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Decision Making in Outsourcing Support Services in The United Kingdom Public Healthcare

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Abstract

Outsourcing has now become an established trend for many organisations, both in the private and public sectors. The public healthcare sector is not excluded from this. Outsourcing, once used as a means to reduce costs, has now acquired strategic significance in organisations. Very little research has been carried out on the decision making process of outsourcing in the public sector particularly in the healthcare sector. This paper reviews available literature on decision making in outsourcing non-core activities in a number of sectors and attempts to describe the decision making process implicit in procuring support services for the public healthcare sector. The paper also discusses the drivers, advantages and disadvantages of outsourcing. There are various reasons that motivate organisations to outsource their non-core activities. However, the review of the literature revealed that the drivers to outsource differ between the private and public sectors. The persons involved in the decision making process are also considered and suitable candidate activities for outsourcing are also highlighted. A qualitative research approach is proposed with multiple case studies as the research strategy. Semi-structured interviews will be adopted as the main data collection technique for this research.

Keywords: decision making, outsourcing, public healthcare, support services

1. Introduction

Outsourcing is not a new concept (Russell and Taylor, 2003; Yang and Huang, 2000; Yang et al., 2007; Winkleman et al., 1993). For years businesses outsourced non-core services such as catering, accounting, information technology, payroll or using external consultants for their services. Even the type of decision that outsourcing represents is the same as the make-or-buy decision on products, processes and facilities that organisations have been doing for many years (Russell and Taylor, 2003). What has changed is the type and range of services being outsourced and the extent to which outsourcing has moved from a tactical to a strategic decision (Fill and Viser, 2000; Schniederjans and Zuckweiler, 2004). Outsourcing is increasingly becoming a strategic tool for many organisations as this engages the unique talents of highly skilled suppliers in strategically important activities (Sanders et al., 2007). Momme and Hvolby (2002) argue that outsourcing should be considered as a dynamic process as any decisions concerning outsourcing should be in line with the strategic direction of the organisations.

The act of outsourcing is not only prevalent in the private sectors, it is also growing in the public sectors (Bernard and Antisthenis, 2003). Smith (2008) describes some of the strengths of the public sector; it belongs to the people, is accountable to the people, embodies the values of the community, can concentrate resources on the poorest and weakest; and is able to provide services everywhere. As such, the public sector plays an important role in the community. A study carried out by UK Department for Business, Enterprise and Regulatory Reform, as cited by Roberts (2008), revealed that one third of all public sector services worth £79 billion are delivered by the private sector. The government claims to outsource to achieve value for money rather than lower costs. The Work and Pensions Secretary, cited in Hayward and McNestrie (2009), announces that the UK Government is keen to continue outsourcing. The Secretary further claimed that the Department for Work and Pensions has achieved £1.5 billion of efficiency savings through outsourcing. The practice of outsourcing has spread into all industries ranging from automobile manufacture to healthcare; nevertheless, the scenario in hospitals slightly differs from other industries as a hospital is more critical as this involves health, life and welfare of patients (Peisch, 1995). The factors that distinguish hospitals from other business ventures are firstly the facilities are open 24 hours a day, 7 days a week and 356 days a year as hospital provides particularly complex services and a mistake can cost a life (Lennerts, 2009). Therefore, the characteristics demand exceptional operating conditions.

Due to the increasing trends in outsourcing, managers are feeling the pressure to make the right sourcing decisions as the effect towards organisations can be substantial (McGovern and Quelch, 2005). It is therefore very important for the organisations to be vigilant in their outsourcing decision making as these decisions will affect flexibility, customer service and the core competencies of the organisation (McIvor, 2000). As such, this research will look into the decision making process in outsourcing support services in the public healthcare context.

2. The problem statement

The failure rate for outsourcing relationships remains incredibly high (Tadelis, 2007). It is not uncommon for organisations to reverse the decision after an outsourcing relationship has been established. For example in the United States, in 2004, Sears, Roebuck and Co outsourced its IT services to Computer Sciences Corporation for a term of 10 years and the cost was approximately USD\$1.6 billion. However, in less than a year, Sears had terminated the agreement (McDougall, 2006). Another example; JPMorgan Chase had agreed to outsource its IT function to IBM in 2002 for a USD\$5 billion value of contract for 10-year term. Unfortunately, the deal was terminated in 2004 after JPMorgan Chase completed the merger with Bank One (McDougall, 2004). In the UK, Sainsbury outsourced its IT services, costing £1.7 billion to Accenture for a term of seven years, commencing in 2000. The contract was further extended until 2010 in 2003. However, an announcement to terminate the contract was made in 2005 (Knights, 2005).

Schniederjans et al. (2007) argue that problems will be encountered when there are growths in the outsourcing industry. This happened as additional knowledge is required in relation to this industry and management also need to know how they can enjoy the benefits and improve their business operations. As a result, organisations need to be educated on issues, concepts, philosophies, procedures, methodologies and practices of outsourcing. Half of all outsourcing agreement fail because organisations run risks by neglecting appropriate analysis (Hall, 2003). Furthermore, Meisler (2004) concluded that lack of analyses on outsourcing decisions is the main contributor to failure in outsourcing. A prudent and thorough analysis of outsourcing decision making is not being performed prior to many outsourcing ventures (Schniederjans et al., 2007). From the literature, many studies on outsourcing decision-making have developed frameworks, being both qualitative and quantitative oriented. However, these studies mainly focused on the private sector, especially in manufacturing (Momme and Hvolby, 2002; McIvor, 2000, Fill and Visser, 2000; Schniederjans and Zuckweiler, 2004; van de Water and van Peet, 2006; Barragan et al., 2003; Canez et al., 2000; Dekkers, 2000; Sisman and Satir, 2000; Venkatesan, 1992; Welch and Nayak, 1992). Therefore, the research problem is formulated based on the premise that there is a lack of research on outsourcing decision making in the public sector, particularly in healthcare.

3. Outsourcing

3.1 Definition

Chase et al. (2004) define outsourcing as “*an act of moving some of a firm’s internal activities and decision responsibilities to outside providers*”. In the same vein, outsourcing is described as “*the process by which a user employs the supplier, under a contract, to perform a function, which had previously been carried out in-house; and transfer to that supplier assets, including people and management responsibility*” (Barrett and Baldry, 2003). Furthermore, Lankford and Parsa (1999) state that outsourcing is defined “*as the procurement of products or services from sources that are external to the organisation*”. From the literature, the term outsourcing has been used

interchangeably with the term ‘make-or-buy’ (van de Water and van Peet, 2006; Canez et al., 2000; Venkatesan, 1992; Welch and Nayak, 1992; McIvor et al., 1997; McIvor and Humphreys, 2000; Fill and Visser, 2000; Probert, 1996). Make-or-buy is defined as “*outsourcing the production process or parts of it*” (van de Water and van Peet, 2006). Outsourcing issues have been studied for many years by using nomenclature such as make-or-buy, vertical integration and transaction cost analysis (Sanders et al., 2007). Outsourcing can be considered as a continuum. Mylott (1995) views outsourcing in terms of full outsourcing, selective outsourcing and everything-in-between outsourcing.

3.2 Definition

There are numerous reasons that attract organisations to outsource such as cost reduction (Fan, 2000; McIvor, 2003; Canez et al., 2000; Sanders et al., 2007; Fill and Visser, 2000; Gottschalk and Soli-Saether, 2005; Dole and Pinkard, 1993; Blumberg, 1998; Karyda et al. 2006), focus on core competencies (Fan, 2000; Hendry, 1995), improving quality (Fan, 2000; Canez et al., 2000), lack of internal skills, expertise or capacity (Fan, 2000; Canez et al., 2000; Sanders et al., 2007; Fill and Visser, 2000), reduced time to market (Canez et al., 2000; McIvor, 2003), bandwagon effect of competitors outsourcing (Marshall et al., 2005) and technological change and advancement (Marshall et al., 2005; Sanders et al., 2007). Edgell et al. (2008) assert that the drivers for outsourcing have been cyclical depending on the economic cycle. During slower economic times, cost is the critical factor, whilst in good times other reasons possess greater attention. However, it is important to note that the cost of outsourcing is not just the cost of the services but also includes the costs of setting up relationships and monitoring and coordinating the service provider’s activities (Williamson, 1979).

While cost and strategy may drive private organisations, the desire for the general well being of citizens may drive outsourcing by public organisations (Kremic et al., 2006). The initiator to outsource can be from the policy created by the government (Young, 2005), requirement of managed care organisation or mergers (Moschuris and Kondylis, 2006) and agendas of elected officials (Young, 2005; Avery, 2000).

Although it can be argued that cost may not be the main drivers for outsourcing in the public sector, there are studies that revealed that the main reasons for the public healthcare sector to outsource are to decrease costs, increase flexibility and share risk, focus on core competency and increase the quality of services rendered (Yigit et al., 2007; Young, 2005). Yigit et al. (2007) further argued that outsourcing, when applied judiciously through cost and risk analysis, is a cost-effective approach that can be used by most hospitals. It is to be noted that savings do not only occur through wage reductions, but rather by changing work processes, rosters and technology (Young, 2005). Although there are differences in the drivers of outsourcing between the private and public sectors, the desired benefits are however often similar (Kremic et al., 2006).

3.3 Advantages and disadvantages

Yang and Huang (2000) emphasize that the most important considerations when any organisations think about outsourcing is the benefits that they could gain. The advantages of outsourcing are organisations are able to concentrate on core activities (Fill and Visser, 2000; Hassanain and Al-Saadi, 2005; Yang et al., 2007; Welch and Nayak, 1992; Harland et al., 2005; Hendry, 1995; Moschuris and Kondylis, 2006), improve quality of service and performance (Hassanain and Al-Saadi, 2005; Fan, 2000; Moschuris and Kondylis, 2006), flexibility in management (Yang et al., 2007; Welch and Nayak, 1992; Fan, 2000), reduce costs (Hassanain and Al-Saadi, 2005; Welch and Nayak, 1992; Harland et al., 2005; Fan, 2000; Moschuris and Kondylis, 2006) and provide creativity and innovation (Hassanain and Al-Saadi, 2005; Welch and Nayak, 1992). Therefore, due to the above advantages, outsourcing may be an attractive method of improving an organisation's financial performance, especially in the short run (Gilley and Rasheed, 2000). However, precaution has to be taken as long-term outsourcing contracts that have a feature of short-term savings can prove to be very expensive in the later stages (Okoroh et al., 2001; Arminas, 2009). Outsourcing in the healthcare sector can be a cost-effective way to provide health services because it brings an additional knowledge, expertise, and infrastructure, and enables health organisation to compete by focusing on their main goal of health service production for patients (Mackey et al., 2004; Neil, 2004; Colona and McFaul 2004). It has become a strategic tool used by healthcare management to control costs without affecting patient care (Colona and McFaul 2004).

On the other hand, outsourcing also has drawbacks. Outsourcing leads to low employee morale (Momme and Hvolby, 2002; Yang et al., 2007; Jennings, 2002; Young, 2005), loss of management control (Hassanain and Al-Saadi, 2005; Yang et al., 2007; Quinn and Hilmer, 1994), loss of critical skills and knowledge (Quinn and Hilmer, 1994; Jennings, 2002; Young, 2005), leakage of information security and confidentiality (Momme and Hvolby, 2002; Yang et al., 2007; Jennings, 2002; Young, 2005), imitation by service provider (Momme and Hvolby, 2002), weakening of innovative capability (Hassanain and Al-Saadi, 2005) and increase in monitoring and management costs (Jennings, 2002; Young, 2005). In the same vein, it was reported by the Public Accounts Committee that mismanagement of government contracts with service providers, could be costing taxpayers £290 million annually. In 2007-2008 alone, an amount of £12 billion was spent on service contracts and it cost approximately £240 million to manage these contracts (McNestrie, 2009). One of the most serious threats resulting from reliance on outsourcing is declining innovation by the outsourcer (Gilley and Rasheed, 2000). In addition, as suppliers gain knowledge of the product being manufactured, they may use that knowledge to begin marketing the product on their own (Prahalad and Hamel, 1990).

4. Decision making in outsourcing

The key issues in the sourcing decision are either in-sourcing or outsourcing (McIvor, 2000). An organisation's sourcing strategy needs to be consistent with competitive conditions and the development of competitive advantage (Quinn and Hilmer, 1994; Harrigan, 1986). This is because

outsourcing decision can impact on flexibility, customer service and the core competencies of the organisation (McIvor, 2000).

4.1 Persons involved

Decision making in outsourcing takes place at strategic, tactical and operational levels within an organisation (Dekkers, 2000). Michel (2007) stresses that decision making is a linchpin between the CEOs power, the delegation of authority and the performance of an organisation. The decision to outsource for critical activities falls under the responsibility of top management (Baily 1987; Baily and Farmer, 2008) as this can avoid sub-optimisation (Branemmo, 2006). However, involvement of multi-disciplinary and cross-functional teams with various skills and knowledge is crucial in the outsourcing decision-making process (Barragan et al., 2003; Lonsdale, 1999; Dale and Cunningham, 1983) as the input will add a wide range of synergistic perspectives to the decision making analysis (Momme and Hvolby, 2002; Duncan 1975 as cited in Laios and Moschuris, 1999). In the same vein, McIvor (2000) suggested that top management should be responsible for identifying activities to be outsourced with the help from teams from lower levels that consists of multiple disciplines. However, there are circumstances whereby outsourcing decisions gravitated away from the centre of the organisation, as most outsourcing of support activities and decisions were not made at the board level (Fan, 2000). Therefore, the degree of involvement of hierarchical levels is related to the importance and the consequences of the decisions (Laios and Moschuris, 1999).

4.2 Activities to outsource

Moving to a less integrated but more focused organisation is crucial for competitive success (Quinn et al., 1990). Fill and Visser (2000) are of the opinion that in deciding what to outsource lies with those elements that distinguish the organisations, especially in value and quality. Any activities that bring competitive advantage and are thus critical to the organisation should be kept in-house. On the other hand, organisations may outsource to specialist providers those commodity-like and mature activities that have minimal or no impact on competitive strategy (Sislan and Satir, 2000; Venkatesan, 1992; Welch and Nayak, 1992; Quinn and Hilmer 1994). Gilley and Rasheed (2000) propose two generic types of outsourcing namely peripheral outsourcing and core outsourcing. The first type occurs when organisations acquire less strategically relevant, peripheral activities from external suppliers. The second type occurs when organisations acquire activities that are considered highly important to long-run success.

Lonsdale (1999) asserts there are certain activities that should not be outsourced, especially those that will affect the strategic core of the organisations. However, it can be argued that 'closer to core' activities and core activities will qualify for some form of strategic outsourcing if the organisations lack important strategic knowledge or skills (van de Water and van Peet, 2006; McIvor, 1997; Harland et al., 2005). Hence, the organisation needs to develop a strategic alliance with the service providers.

Lacity and Hirschheim (1993) caution organisations to be extra vigilant when deciding which activities to outsource. This is because the perceived non-core or commodity activities may also be very important to the running of the business, thus extra care needs to be undertaken when deciding to outsource. On the other hand, the perceived strategic activities may become non-core or commodity services in the near future. Any activities that have the potential of being competitively advantageous in the future must be considered seriously. Furthermore organisations should build this capability although outsourcing may seem to be very inviting at that point in time (Sanders et al., 2007). The organisations should only outsource activities that do not furnish the organisations with a sustainable advantage and do not support core activities directly. de Boer et al. (2006) reveal that some organisations were triggered to outsource particular activity due to the problem faced by particular functions such as underperformance of the internal staff. There are also circumstances whereby organisations retain the in-house activities due to the sense of corporate responsibility to preserve jobs (Venkatesan, 1992).

Gottfredson et al. (2005) suggest three steps that can help in making the objective decision, namely identifying the core of the core activities in the organisations, determining the capability and what is required and any loss of quality due to the outsourcing of the capabilities. Pandey and Bansal (2003) suggest three factors in selecting which activities to be outsourced i.e. criticality (strategic importance), stability (volatility) and simplicity (capability).

As for the healthcare sector, outsourcing occurs more often in non-clinical services than clinical services. Considering which areas are to be outsourced are made on bases such as characteristics of the labour market, including employee level skills and availability of labour, the nature of industrial relations and the perception of what was core in relation to patient care, though that perception was inconsistent (Young, 2005). Studies undertaken in Greece (Moschuris & Kondylis, 2006) exhibited that the activities being most often outsourced in the public healthcare sector were cleaning, security, cafeteria, legal and clinical/equipment maintenance. On the other hand, the activities being least outsourced were laundry, laboratory services and food. Moreover, Yigit et al. (2007) indicated that the public healthcare sector in Turkey outsourced information systems, cleaning, maintenance, leased medical devices and food services. In addition, the least outsourced services were patient satisfaction measurement services, consultancy services; and financial and investment services. Another study carried out in Australia revealed that not only non-core (non clinical) activities such as car parking, garden and ground maintenance, supply management, catering, cleaning, security, ward support and distribution were being outsourced, core (clinical) activities such as pathology, radiology and dental technicians were also being outsourced. This happened when political factors intervened in the decision making through either problems with managing staff or changes to external funding (Young, 2005).

However, organisations had to be cautious as mistakes in identifying core and non-core activities can lead them to outsource their competitive advantage (Harland, 2005). Selecting the right service to outsource will lead to positive results provided that the organisations understand the characteristics of the right service such as clearly non-core, easy to measure and with low transaction frequency.

4.3 Definition of core and non-core (support) services

According to McIvor (2000), core activity is defined as “*an activity central to the company successfully serving the needs of potential customers in each market. The activity is perceived by the customers as adding value and therefore being a major determinant of competitive advantage*”. On the other hand, Hassanain (2005) defined core activities as “*those that are essential for achieving the objectives of the organisation*”. Non-core activities can be described as “*support services which are not part of core and are routinely performed*” (Hassanain, 2005). Non-core activities could also be defined as “*activities that are not critical to competitive advantage*” (Lonsdale, 1999).

Research carried out by McIvor (2003) found that there exist inconsistencies and lack of clarity in the way in which the personnel within the organisations interpreted the core competence. Hamel and Prahalad (1994) assert that it is dangerous for organisations to measure their competitiveness through price factor only as this will lead to the erosion of their core competencies. Core competencies are the activities that offer long term competitive advantage whereas non-core activities are those which are not critical to the organisations’ competitive edge (Quinn and Hilmer, 1994). However, McIvor (2003) emphasises that the competency that an organisation possesses may not be competitive in the future if service providers are more capable or the demands from the customers changed.

5. Research methodology

The authors believe that different people will have different realities (multiple realities), different perspectives and experiences; and they will be trying to get close as possible to the participants in the field. The ontological and epistemological stances to be adopted for this research are constructivism and interpretivism (social constructionism) respectively. In addition, this study will move toward a value laden approach as information will be collected by personal interaction and via human belief and interests.

Creswell (2007) indicates that qualitative research is conducted because a problem or issue needs to be explored as the need to study a group or population, it identifies variables that can be measured, or hears silenced voices, rather than use a predetermined information from the literature or reliance on results from other research studies. It is also conducted because researchers need complex, detailed understanding of the issues which are established by talking directly to people, going to their homes etc. As the authors need a detailed understanding of the complex process in outsourcing decision making by interviewing the person(s) involved, the research approach adopted for this particular study is a qualitative approach.

According to Yin (2009), each research strategy depends on three conditions namely; the type of research question, the control an investigator has over actual behavioural events and the focus on contemporary as opposed to historical phenomena. The research strategy as indicated by Yin is tabulated as follows:-

Table 1: Relevant Situations for Different Research Strategy

Strategy	Form of research question	Requires control of behavioural events?	Focuses on contemporary events
Experiment	How, why?	Yes	Yes
Survey	Who, what, where, how many, how much?	No	Yes/No
Archival analysis	Who, what, where, how many, how much?	No	Yes
History	How, why?	No	No
Case study	How, why?	No	Yes

Note: What questions, when asked as part of an exploratory study, pertain to all five strategies

Yin (2009) asserts when the research questions focus mainly on ‘what’ questions, one of several possibilities arises. Firstly, some type of ‘what’ questions are exploratory and secondly, the type of ‘what’ question is actually a form of a ‘how many’ and ‘how much’ line of inquiry. In addition to the above, the research questions with inquiry of ‘how’ and ‘what’ can be considered as qualitative study (Creswell, 2007). Creswell also indicates the five approaches of research design within qualitative inquiry namely: narrative research, phenomenology, grounded theory, ethnography and case study. For this particular study, experiment cannot be used as the strategy as the authors do not have any control of the behavioural events. History is not a suitable strategy as the study focuses on contemporary events. Therefore, a case study strategy will be adopted for this study.

Case study can be defined as “*empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident*” (Yin, 2009). Creswell (2007) defines case study as “*a qualitative approach in which the investigator explores a bounded system (a case) or multiple bounded systems (cases) over time, through detailed, in-depth data collection involving multiple sources of information (such as observations, interviews, audiovisual material and documents and reports), and reports a case description and case-based themes*”.

Yin (2009) classifies case study design into four groups namely holistic single-case design, embedded single case designs, holistic multiple-case designs and embedded multiple-case design. The selection of holistic or embedded case study design will depend on the type of phenomenon being studied and the research questions. Multiple-case study is preferable to a single case study as a single case study is vulnerable. Although multiple case study is more expensive and time consuming, the evidence derived is regarded as more conclusive and the study is considered as more robust (Herriott and Firestone, 1983). Therefore, multiple case study design will be selected in this particular study. However according to Creswell (2007), the greater the number of cases adopted in a study, the less depth it achieves. Creswell further asserts that there is no set number of cases to be adopted; researchers normally choose no more than four or five cases in a study.

Creswell (2007) identifies four basic data collection method for case study, namely observations (ranging from non-participant to participant), interviews (ranging from close-ended to open-ended),

documents (ranging from private to public) and audiovisual materials (including materials such as photographs, compact disks and videotapes). Yin (2009) adds that interviews are an essential source of case study evidence because most case studies are about human affairs. Yin categorises interviews into three: open ended key informant interview (unstructured interview), focused interview (semi-structured interview) and formal survey (structured interview). Semi-structured interview is whereby the interviewer commences with a set of interview themes but is prepared to vary the order in which questions are asked and to ask new questions in the context of the research situation (Saunders et al., 2007). One of the advantages of a semi structured interview is that it has certain degree of flexibility and allows for the pursuit of an unexpected line of enquiry during the interview (Grix, 2001). The method of data collection through interview will enable a deeper understanding of the issues involved and offers the potential to obtain sensitive data that may not have been possible from a questionnaire. Interview is used to allow people to develop and speak more widely on issues raised by the researcher. Hence, this study will employ interview, in particular semi-structured interview, as the main technique for the data collection.

Triangulation in the data collection method can help the researcher to obtain better, more reliable data and to minimise the chance of biased findings (Grix, 2001). Therefore, this research will deploy document review as a supplementary technique. Documentary evidence comes in all shapes and sizes, ranging from official and private documents to personal letters or memos (Grix, 2001). The documents that will be useful for this study will be any agreement(s) in relation to outsourcing and various government reports.

6. Conclusions

This paper explores the literature on outsourcing, identifying the drivers, advantages and disadvantages. It also examines the decision making in outsourcing including the persons involved in the process and the activities to be outsourced. Although there is extensive literature on decision making on outsourcing, most focus on the private sector, in particular the manufacturing sector. Therefore, this research will add to the existing body of knowledge by highlighting the issue of the outsourcing decision making process particular to the healthcare sector. At the end of this study, a decision making model will be developed and this will facilitate the healthcare sector in their sourcing decision making.

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