Inter-Organizational Relations
As Governance Mechanisms:
The National Health Insurance Scheme in India

by
Daya Shankar Maurya
Assistant Professor,
T.A Pai Management Institute,
Manipal University, Karnataka, India
Inter-Organizational Relations
As Governance Mechanisms:
The National Health Insurance Scheme in India

by
Daya Shankar Maurya
Assistant Professor,
T.A Pai Management Institute,
Manipal-576104, Karnataka, India.
Phone: 0820- 2701083, email: dmaurya@tapmi.edu.in

Abstract: What leads to effective policy implementation in inter-organizational context has deluded scholars and very little is known about the role-played by governance of inter-organizational relationships. In a comparative case study of implementation of National Health Insurance Scheme in three States in India, this study splits inter-organizational governance design into two components-implementation structure and compliance mechanism, and studies how interaction between them determines partner opportunism, a critical determinant of policy implementation effectiveness. The study clearly illustrates that congruency between the components of governance design is a critical determinant of effectiveness of a governance design. This study contributes to theorization in the field of policy implementation, which suffers from limited conceptualization.

Key words: Inter-organizational Relations, Governance Design, Policy Implementation, Policy Implementation Effectiveness, National Health Insurance
Inter-Organizational Relations as Governance Mechanisms: the National Health Insurance Scheme in India*

1. Introduction

Policy implementation is an inherently complex process. Hill and Hupe (p. 563; 2006) assert that implementation requires public administrators to engage in “managing policy trajectories, managing inter-organizational relations and managing external and internal contacts.” The essentiality for policy and governance designs to be consistent and coherent with the policy goals – we use “congruent” to refer to these two conditions in the rest of the paper – for successful (effective) implementation has been well emphasized in the literature, e.g. Howlett (2009); Howlett and Ramesh (2014).

Yet, despite its recognition, i.e. Hill and Hupe (2006), focus on the specific role and influence of relational interactions and its dynamics on implementation is somewhat muted in the public administration/management literature. This paper attempts to cover some ground in the area. We examine the variation in implementation performance of India’s national health insurance scheme – the Rashtriya Swasthya Bima Yojana or RSBY – in the states of Himachal Pradesh, Punjab and Uttar Pradesh to flesh out the influence of interparty interactions and dynamics on the implementation process.

Briefly, approximately 41 million households across 482 districts, or nearly 60% of the target coverage of 70 million households, are enrolled in the RSBY as of 31 March 2016. Yet, despite the absolute take-up numbers, considerable variation was observed in enrolment and the utilization of services within and across states. These were attributed to factors such as various physical/mechanical problems, which impeded the enrolment process and poor information dissemination of the scheme, and principal-agent coordination issues (Rajasekhar et al., 2011; Nandi et al., 2013). We argue that latter contributors are of a relational nature, i.e. due fundamentally to the type of interparty relational dynamics present.

Specifically, we argue that the operative environment emerging from the interactive dynamics of the constituents of the governance design is a key determinant and facilitator on whether implementation proceeds as per the policy intent, or not. Thus, variation in implementation performance can be attributable, to a considerable extent, to the interactive dynamics and relationships between parties in the implementation process.

Following Pawson (2008), we characterize the interparty interactions and dynamics, which create a facilitative (prohibitive) environment, and encourages (discourages) cooperation and collaboration for effective implementation, as a congruent (incongruent) governance mechanism with the policy goal(s). This, and its effect on implementation performance, is distinct from the governance design, instruments, and policy goals that are often the larger focus of the contemporary literature.

---

1 For instance, see the discussions by Peters (2014, 2015) and O’Toole and Meier (2015).
2 The RSBY has been slated to be restructured (and renamed) as the Rashtriya Swasthya Suraksha Yojana (RSSY), or the National Health Protection Scheme. This was announced in the Budget for year 2016-17 in March 2016.
3 “Governance mechanism” as used in this paper may be potentially contentious. However, we follow the argument of “invisible mechanisms” by Pawson (2008). He asserts that these are “resources on offer within the program that, if triggered successfully, work their way into subjects’ reasoning” (p. 10; Pawson, 2008). Interparty relations are identical in that they are primarily intangible and non-documentable but, when evoked, they provide parties with reason and/or rationalization to commit towards a specified objective (or not).
This paper appends to the literature in the following ways. Firstly, contemporary practice often refers to the governance design as a “black box”, or an exogenous variable. This provides parsimony in an analysis but it also prevents any disclosure of interactions between the different involved implementation parties. This paper disaggregates the governance design into two main constituents: the governance structure and the compliance mechanism. Doing so enables examination of the interactive dynamics between them, without any (substantial) compromise of parsimony.\footnote{This does not mean that policymakers and researchers should insist on data availability on as disaggregated a level as possible. Rather, stakeholders need to be aware and understand the extent and limitations of the data at their disposal. This is even more pertinent for many, if not most, developing countries where data collection capabilities are often limited, and data quality is often compromised. Chander (2014) provides an account of some of the issues that arise in/for a developing country.}

We also attempt to provide some conceptual specificity to what “governance mechanism” refers to. Governance mechanism is typically used in the literature with a precursor, e.g. market governance mechanism or corporate governance mechanism\footnote{See, for example, Jap and Anderson (2003) and the references within.}, which provides a degree of contextual placement. However, what it is, or specifically refers to, remains somewhat ambiguous. We highlight some characteristics, which distinguishes a governance mechanism from the more commonly inferred compliance mechanism in this paper.

A third aspect here is that we demonstrate a (reasonably) clear link between implementation success and the environment that emerges as a result of the interactive dynamics (and idiosyncrasies) between the components of the governance design, i.e. the governance mechanism.

Owing to the “black box” treatment of the governance design, there is little in the public administration/management literature that has been able to establish a univocal influence of interparty interactions on implementation effectiveness\footnote{More often, the situation which arises is the identification of various (potential) influences of effective implementation, the cumulative of which elicits the Goggin (1986) critique of “too few cases” and “too many variables” which, he argues, impedes the formulation of a consistent and/or robust theory of implementation.}. In this case, using a combination of primary and secondary data on the RSBY, we provide a demonstrated influence of the interactive dynamics between the implementation structure and compliance mechanism on implementation outcomes.

Next, analyses of a public-private hybrid often involve organizations under the category of “third sector organizations” such as social enterprises. These operate by commercial norms but, unlike commercial entities, profit-maximization is not the primary objective. Simultaneously, the public sector operates as a regulator or administrative functionary than an active stakeholder in the organization’s operations\footnote{See Cornforth and Spear (2010) and Doherty et al (2014) for discussions.}. In contrast, the RSBY, whose structure we describe in detail later in the paper, requires active participation by both private and public sector entities. As such, it is a public-private hybrid in the operative sense of the term. Thus, the scope and analysis of this paper also complements the literature on the management of public-private hybrids and third sector organizations.

The broader emphasis of this paper is that policymakers/administrators need to be aware about the influence that the interactive dynamics emerging from a governance design can have on implementation and, if necessary,
incorporate additional measures or safeguards to facilitate for better performance and outcomes. This takes greater significance when congruity of the governance design is compromised – as we show later, this was the situation with the RSBY.

Contextually, while the topical and geographical focus of this paper is on public administration and management in a developing country (India), the relevance of the analytical findings and arguments should interest, and resonate with, administrators and organizations across the public-private spectrum.

The rest of the paper is organized as follows. The next section establishes the conceptual bases, which underpin the analyses of the paper. Section 3 provides an overview of the RSBY including its aims, design, and implementation structure. The data sources for the analysis of this paper are described in Section 4. Section 5 examines the influence of interparty interactions and dynamics on implementation outcomes. The final section concludes the paper.

2. Precepts

2.1 Partner Opportunism

Effective implementation is an important determinant of success of a policy (Newman 2014; McConnell, 2010; Aamirkhanyan 2007; Martin 2003). Performance in terms of implementation suffers, if the parties violate either implicit or explicit norms of the implementation, also known as opportunism (MacNeil 1980; Wathne and Heide 2000).

Opportunism is one of the most critical dimension of performance in a transaction as discussed earlier, and therefore controlling opportunism has been considered a central goal of governance design. Williamson (1985) considers controlling opportunism the sole reason for the existence of the governance design as the purpose of governance is to mitigate conflict, realize mutual gain, and induce order (Williamson, 2000).

2.2 Governance design and opportunism

Different governance designs influence the drivers and deterrents of opportunism differently (Wang et al 2013). Generally, a governance design comprises of more than one mode of governance. Each mode of governance has a unique combination of mode of organization and compliance mechanism or mode of compliance. Mode of organization refers to the way relationships between organizations, is structured. The mode of organization requires their corresponding complementary compliance mechanism in governing the transaction. Compliance mechanism refers to management approach agencies used with other agencies involved in policy implementation, to manage the relationship and control partner opportunism. Compliance mechanisms are well recognized as an important factor influencing performance especially in social services contracting (Fernandez 2009; Perrot 2006; Palmer and Mills, 2003; Lonnoroth et al., 2007). A textbook mapping of the three main types of mode of governance – Hierarchy, Market and Network have a specific mode of organization – Bureaucracy, Contract and Network, and a specific compliance mechanism – authority, incentives and norms/trust.

---

8 This follows on from Williamson (2000). However, it is an empirical issue if more safeguards do result in better implementation outcomes. For analytical tractability, we assume in this paper that they do.
In hierarchical governance, the mode of organization is characterized as having set of organizations arranged vertically. In these arrangements, the output of one agency serves as input of the other without receiving outputs from the second organization leading to sequential interdependence (O’Toole, 2012; Winter, 2012). Because of this sequential dependence, each organization has a veto point, which increases the complexity of joint action. Veto points give rise to dependency relationships and therefore require coercive compliance mechanisms—authority and rules—to control deviant behavior (O’Toole 2012; Peters, 2014, Considine & Lewis 1999).

In market governance mechanism, mode of organization characterized by reciprocal interdependence whereby each party’s output serves as input for the other party thus creating a situation of exchange formalized by a contract (O’Toole, 2012; Winter, 2012). The exchange process of this relationship is characterized by pre-defined terms related to inputs, process and output of the relationship which may be either explicit in terms of formal contract or implicit contract. As both parties have incentives to cooperate, these serves as ex-ante control to prevent opportunism and the likelihood of veto points is limited (Winter, 2012). However, the higher reliance on incentives also results in the need of monitoring and penalties to reduce opportunism from issues of moral hazard (O’Toole, 2012; Peters, 2014; Considine & Lewis, 1999).

In network governance, implementation consists of organizations arranged in a network form and compliance mechanism is collaboration. The defining feature of network arrangement is that organisations act independently and multiple organizations can produce and deliver implementation outputs parallel and independently (O’Toole 2012). This is typically classified as pooled interdependence (O’Toole, 2012; Winter, 2012). As organizations act independently, compliance is achieved through community norms and values (O’Toole 2012; Peters, 2014; Considine & Lewis, 1999).

Though in theory, the three modes of governance have been treated as a stand-alone mode but in practice the governance design is more convoluted and complex compared to three idealized extremes presented above (Peters, 2014). A number of governance arrangements, known in general as hybrids have been suggested based on varying combination of these modes of governance (Howlett and Ramesh, 2014). In the case of hybrids, it is expected that both mode of organization and compliance mechanism would have mixed features of different governance mechanisms. Hence, these three governance mechanisms serve more as conceptual tools and provide a conceptual map to analyze the variation in governance approach.

2.3 Prevention and Control of Partner Opportunism in Hybrids

Research on policy implementation has primarily focused on policy outcomes, which depends on host of other factors other than policy implementation (Hill and Hupe 2014; May 1999; Winter, 2012). Though the process of policy implementation is an inherently inter-organizational activity, there has been very limited research on the management of the implementation process and the resulting inter-organizational relations (Peters 2014). In public contracting, both transactional and relational approaches have been examined in controlling opportunism (Zheng et al., 2008; Davis, 2007) individually but use of both governance mechanisms together as a ‘governance dynamics’ in the context of opportunism has received much less attention (Poppo and Zenger, 2002; Cavusgil et al., 2004). Therefore, this study borrows from literature in business and management studies. In business and management studies, research on hybrids has extensively assessed the impact of a mix of governance modes on
performance but with contradictory findings. Some studies suggest that transactional and relational governance mechanism complement each other (Poppo and Zenger, 2002; Luo, 2002; Mayer and Agyres, 2004; Olsen et al., 2005; Liu et al., 2009; Zheng et al., 2008; Caniels et al., 2012; ) and therefore improve performance while others suggest that they substitute each other reducing performance (Das and Teng, 1998; Wuyets and Geyskens, 2005). Recent studies suggest that they both complement as well as substitute each other at the same time (Huemer et al., 2009; Roehrich and Lewis, 2010) and that the relationship between them changes over a period of time (Olsen et al., 2005; Caniels and Gelderman, 2010; Liu et al., 2009) depending upon the intentions in which they are used (Woolthuis et al., 2005).

Impact of mix of governance modes on partner opportunism has received much less attention (Poppo and Zenger, 2002; Cavusgil et al., 2004) and here also studies provide contradictory findings suggesting, one governance mechanism does better than other in controlling opportunism in a hybrid (Wang et al., 2012; Cavusgil et al., 2004; Zhou and Xu, 2012; Caniels and Gelderman, 2010).

These contradictory findings likely stem from a number of limitations of these studies. First most of these studies largely focus on compliance mechanisms without paying enough attention to mode of organization and their relationship with the implementation structure. In these studies, (Lamothe and Lamothe, 2011; Yang et al., 2011; Lusch and Brown 1996; Wuyets and Geyskens 2005) only aspect of mode of organization considered is detailed nature of contract design. These studies have mostly used survey-based methods where mode of organization is generally characterized in terms of specificity of the contract, obligation of the parties and presence of penalty clauses. Ambiguous contract lacking penalty clauses are characterized as relational contracts whereas detailed contracts with the penalty clauses are characterized as transactional contracts. Thus, most of the studies delineate mode of organization varying between two extremes- from transactional contract to relational contract. This paper argues that rather than specificity of contract and penalty clauses a more appropriate approach to characterize mode of organization is dependency relationship between agencies which is a more defining feature of the mode of organization in a given mode of governance (O’ Toole 2012; Winter 2012). Studies have suggested that contracts may be designed in a particular way simply to comply with the existing organizational rules (Poppo and Zenger, 2002; Goo and Huang, 2008; Van Slyke, 2006; 2007; Lamothe and Lamothe, 2012; Aamirkhanyan, 2009). Therefore inferences drawn simply from the design of contract may be misleading.

These studies examine variation in the compliance mechanism in order to infer about the governance approach, including implementation structure. Thus, these studies assume congruence between mode of organization and compliance mechanism implying particular compliance mechanism is always used with a particular implementation structure. For example, Cannon and Perreault (1999); Caniels and Gelderman (2010) do not use contract design the only component of mode of organisation that is elicited in surveys but completely rely on compliance mechanisms to infer about governance design assuming congruency between mode of organization and compliance mechanisms. But studies suggest that this assumption of congruency is misplaced as contracts may be designed in formal manner (highly detailed with penalty clauses) because of the accountability and transparency requirement, but they are managed in a relational style using collaboration and trust as compliance mechanism (Poppo and Zenger, 2002; Goo and Huang, 2008; Van Slyke, 2007, 2009; Lamothe and Lamothe, 2012; Aamirkhanyan, et al., 2012). As implementation structures vary substantially, the appropriateness of compliance mechanism cannot be assumed. This suggests that relationship between mode of
organization and compliance mechanism cannot be taken for granted and needs to be explored to understand their impact on performance. Therefore, this paper argues that it is not the combination of compliance mechanisms or the variations in mode of organisation that determines the effectiveness of the governance design but how they complement each other. The Relationship is not one of combination, rather that of complementation/substitution (refer figure 1). Therefore, the relationship between mode of organization and compliance mechanism is expected to be a critical determinant of the effectiveness of implementation.

There is limited understanding of, how a compliance mechanism which is congruent with the mode of organization influences performance, vis-à-vis a compliance mechanism which is incongruent with implementation structure? In addition, there is no conceptualization of the criteria for determining incongruence and how it affects performance. Transaction cost economics suggest that the mode of organization differ in terms of incentive intensity, administrative controls, and contract law regime (Williamson 1991) while Relational Governance Theory suggests that mode of organization primarily vary in discreteness. Similarly, compliance mechanisms are also expected to vary on certain parameters but there is no conceptualization on the common criteria’s that can be used to assess the variation in features across both.

3. Data and Methodology

This paper analyzes mode of organization and examines how this gives rise to opportunism. It then maps the use of compliance mechanism, and traces the interaction between structure, and compliance mechanisms, assessing their effect on prevention and control of opportunism.

Based on the preliminary interviews, three states implementing RSBY scheme were selected based on the variation in use of compliance mechanism (explanatory variable) without any information on the extent of opportunism (dependent variable) described by King Kohen and Verba (2004, Pg 140). This design for a given value of explanatory variable provides variation in the distribution of outcomes of the dependent variable allowing us to make initial causal inferences.

In each of the states a smaller geographic unit –district, implementation unit of RSBY, was selected to make data collection manageable. Within the district, data was collected from all stakeholders through semi-structured interviews, yielding data with high informational content to generate an in-depth understanding of the relationship between stakeholders and the management of relationships from different perspectives.

Face to face, interviews (42), informal discussions (9) and direct observation (6) are the primary sources of data for the present study. This qualitative data (interviews/observations) was complemented with secondary data which included data provided by agencies and ministries, reports, concept notes, newsletters, published and unpublished articles, data published on official websites, newspaper reports, evaluation studies, and postings on social media forums.
The analysis is structured around three components - structure, compliance mechanisms, and interaction between them. The tracing of the structure during different stages of scheme implementation and across states revealed the various legitimate actions for the agents and the variations in different contexts. The tracing of the compliance mechanism revealed the variation in the compliance mechanisms used in three cases, to cope with threat and opportunities emerged during policy implementation. Finally, the analysis traces the interaction between mode of organisation, and compliance mechanisms, and maps the effectiveness of compliance mechanism in managing the behaviour of agents who are trying to exploit the opportunities and constraints imposed by the mode of organisation. This reveals the effectiveness of the governance design at that stage of policy implementation, suggesting the degree of alignment between the compliance mechanisms and implementation structure.

4. National Health Insurance Scheme in India

In India, healthcare expenditure (Selvaraj and Karan 2009) is estimated to reduce 40 million people into poverty status every year. To address this gap, the Indian government in 2008 launched a nationwide health insurance scheme, known as Rashtriya Swasthya Bima Yojana (RSBY) specifically targeted to low income groups. The scheme is voluntary and covers healthcare expenditure up to 30,000 INR per (US $750) BPL family per annum. Hospitalization expenses of all diseases including pre-existing diseases are covered under the benefit package. The beneficiary is entitled to seek treatment across the country in any of the empaneled hospitals by paying a token amount of US$ 0.50 (30 INR) as a registration fee per annum. The scheme is funded through general taxes, where state and central government both contribute. As of April 2014 scheme covered around 37 million families in 436 districts across 29 states. The state governments contract with an insurance company to provide defined health insurance coverage to a defined population in a district, based on a premium per family decided through a competitive bidding process. The insurance company provides health insurance coverage and defined healthcare services in collaboration with other agencies and healthcare facilities from both the public and private sector.

The scheme is implemented at the district level through a network model, where the insurance company works as a lead agency at the district level, contracting and coordinating with other agencies like Third Party Administrator (for back office functions), Smart Card Providers (for enrollment of beneficiary), District Administration (facilitation of implementation in the district), and hospitals (for healthcare to the beneficiary).

The scheme has broadly two implementation objectives – first is to enroll beneficiaries in the program (measured as enrolment ratio) and second is to provide hospital based healthcare services through contracted providers (measured as hospitalization ratio). The quality and quantity of inputs and process of each of these deliverables are explicitly defined in the contract. The contract also specifies the responsibilities of each agency, including the government agencies and the support they are expected to provide. All the contracts in the scheme are standardized.
5. Results and Analysis

Most of the factors that influence implementation for example competition between agencies, population characteristics, incentive structure in the contract, characteristics of the agencies, implementation process, institutional environment, resource allocation are controlled because of the unique design of the scheme, as all districts have similar contract design, administrative structure and management capacity. Thus, based on the design, limited variation in performance is expected though extensive variation in performance was observed.

5.1 Variation in Implementation Performance:

Table 1 reports the variation in performance of the provinces studied. Himachal Pradesh is a high performer in scheme implementation, receiving a number of awards and accolades. At the state level, the scheme is managed by an autonomous agency (under department of health) with very few staff. At the district level, department of rural development facilitates implementation of the scheme therefore there is no direct hierarchical link between state nodal agency and district nodal agencies. Given the populist appeal of the scheme, the state government is very keen to make the scheme successful and state ministers actively participate in the planning and implementation of the scheme and therefore there is considerable pressure on district level authorities to facilitate the implementation of the scheme. In some of the village councils 100% of the population on the BPL lists is enrolled, primarily because of the accuracy of data on the BPL population, which has been revised continuously. Beside enrolment, the state is also high performer in utilization of services. The hospitalization rate in the scheme in Himachal Pradesh is around 5.1%, which is higher than many states and is closer to the hospitalization rate observed at national level (National Sample Survey Office, 2015). Compared to other states, limited opportunistic behaviors were observed in the claims management process in Himachal Pradesh. There has been no report of massive hospital fraud as it has been observed in other places. More than 90% of the hospitals in the scheme are from public sector and same hospitals continued to be empaneled year after year providing continuity and little disruption in services. In the selected study district, only one case of hospital de-empanelment has been found. No opportunistic behavior has been reported by any of the agencies in the area of hospital empanelment or enrollment suggesting lower opportunistic behaviors in Himachal Pradesh compared to other states.

Uttar Pradesh has been a low performer in scheme implementation as seen in table -1. For the first two years, the scheme was very poorly managed and witnessed extensive opportunism and fraud in the scheme implementation due to poor staffing and poor management capacity of the state nodal agency under the department of rural development (The Indian Express, August 22 2011). A new autonomous agency, the State Agency for Comprehensive Health Insurance (SACHI), was set up in 2011 with a mandate to improve implementation. With a new organizational structure, leadership and operational autonomy, the newly formed State Nodal Agency (SNA) began reforming the scheme implementation structure, improving accountability at the state and district levels and engaging stakeholders at various levels. These changes included hiring of additional staff, adoption of new processes, improved monitoring, and capacity building. Though the scheme performance improved but the new administrative regime was effective only to a certain extent in tackling collusion and rent seeking in hospitals.
empanelment and hospital claims. As reported in figure 2, very high utilization and claims ratios observed in many districts can’t be explained only the basis of pent –up demand implying high level of fraudulent activities

[INSERT FIGURE 2 HERE]

In Punjab, the scheme is managed by a corporatized state nodal agency-Punjab Health System Corporation (PHSC)-with a strong mode of organization and capacity in managing the scheme given their long experience in managing healthcare programs. State Nodal Agency, also has a team under their direct hierarchical authority in each of the district providing them in-depth information and control over field operations. Considering the specific context of the state, a steady increase in performance was observed in enrolment of beneficiaries, hospital empanelment and claims management. In spite of population’s strong preference for the private providers, State Nodal agency was able to enhance the utilization of public hospitals in the scheme. In 2013, more than 68% of the claims in the scheme were from public hospitals which comprised only 48% the total hospital empaneled (Nain Saroj 2013). Notwithstanding the strong management of the scheme (Punjab won outstanding performance in providing facilitation to stakeholders 2013), opportunistic behaviors couldn’t be controlled completely because of presence of private hospitals and their close ties with district administration, which provided ample opportunities for collusion and rent seeking.

5.2 Mode of organization as a Driver of Performance

While the administrative structure and processes have been defined in extensive details actual mode of organization varied across jurisdictions, due to variation in dependency relationships and risk of opportunism.

As shown in the figure 3 below, the critical relationship at district level is between district administration, Insurance Company, State Nodal Agency and hospitals. District administration’s role is to facilitate implementation of the scheme specifically supporting insurance company, in beneficiary enrolment and hospital empanelment. Insurance company being an outsider in the district is not familiar with geography, healthcare facilities, communities and culture in the district and therefore dependent on district administration.

[INSERT FIGURE 3 HERE]

Insurance company’s revenue are tied to enrolment, but they are dependent on support of district administration for speedy completion of enrolment. In addition, district administration’s role as arbitrator for the disputes at the district level further bolstered their veto power. District administration tends to exploit this dependence of insurance company and uses their influence to pressurize them to empanel their favored hospitals.

A number of hospitals have sprung up in rural areas exclusively designed and customized for RSBY patients (International Insurance News, 2011) to capture the money even though package rates in the scheme are much lower than the prevailing market rates (Reddy et al., 2011; La forgia and Nagpal, 2012). Anecdotal evidence suggests that many of these hospitals are owned and managed by friends and relatives of those involved in the scheme. These hospitals collude with district administration to be empaneled and due to limited choices in rural

---

9 PHSC has a nuanced understanding of not only the scheme but also the technology and software. They strongly district team in implementation of the scheme including planning, setting targets, reviewing performance and designing strategy.

10 Only 19.2% of the households used public sector facilities when sick according to National Family Health Survey, 2005 (International Institute for Population Sciences (IIPS) and Macro International, 2008).
Once empaneled, these hospitals under immunity of district administration collude with other agencies making extensive fraudulent claims. Unable to control them due to immunity provided by district administration insurance company, resorts to counter opportunistic behaviors\(^{11}\) to control claims ratio, leading to a vicious cycle of opportunism and counter-opportunism. Genuine hospitals, finding it difficult to sustain, because of lower package rates and extensive payment delays, exit the scheme, leaving a pool of predominantly fraudulent hospitals. If agencies foresee possibility of opportunism in the hospital empanelment and claims management, they behave opportunistically even during enrolment of the beneficiary, leading to escalation of opportunism in all functional areas affecting performance of the scheme.

Thus district administration could seek rent if they have high veto power and private hospitals keen on getting empaneled the scheme provided the opportunity to do so. This rent seeking opportunity was much higher if the state government favored private hospitals, as public hospitals did not provide any rent to be empaneled. The states differed in the mode of organization and veto power of agencies and therefore risk of opportunism and rent seeking varied across states.

As shown in Table 2, in some states the district administration has complete veto power (Uttar Pradesh); in other states it has limited veto power (Punjab), while in others it has no influence on the hospital empanelment decision making (Himachal Pradesh).

In Himachal Pradesh, district administration being from department of rural development; have limited connection and understanding of the private hospitals limiting their involvement in hospital empanelment. They are also under pressure from state government for supporting insurance company, and thus lacked any veto power during implementation. On the other hand, in Uttar Pradesh, the new administrative regime, restructured rules, giving district administration complete decision-making power during hospital empanelment increasing dependency of insurance companies on them.

In Punjab, though state nodal agency prohibited District Administration’s interference in private hospital empanelment, district administration continued exploiting dependency of insurance companies given their job security.

If the agencies have veto power they could abuse this veto power for their personal gain therefore veto power in hospital empanelment, a feature of the implementation structure, was a primary driver of opportunism in the scheme.

5.3 Private Hospitals as driver of opportunism

The district administration’s opportunity to abuse the veto power is much higher if the state government favoured private hospitals. Private players corrupted the process of hospital empanelment that perpetuates fraudulent behavior in hospitalization and claims management (Asher et al 2015).

As reported in Table 2 in Himachal Pradesh, state government strongly favours public hospitals and more

\(^{11}\) These claim controlling strategies include unethical approaches like repeatedly suspending hospitals which submit higher claims so that they cannot file claims, delaying payment to hospitals and paying them less than the claimed amount at a later date.
than 90% empanelled hospitals were from public sector providing limited opportunity for collusion and fraudulent behaviour. Also, in order to keep the scheme clean, state government severally punishes fraudulent agencies. Only one case of hospital fraud was found in the year 2011-12. On the other hand, in Uttar Pradesh more than 90% of the empanelled hospitals were from private sector providing extensive opportunity for district administration to abuse their veto power by seeking rent from these hospitals in order to be empanelled.

In Punjab, the state Nodal agency actively supports public hospitals and around half of the empanelled hospitals are from the public sector, but district nodal officer being from health department have close linkages with private hospitals, providing opportunity for collusion in empanelment. Thus, state governments stand towards private hospital was another critical feature of the mode of organization that determined partner opportunism in the scheme.

5.4 Compliance Mechanisms: Prevention and Control of Opportunism

Similar to mode of organization states also differed in their use of compliance mechanism. Scheme designers have envisioned collaboration as a key compliance mechanism and therefore penalty clauses were purposely left out of the contract. The scheme management approach promotes working as a “team and not be dependent on penalties but facilitate and support each other in performing.” In the case of problems, stakeholders are advised to “sit together discuss and seek a response from the agency and make them do it, rather than penalizing them.” But collaboration alone is not expected to be sufficient when there is conflict of interest and dependency relationship between agencies (Wood and Gray, 1991; Huxham, 2003). Some States were able to use hierarchical authority to control veto power, reducing risk of opportunism, leading to variation in implementation performance.

The three states differed in the combination of compliance mechanisms used as shown in the table. In the case of Himachal Pradesh, district administration lacked veto power and insurance companies had full autonomy in hospital empanelment. As no veto power was exercised, collaboration as a compliance mechanism complemented very well with the simple implementation structure, obviating the need for hierarchical control to ensure compliance. Lack of control on district administration, did not deter performance and collaboration among agencies alone was sufficient to drive performance.

In case of Punjab, the district administration continued interfering in hospital empanelment in spite of hierarchical control of state nodal agency. District administration have been instructed not to interfere in issues related to private hospitals and keep State Nodal Agency informed in all of their communication with insurance company. The State Nodal Agency also provides complete autonomy to Insurance Company to manage the affairs related to private hospitals in order to curtail the veto power of district administration. However, this was effective

---

12 Interview with Anil Swarup (Director General Labor and Welfare, Ministry of Labor and Employment Government of India).

13 Interview with officer, GTZ. GTZ provide technical support to the Ministry of Labor in implementing the scheme.

14 Interview with officer, GTZ.

15 District level managers of the scheme are from a different department that is department of rural development.
only to a certain extent, given the guaranteed job tenure district administration has.

In the case of Uttar Pradesh, risk of opportunism was very high as the district administration not only had a high veto power but also ample opportunities to abuse this veto power given dominance of private hospitals. But state nodal agencies have limited hierarchical authority on district administration to control their veto power. In Uttar Pradesh, the district administration (District Magistrate) and chief Executive officer of SNA are at the same level of hierarchy therefore any instruction for district administration has to be routed through a highest level of bureaucracy in the state. As a result, state nodal agency could not exercise any hierarchical authority on district administration limiting possibility of indirect control that insurance companies can exercise as assumed in the contract. Insurance companies with very little autonomy and subordinate position had to bow down to the demands of the district administration. Because of the high veto power, perverse incentives, and lack of accountability, district administration abused their veto power extensively, leading to counter-opportunism by other agencies, heightening conflict of interest, lowering collaboration and reducing performance. In the absence of any control, there were collusion, rent seeking and bribe payments in almost all activities- awarding of contracts, field implementation, and empanelment of hospitals and audit of the hospitals.

Both Uttar Pradesh and Himachal Pradesh used the same compliance mechanism but outcomes were different, as demand of the mode of organization in both jurisdiction was different as reported in table 3. In Uttar Pradesh, the mode of organization was very complex with high risk of opportunism where as in case of Himachal Pradesh it was very simple and risk of opportunism was low. In Punjab, complex compliance mechanism addressed the demand of the structure. Thus, alignment between mode of organization (the dependency relationship between agencies, and opportunity for rent seeking) and compliance mechanisms (hierarchical control by a state agency and incentives to perform) determined the performance.

This study found the existence of a consistent positive relationship between extents to which compliance mechanism complemented to the needs of mode of organization, with implementation performance. Contexts with more dependency relationships are prone to conflict, and therefore require compliance mechanisms that are better able to address them (O’Toole 2012). When the compliance mechanism appropriately addressed the complexity of the implementation structure, as shown in Table 3 both the quality and quantity of the performance improved. The more the compliance mechanism addressed the need of the implementation structure, the higher the performance is found to be.

5.5 Congruence thesis

The interaction between Implementation structure, and compliance mechanism determined the performance, depending on the congruency between them. Implementation structures varied in terms of veto power that determined the level of opportunism or problems during implementation. When appropriate mix of compliance mechanism was used as in case of Himachal Pradesh and Punjab (to some extent), it led to effective control of partner opportunism. When the mix of compliance mechanism was in appropriate as observed in Uttar Pradesh opportunism was high leading to low performance.

The purpose of the structure and compliance mechanism is to facilitate some actions and prohibit others. For example in Punjab, implementation structure allowed district administration to abuse their veto power but compliance mechanism used by the State Nodal Agency (Rule that prohibited interference
in empanelment of private hospital) controlled the district administration veto power to some extent. The congruence between the compliance mechanism and mode of organization influences agent’s behaviour, resulting in behavioural dynamics that allow agents to capitalize on opportunities during implementation and overcome threats (partner opportunism), which in turn results in higher performance. For example in Punjab, district administration had to collaborate with the insurance company and comply with the state nodal agency that lowered the incidence of fraudulent claims compared to opportunity they have. The congruence between implementation structures and compliance mechanism ensures a concordant governance design with appropriate mix of incentive, accountability and motivation for performance required for effective implementation. For example in Himachal Pradesh, because of the implementation structure and compliance mechanisms used, district administration had no incentive to collude with hospitals, were under hierarchical control to collaborate with other agencies. Lack of conflict of interest between agencies, active overseeing by the state government and collaboration among stakeholders provided required motivation to perform.

6. Conclusion

The study suggests that concordant governance design (congruency of the compliance mechanism with the implementation structure) explains variations in the implementation performance of the RSBY scheme, which has the same contract design and administrative structure across districts. When compliance mechanism was congruent to mode of organization, they provided concordant mix of accountability, incentive and motivation for performance, which effectively manages the threat and opportunities during implementation resulting into high performance. The more the compliance mechanism aligned with the implementation structure, more effective was the governance design and higher the implementation performance. The relationship between compliance mechanism and mode of organization was found to be responsible for the variations in implementation performance.

These findings have wider implications for public policy and policy implementation. Policy implementation occurs in the non-linear world, a world that is dynamic and complex. Policy implementation may be designed in congruence with the context and nature of transaction, but the compliance mechanism adopted in practice by stakeholders may differ from the implementation structure. When the compliance mechanism that is adopted in practice matches the implementation structure, it leads to effective governance design resulting into higher implementation performance.

6.1 Implications:

Studies of the performance of policy have focused extensively on policy design, and largely ignored the role of the governance design used to manage the policy implementation process. On the other hand, studies in business have mainly focused on the compliance mechanism in a market context-ignoring role of implementation structure- an important component of governance design.

Studies have recognized the incongruence between mode of organization and compliance mechanism
Dayashankar Maurya: Inter-Organizational Relations as Governance Mechanisms: The National Health Insurance Scheme in India

(Hill and Hupe, 2014; Poppo and Zenger, 2002; Goo and Huang, 2008; Van Slyke, 2006, 2007; Lamothe and Lamothe, 2012; Aamirkhanyan, 2012) but treat the mode of governance as a single variable. This study separated governance mechanism into components, and studied the interaction between them that determines the effectiveness of governance design. As there are no pure mode of governance, but generally a hybrid (Howlett and Ramesh, 2013; Osborn, 2010; Peters, 2014), separating governance mechanism into components allowed to understand the dynamics within a hybrid governance in a much better way.

Secondly, relation between compliance mechanism and implementation structures with performance cannot be studied without considering relationship between them; ignorance of which has resulted into contradictory findings in business studies examining impact of governance design. This study does contribute in terms of helping us understand the reasons behind the contradictory findings in business studies examining impact of governance design.

7. References


<table>
<thead>
<tr>
<th></th>
<th>Punjab (2011-12)</th>
<th>Uttar Pradesh</th>
<th>Himachal Pradesh</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per Capita</td>
<td>$1333</td>
<td>$1520</td>
<td>$551</td>
</tr>
<tr>
<td>Income per capita 16</td>
<td>82611</td>
<td>88783</td>
<td>33269</td>
</tr>
<tr>
<td>% of Population below poverty line 17</td>
<td>10</td>
<td>8.4</td>
<td>32.8</td>
</tr>
<tr>
<td>Human Development Index (2011-12) 18</td>
<td>0.647</td>
<td>0.538</td>
<td>0.122</td>
</tr>
<tr>
<td>Infant Mortality Rate (2009)</td>
<td>45</td>
<td>38</td>
<td>63</td>
</tr>
<tr>
<td>Maternal Mortality Rate (2010-12)</td>
<td>NA</td>
<td>155</td>
<td>292</td>
</tr>
<tr>
<td>Rank in Corruption 19</td>
<td>2</td>
<td>7</td>
<td>10</td>
</tr>
</tbody>
</table>

16 Press Information Bureau, Government of India Accessed from the webpage  
[http://pib.nic.in/archive/others/2013/dec/d2013121703.pdf](http://pib.nic.in/archive/others/2013/dec/d2013121703.pdf) (accessed on 14th Jan 2015)

17 Ministry of Social Justice and Empowerment Government of India. Accessed from webpage  


*Data from Ministry of Labour , Government of India
Dayashankar Maurya: Inter-Organizational Relations as Governance Mechanisms: The National Health Insurance Scheme in India

<table>
<thead>
<tr>
<th>Scheme implemented in</th>
<th>2008</th>
<th>2008</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>State nodal agency</strong></td>
<td>Autonomous Agency under department of Health</td>
<td>Autonomous Agency</td>
<td>Autonomous agency under department of Health</td>
</tr>
<tr>
<td><strong>Human Resources at State Nodal Agency</strong></td>
<td>6</td>
<td>30</td>
<td>3</td>
</tr>
<tr>
<td><strong>District Administration supporting the implementation of the scheme</strong></td>
<td>Department of Health</td>
<td>Initially department of rural development followed by department of Health</td>
<td>Department of Rural development</td>
</tr>
<tr>
<td><strong>Conversion Ratio (2011-12)</strong></td>
<td>46%</td>
<td>31.11 (2011-12)</td>
<td>79.9</td>
</tr>
<tr>
<td><strong>Hospitalization Ratio</strong></td>
<td>2.3</td>
<td>2.7 (0.2-25)</td>
<td>5.1</td>
</tr>
<tr>
<td><strong>% of Hospitals Private</strong></td>
<td>144/298</td>
<td>67.31</td>
<td>10</td>
</tr>
<tr>
<td><strong>Claims Ratio (Burn Out Ratio)</strong></td>
<td>94</td>
<td>128</td>
<td>234</td>
</tr>
</tbody>
</table>

Table 2: Variation in Opportunism Across Study States

<table>
<thead>
<tr>
<th>Veto Power - DA</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
</tr>
<tr>
<td><strong>Opportunity to seek rent</strong></td>
</tr>
<tr>
<td>High (Dominance of private hospitals)</td>
</tr>
</tbody>
</table>
Table 3: Variation in Compliance Mechanisms Used Across Study States

<table>
<thead>
<tr>
<th>Governance Approach</th>
<th>Complexity of Implementation Context - Opportunism</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High               Moderate            Low</td>
</tr>
<tr>
<td><strong>Collaboration + Limited hierarchical control</strong></td>
<td>Uttar Pradesh</td>
</tr>
<tr>
<td></td>
<td>(In-appropriate Mix)</td>
</tr>
<tr>
<td><strong>Collaboration + Hierarchical control</strong></td>
<td>Punjab</td>
</tr>
<tr>
<td></td>
<td>(Appropriate mix)</td>
</tr>
</tbody>
</table>

Figure 1: Theoretical Framework
(Source: based on Data from RSBY Uttar Pradesh)

Figure 2: Trend in Claims Ratios in Selected districts of Uttar Pradesh

Fig 3: Critical Relationships in RSBY
Faculty Profile:

Daya Shankar Maurya  
Assistant Professor  
Area: Healthcare Management  
Education: B.H.M.S (Mumbai Univ.), PGDHM (IIHMR, Jaipur), MPP (NUS), PhD (NUS)  
Email: dmaurya@tapmi.edu.in  
Telephone: +91-820-2701085  

Teaching: Health Policy, Health Economics and Financing, Health System, Public Policy for Managers

Research Area:

Private Sector in Healthcare, Inter-Organizational Relations, Public-Private Partnerships Collaboration, Contracting. Health Policy

Publications:


Peer Reviewed Conferences:


5. “Resolving the Paradox of Social Regulation”, Presented paper at Fifth International Conference on Public Policy and Management Indian Institute of Management Bangalore, August 8