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Prospects to Outsourcing of Healthcare Services and Processes

The importance of good quality metrics

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Outsourcing is a hot topic in public healthcare related discussions, covering a number of different aspects: economic, political, quality, and productivity, among others. However, it should be noted that outsourcing does not mean the privatisation of an entire system so long as the control remains in the public sector, as those terms are often confused in political debate.

Outsourcing of services and processes has become an important phenomenon in the global economy. The recent advances in information and communication technology along with the rapid growth of the Internet have made even global outsourcing a reality, also in the field of healthcare. Healthcare providers have been outsourcing supportive functions such as real estate management or IT for decades, but now there is an increasing trend to also outsource some of the core competencies, such as some elective surgeries (joint replacement, cataract etc.) and diagnostics.

Outsourcing Framework

Discussions about outsourcing of healthcare services both in academic and popular media are anchored on cost savings, quality problems, and transaction cost theories. There are always good reasons to resist changes to the present service delivery model. Therefore it is crucial to separate arguments, which are solely change resistance related, from quality or control related argumentation. Too often it is not taken into consideration that a private entrepreneur or another public service provider with higher volumes or specialisation may be able to deliver better quality with lower costs. For example, how many clinicians would be ready to "in-source" all the laboratory analysis back to their own small units from high volume, often almost industrial central laboratories? Volume and specialisation often bring efficiency, quality and decrease unit costs. Of course, not everything can be outsourced or centralised. Inhibitors for outsourcing include the need for physical proximity, importance of local knowledge, and complex interaction between different healthcare providers.

Outsourcing Relationship

Our objective is to bring a new prospect to the outsourcing discussion and emphasise the impact of the outsourcing relationship between a customer and its vendor, while analysing the possibilities of outsourcing from an operational and policy development point of view.

In the past, literature on outsourcing focussed too heavily on the "splintering" (a word coined by Jagdish Bhagwati in the early 1980s) of the value chain and thus making outsourcing a zero sum game. A study published by IBM (2004) examined outsourcing from a different angle by looking at the relationship between the parties. This can also be applied to healthcare, although this categorisation tends to give a too static and stereotypic overview to outsourcing. In any case, this differing approach does provide a better overview of the entire field of outsourcing, and it broadens discussion and argumentation of outsourcing further than the traditional cost/quality centred approach. We compared the IBM model to current cases we have been researching to determine the pros and cons of this categorisation. The idea is to bring new ideas and concepts to the research and decision making in regards to outsourcing in healthcare.

Types of Outsourcing

According to the IBM study, outsourcing has been categorised in four types:

a. Transactional
b. Value-added
c. Specialised
d. Unique

Transactional value exchange is the simple exchange of commodity or service. The customers' priority is often price, accuracy of service, convenience and efficiency. In value-added exchange, greater supplier expertise is required to perform some customisation of service. The latter two models are fundamentally different from simple commodity exchange; they are based on innovation and value creation. They are often absent from arguments related to the outsourcing of public healthcare services. One reason may be the strict and bureaucratical public procurement legislation, which partially inhibits the creation of long lasting and innovative partnerships between public and private organisations. In the specialised value exchange, the spirit of collaboration and innovation becomes much more important. The supplier works to integrate processes with the client and other suppliers on behalf of the client. Value is derived from optimisation across organisations. In a unique value exchange, two or more organisations collaborate with customised expertise and process integration. The shared competitive capability is significantly greater than each organisation's individual capabilities.

The difference between these processes is the degree to which the responsibility to achieve the desired outcome is shared by all parties that have committed resources. It seems that the specialised and unique value exchange processes need to be guided by the interpretive process, while the analytic process guides the first two types, as defined by Lester and Piore (2004).

Application to Healthcare

From our point of view, this categorisation can be applied to healthcare and it helps to bring the level and modes of relationships between the outsourcing parties into the analysis of advantages or disadvantages of outsourcing. Although there may be several types of cooperation modes between buyer and vendor, interfaces between different categories are not clear. The level of relationship between buyer and vendor is especially significant because outsourcing relationships develop as a co-evolutionary process. There were four main findings from our study:

1) All relationships we have been researching have changed significantly in recent years; finding a static model is hard or impossible. 2) All relationships include a minimum of two types of outsourcing.

3) All types of outsourcing encounter problems and downsides. Outsourcing itself brings certain problems and difficulties, but we must analyse whether they are greater than in those in the concept where we keep almost everything as an in-house production.

4) Level of integration between buyer and vendor has a significant impact on the success of outsourcing.

We propose that to create benefit for both parties it is not enough to examine the present cost or quality, but also the relationship among the partners and how they are managed.

Problems with Outsourcing

A problem in the outsourcing of healthcare processes is that the patient process is not clearly defined. Sometimes healthcare organisations are even described as a "chain of independent players in a virtual organisation".

To outsource a certain part of the process efficiently (e.g. a surgical operation from the entire care process), there is a need to clearly define the previous and latter phases of the process - especially the interfaces. Also, quality control must remain in the hands of the outsourcer, often in the public sector. Therefore a lack of good quality metrics is actually a significant inhibitor of outsourcing in healthcare. Public service providers are afraid to lose control over the patient processes and episodes by outsourcing even a small part of it. Regardless, the rational answer is not to avoid it completely but rather to develop better quality metrics.

Successful outsourcing relationships need at least measurement of quality, measurement of total costs, definition of responsibility and liability, contracting management, definition of interfaces between outsourcer and service provider, and process management.

Conclusion

We think that a lack of good quality metrics, contracting management and lack of trust between outsourcer and service provider are actually the most significant inhibitors of outsourcing in healthcare. Public service providers are afraid to lose control over the patient processes and events by outsourcing even a small part of it. Anyway the rational answer is not to avoid it completely, but rather to develop better quality metrics.

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