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Outsourcing in hospitals

A survey of decision-making factors, benefits and obstacles

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Outsourcing is an increasingly popular strategy that healthcare organisations can use to control the rising costs of providing services. With outsourcing, an external contractor assumes responsibility for managing one or more of a healthcare organisation's business, clinical, or hospitality services. Because the contractor specialises in providing a specific service and can achieve economies of scale, he/she may be able to provide a service more efficiently and less expensively than the healthcare organisation.

Outsourcing services peripheral to the organisation's primary operations may also enable healthcare administrators and staff to concentrate more efficiently on their organisation's core business.

The aim of this paper is to present, based on the results of a study carried out in 60 hospitals operating in Greece, the decision-making factors, the impact and the obstacles associated with outsourcing in hospitals as well as to provide some managerial implications.

Outsourcing Decision Making Factors

To determine why hospitals decide to outsource activities, respondents were asked to evaluate the importance of a number of factors affecting the decision to outsource.

More than one-half of the respondents indicated that cost savings and customer satisfaction were the most important factors in their decision to outsource, whereas 50 percent of the users mentioned customisation as an important decision-making factor. Focus on core business, lack of personnel, and lack of funds were mentioned as important factors by the minority of the respondents.

Impact and Obstacles of Outsourcing

Regarding organisational impact, respondents were asked to assess the effect of outsourcing on cost reduction, on improvement in customer satisfaction and on the quality of the services provided by the hospitals.

The impact of outsourcing on cost reduction was assessed as high or very high by around two-fifths of the respondents. As far as customer satisfaction is concerned, 60 percent of the respondents indicated a positive or very positive impact.

Finally, around two-thirds of the respondents argued that outsourcing has led to a significant improvement of the services provided by hospitals operating in Greece.

Theoretically, the decision to outsource may lead to an elimination of a number of full-related positions in the healthcare organisation.

Two-thirds of the responding hospitals indicated that their decision to outsource did not lead to an elimination of fulltime related positions, whereas around one-third of the users indicated that they have eliminated between 1 percent and 20 percent of their full-time staff. Only 1 healthcare organisation reported eliminating more than 21 percent of full-time positions due to outsourcing.

According to the survey respondents, healthcare organisations operating in Greece experience a number of benefits from outsourcing .

Improvement in service quality levels was mentioned as the most frequently obtained benefit. Economies of scale, the use of the external provider's infrastructure, the opportunity for the healthcare organisation to focus on its core business, and enhanced flexibility were also mentioned as important benefits by several other users.

In terms of implementing the decision to outsource, over 70 percent of the users indicated that they experienced significant difficulties/obstacles

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in bringing contract service providers on-line .

The most often mentioned difficulties included the lack of coordination and integration between the healthcare organisation and the external provider as well as the insufficient understanding of the provider about the user's operations.

Employees' resistance to changes as well as price negotiation and billing problems were also mentioned by a number of respondents.

Managerial Implications

The results of this research have important practical implications for those involved in outsourcing investigations in the healthcare sector. The benefits realised after the implementation of the outsourcing decision have explained the relatively high satisfaction level of the users and, hence, the increasing future trend of outsourcing. To those healthcare organisations considering outsourcing of their activities, this positive feedback should be reassuring. The number of experienced organisations provides an important source of information about how to proceed and what to expect.

The most significant reasons for outsourcing are to improve customer service, to reduce costs, to enable healthcare organisations to focus on core activities, and to increase flexibility to configure resources to meet changing market needs.

Some organisations do not achieve the expected benefits from outsourcing, due to lack of formal outsource decision-making process including medium and longterm cost-benefit analyses, resistance to changes, and the inability to formulate and quantify requirements.

The most significant risks of outsourcing lie in the need to develop new management competencies, capabilities and decision-making processes. These include decisions on which activities should remain within the healthcare organisation and which outsourced, whether all or part of the activity should be outsourced, and how to manage relationships rather than internal functions and processes. Mistakes in identifying core and noncore activities can lead healthcare organisations to outsource their competitive advantages. However, what is core one day may not be so the next. Moreover, once organisational competence is lost, it is difficult to rebuild. There is a difficult decision regarding how "close to core" outsourcing should be.

Failure to manage outsourcing relationships properly, perhaps through service level agreements, may reduce customer service, levels of control and contact with customers. The assessment of costs of "make or outsource" should include the additional cost burden of managing the outsource relationships.

Because the introduction of contract services into an organisation represents an important shift in the way in which business is conducted, the provision of appropriate training for employees is an important issue. The training efforts should typically focus on employees' ability to adjust into another environment and new roles. This includes use of computerised systems, higher skills/knowledge development, and systems support. Once the decision to outsource is accepted, there is little resistance to change by the employees.

The above analysis of the experience of healthcare organisations operating in Greece in their usage of contract service providers indicates that outsourcing in the healthcare sector has a good potential for further development.

This study provides contract service providers a framework, which, we hope, will help them in increasing their business in this dynamic and rapidly growing market.

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