

The collective sense-making (Weick, 1995) of social impact could be used as a management instrument in organizations to capture organizational capacity for change and for understanding processes of change at the level of action. In the collective sense-making, actors make meanings of reform objectives in their organizational context and thus develop plausible explanations for their action based on their experiences (Weick, 1995). Managers can guide this 'rationalisation' of experiences by justifying the need for building organizational identity (Humphreys & Brown, 2002) or by creating opportunities to professionals collectively make sense of the change (Lunkka et al., 2022). Management is responsible for implementing change processes, but their success is dependent on interaction with professionals. Collective sense-making produces know-how about the ways that bring effective change. Ultimately, organizational change processes are realized by the people, and thus managers' capability to facilitate collective sense-making and knowledge formation of social impact improves understanding of different interpretations of the activities needed for improving effectiveness.

5 Conclusions

Our findings show that there is relatively little discussion of role of management in fostering social impact through healthcare reforms. At its simplest, managing for social impact needs organizational capacities in forms of translating policy goals into organizational objectives, evaluation, measurement, and continuous development of the knowledge base. Our research highlights the need for a conceptual and value-based dialogue on what is meant by social impact, improving effectiveness and how policy objectives translate into action and professional practice in healthcare organizations.

Our results illustrate the intertwining of different managerial perspectives, for example, in how social impact management is defined in the context of national welfare policy and regional target setting. Goal setting, available resources and the evaluation and measurement priorities in healthcare organizations determine the information used to steer and manage the service system. However, the information generated by measurement and evaluation influences the setting of objectives and helps the system to learn and renew itself. In this way, a new perspective emerges in the debate on managing for social impact, one that emphasizes the collective knowledge formation of actors and combines institutional and organizational perspectives on knowledge management in public

administrations (Laihonen et al., 2023). In addition to a reliable knowledge base, managing for social impact requires an understanding and balancing between the ambiguous goals and values of public administration.

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