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Outsourcing Hospital Services : A Choice Reached After Lengthy Deliberation

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The decision to outsource services is one of the most sensitive issues with respect to hospital management. This decision reaches the very heart of a medical establishment and affects long-established principles in terms of human and financial resources.

In hospital management, logistics include a certain number of functions that are not meant to be comprehensive, but cover only the important facets in the hospital environment. These are catering, laundering, and cleaning services, and the supply of medical as well as hotel and general services. State control of services corresponds to an internal management method for logistic functions. Management of functions that have logistic implications is still important and under state control in France. It remains a reflection of an industrial and technical culture underpinned by strong social awareness.

Strategic Issues

The first issue concerns how to optimise available means, brought about by attempts to centralise logistic functions. This includes the creation of homogenous operating methods and optimum quality standards, equipment, consumables and so on.

Logistic functions often benefit from economies of scale; in other words, an increase in productivity is accompanied by an increase in size. Quality improvement is therefore possible at a lower cost. Nevertheless, thresholds exist beyond which size becomes a factor of inertia and inefficiency and these limits should therefore be carefully considered.

Furthermore, centralisation frequently results in a reduction in the space required, a higher rate of equipment use and a more economical organisation of human resources.

The tax payable on the provision of services, especially as far as Value Added Tax (VAT) is concerned, influences the decision to maintain state-managed services or to outsource.

Preconditions for Outsourcing

Resistance to change constitutes one of the fundamental reasons for industrial strife. Steps to outsource, if they initiate a strike, do not bode well for the integration of the service contractor into the hospital environment. This integration necessitates the support, if not the acceptance, of the hospital staff. There is an even greater probability of social unrest since changes in management generally lead to redeployment of personnel that has a direct impact on the professional and private lives of the staff. Another precondition is that the only functions that can be outsourced are those that the hospital is perfectly capable of doing itself. Unless the hospital staff know exactly how to carry out processes and techniques, they are incapable of evaluating the quality and competitiveness of the service contracted out.

The increase in the internal and external costs (running costs, personnel costs, investments) constitutes the accounting and financial precondition for all decisions to outsource.

In this context, one has to look at the expected gains made by outsourcing, not only in terms of the budget, but also in terms of the criteria constituting quality, namely hygiene, reliability of services, packaging, and so forth.



It is also essential to identify the hidden costs associated with the transfer of services. Costs linked to additional requests for services as a result of unexpected events, reduce the budgetary savings expected from privatisation. Similarly, hidden costs should be detected: a certain number of additional tasks carried out by internal logistical teams are not included in services proposed by external contractors. Assigning these tasks to other departments necessarily results in further costs.

The process of outsourcing involves drawing up specifications that include ways of measuring objective and quantifiable criteria of the maintenance of the quality of the service, and making provisions to initiate immediate financial sanctions if there is failure to comply with the contract.

Advantages and Disadvantages of Outsourcing

It is a fact that as far as outsourcing is concerned, varying approaches should be adopted depending on the logistical function. This choice is in fact dependent on the nature of the process, the level of expected productivity, the cycles and frequency of the provision of the service, and the taxation applied to this type of service.

Catering

Catering in public hospitals is difficult to outsource for several reasons. Provision of a suitable diet is at the heart of medical care and is very important for the well being of the patient. The social impact of choosing an external contractor has a great deal of importance in this sector that has a large number of specialised workers.

In terms of the critical thresholds necessary to achieve an acceptable level of productivity, the dietary function in hospitals is complex and is characterised by a range of menus, diets and consistencies. It is also characterised by changing quantities and proportions according to the volume of activity (number of admissions) and by changing constituents (depending on patient illnesses). Small series are frequent and variable. It is therefore difficult to increase the flow of production and at the same time to limit the variability of services on offer.

What is important here is to achieve cohesion between different staff in the hospital, ranging from the doctors to the cooks. On the other hand, in terms of financial considerations, dietary and catering functions benefit in France from a low level of VAT, since it is fixed at a reduced rate.

Laundry

In contrast to the catering function, the laundry function reflects the industrial and hotel aspect of a hospital. In order to discover which is the best hospital laundry service, one has to analyse each hospital in turn.

As far as the laundering process is concerned, the mono-process is simple. The linen is laid flat and lined up, and then undergoes a series of treatments, most of which are automated.

In terms of a break-even point, a volume of twenty tons of linen prepared daily is currently considered optimum in terms of productivity.

As for finances, the competitive advantage which hospital laundering services enjoyed, since they were not subject to VAT and therefore could sell their services exclusive of tax, disappeared in 1998 due to European regulations. However, this feature is tolerated thanks to the health insurance structures of unions operating in public hospitals, and therefore there is less need for outsourcing.

Economically speaking, the outsourcing of hospital laundering services makes common sense. All the same, the management of the internal linen distribution system should be carefully evaluated before being entrusted to an outside contractor, since the laundering service remains at the heart of the caring and hotel functions of a hospital.

Cleaning Services

The problem of this service is the co-ordination of the external cleaning services with the daily hygiene duties carried out by hospital staff. The difficulty arises when the internal and external cleaning teams overlap, in particular with regard to the definition of their respective jobs and hygiene norms, (for example, the cleaning of surfaces by the external contractor and the cleaning of the areas around the patient by internal auxiliaries).

As far as critical thresholds are concerned, it is clear that private companies specialising in this field benefit from obvious competitive advantages.

Supply of Medical, Hotel and General Services

One ought to differentiate clearly between problems related to the supply of medicines including medical products and all other supplies. The supply of medical products reflects the problems of legal, medical and pharmaceutical responsibility, which vary depending on the legislation in each European country. In fact, these legal questions reveal a heterogeneous process which includes the overall expansion of production flows, the tension of flows and the reduction of stock which occurs once one initiates the process of optimisation and attempts to chart the reliability of services provided.

Beyond these regulatory issues, it is clear that private contractors, in particular wholesale medicine distributors, benefit from the effects of compulsory margins in order to be competitive.

In terms of processes, one ought to differentiate between centralised deliveries to the whole hospital, and internal distributions carried out by departments within the hospital. The concession of these internal distributions again raises the question of the overlap between contractor supply teams and internal hospital teams.

The supply of goods reflects a strictly logistic function, which is often badly handled in the hospital sector, and which is why outsourcing it often seems desirable. However, one has to be aware of the cultural differences between suppliers and auxiliaries.

A Clearer View

When taking on a private concessionary, the hospital generally makes financial savings and creates room for manoeuvre as far as the redeployment of personnel is concerned. By outsourcing, the hospital also guarantees perfect transparency regarding the real costs of production or of a service, whereas analytical accounting of fixed and/or indirect costs only rarely allows one to determine exactly the internal cost.

It is still difficult to define the needs of an establishment and the services that correspond to those needs. The decision to outsource should be based on an analysis of the following parameters:

- Current and potential internal competition,
- Reliable control of the quality of services contracted out,
- Competitive analysis of private contractors,
- Financial and tax analysis.

Externalisation: The Example of the Toulouse CHU

In 1993, the Toulouse CHU made the choice to externalize its logistical platform. Jean-Christophe Simon, logistical engineer, describes his experience.

What is the Objective of Such a Step?

The three objectives were the improvement of the management results, of the quality of the benefits and of the working conditions, thus of course, centring on the principal missions of the CHU.

According to what criteria did you distribute the tasks between people receiving benefits (service provider) and teams of the CHU?

The CHU preserved the internal customer interface, in other words, the treatment and monitoring of the request, on the one hand, and the delivery and treatment of the disputes on the other. However, the heart of activity and transport on site are sub-contracted.

What was the Greatest Difficulty?

Before the externalization, certain small logistical tasks were dispersed among the personnel, and constituted, therefore, a hidden cost. Once externalized, they became a direct cost, and it is not always easy to accept. It is true for various fields, but especially for files: many believe that files should not be a cost.

Do You have Constraints?

The Code des Marchés Publics requires us to conclude markets at a maximum of five years. For files, it is binding, but it would be advantageous to be able to anticipate longer term. The fact of being restricted by a legal framework makes us lose money. One cannot negotiate as one wants.

Which Council give to a Hospital About to Choose this Solution?

My advice is to keep at least the customer-interface: one cannot externalize everything at one time. Subcontracting has to be controlled, framed. Then, the service provider must be chosen carefully, preferably with a manageable size. It is not worth the trouble to choose an enormous company, which will suffer from the same problems as the hospital due to its size. One needs flexibility and reactivity.

After Ten Years, What is Your Official Report?

Today, one can make the following assessment:

- 95% of the users are satisfied with the benefits and of their extension,
- The activity increases by nearly 5% a year,
- Productivity has doubled in 5 years,
- The logistical cost have fallen by more than 50%.

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