

Caring more by doing less?

An enquiry about the impacts of outsourcing on patient care.

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Abstract

This paper presents a report dealing with the potential impact of outsourcing on health care processes. By referring to a wider scope of industries and sectors, as they have been the experimental fields of most of the studies on outsourcing, we highlight the pros and cons of the outsourcing of activities related to patient care. Although the lack of empirical evidence, this paper intend to show and contextualize the (yet) ambiguous effects of relying on external partners in delivering services which are related to the health of patients. We argue that the seek for efficiency might sometimes hinder the global outcome of care; further we state that given the peculiar nature of the healthcare, outsourcing need to be used within a wider strategic analysis of the activities and thus organizations should carefully identify the threshold for its extension.

1. Introduction

Outsourcing as a strategic choice for organizations has experienced a widespread in the 80s-90s of the last century. Although the practice of outsourcing is generally related to some genetic fields (manufacturing and other serial services), more recently a new strong wave of outsourcing has gained momentum also in person-related services, like health care.

Within this general framework, the present global scenario is heterogeneous and fragmented given the diversity of health systems across countries. Historically, health systems based on private insurance (e.g. USA) have been the first ones to implement outsourcing practices, given the similarity of their competitive pressures with some other competitive arenas. Where the public health systems have embedded some competitive mechanisms, either by establishing forms of provider/purchaser relationships between public entities and private providers, or else by being partially privatized (e.g. NHS, Italian SSN, Swedish Health Systems, etc.), the traditional "adversarial" vision between the public authorities and private business has been abandoned (Cepiku, 2005). Indeed outsourcing has flourished in such context where the initial pressure on efficiency has generally implied a massive externalization of activities.

This article aims to entangle the dynamics of the net benefits stemming from outsourcing by starting from its general aspects and converging towards its specificity in healthcare. It covers two main problems: a) the scope of outsourcing b) impact assessment, since the measure of the global outcome of healthcare requires considering both efficiency gain (due to clinical and technical aspects) and patient care (which embeds emotional aspects).

2. The outsourcing strategy and its implications in healthcare.

Although a unique definition of outsourcing is not available, in general we refer to this as a strategic decision to outsource a process, which was initially handled internally.

Generally, the motivation behind the choice of outsourcing lies on economic basis, which lead to decide to outsource some activities in which the organization holds no special skills or fail to exploit economies. As mentioned before the use of outsourcing strategy in public organizations responds to the transformation of the logics behind the delivery of public services, which have been progressively aligned to those of the private sectors. This takes place in the framework given by the intersection between the so-called New Public Management (McLaughlin et al., 2002) and the Public Governance approach.

Generally speaking, the outsourcing strategy resembles a typical make-or-buy dilemma, which compares the opportunity of implementing some activities within the boundaries of an enterprise, with the alternatives of having external suppliers carrying out those activities due to either cost savings or quality enhancement opportunities. Indeed, the choice of outsourcing allows organizations to dismiss some functions in favor of focusing on the activities in which it holds the key resources and skills. This is the main reason, coupled with that of cost reduction, which drives more and more companies to outsource.

Given this overall picture, it is clear that the issue of outsourcing should be investigated from various perspectives. In fact, it is possible to highlight aspects of: *i*) strategic management outsourcing (Prahalad and Hamel, 1990); *ii*) organizational approach (Carlsson, 1989), *iii*) legal-institutional (Domberger, 1998; Hart, 1995); *iv*) management of human resources (Leimbach, 2005; Marsden, 2004); *v*) globalization (Grossman, Helpman, 2005; Yu, 2011); *vi*) management of operations (Morrone, 1992); *vii*) innovation (Van Long, 2005). Therefore, managing the

outsourcing strategy means structuring the entire organization in order to respond adequately to the different problems that this strategic choice implies.

Many papers have highlighted the most controversial aspects of the practice of outsourcing. In particular, several studies show that in a large majority of cases, outsourcing projects do not meet predetermined financial goals (Malone, 2004). For this reason it is necessary to create a governance system for outsourcing, which, in the first instance, should be able to control the determinants of risk that occur in the case of outsourcing of processes and services.

In general, the potential benefits of outsourcing are the following: the ability to focus on its core activities by delegating to other routine management operations and limited strategic value; the reduction of operating costs; the acceleration of change processes; the raising of skills and functions not available within the company; the possibility of acquiring more power to control activities or functions are difficult to manage.

It is also true that many contributions have shown that there are several weaknesses of the outsourcing strategy, namely: fear of losing control of some companies of the functions given in trust to a third party; reluctance to share data with third parties confidential or strategic importance; difficulty of re-use of human resources that can be made redundant after the transfer of some functions to outsourcing companies.

Healthcare organizations, including hospitals, nursing homes, long-term care facilities, professional services groups, and specialized facilities are increasingly considering and deploying outsourcing decisions. Undoubtedly, the initial focus of outsourcing in healthcare has been on the non-clinical services, outside the main value stream, with a strong emphasis on peripheral services (Brunetta and Marchegiani, 2009). In this light, the externalization of non-clinical services has gained increasing importance for all non-core functions, while the externalization of clinical services remains related to those core activities where it is fundamental to reduce costs and acquire specialized knowledge by external partner.

Several authors (Roberts, 2001; Burmahl, 2001; Lorence and Spink, 2004; Foxx et al., 2008) have analyzed the type of activities that are being outsourced by healthcare organizations. The development and operation of information systems are regarded as those services that are most likely to be outsourced (Lorence and Spink, 2004), but authors have also analyzed the outsourcing of other activities such inventory management (Nicholson et al., 2004), and ancillary services security, laundry, food, hazardous waste, cleaning, parking, reservations and call-centers (Burmahl, 2001, Lepeak and Voytek, 2008). Despite the wide amount of activities being outsourced, healthcare still has to reach the scale or scope seen in other industries with outsourcing areas in which healthcare organizations seem to be reticent to move ahead as quickly.

Outsourcing choices are driven by the necessity to reduce costs and increase efficiency, as a result of the increased attention to the rise of healthcare expenditure and the decrease of quality in services, and by strategic considerations, as a result of managerial choices to focus on core activities to increase competitive advantage while externalizing the peripheral and non-core activities (Roberts, 2001; Billi et al., 2004; Macinati, 2008). Outsourcing provides the benefit of flexibility, enhancing the capability of the organization to face changing environments, as adaptation does not require reconfiguring internal resources (Roberts, 2001).

The dominant literature agrees on the cost containment aspect, relating it to potential benefits of decreasing expenditure while increasing efficiency (Shinkman, 2000; Roberts, 2001; Billi et al., 2004). Nonetheless, cost reduction is not always in line with the expectation of managers: outsourcing is likely to have scarce positive effects on financial performance (Shinkman, 2000; Macinati, 2008) and cost-effectiveness of outsourcing choices is becoming a main concern (Burmahl, 2001). Pressures from institutions to reduce healthcare expenditure have driven managers to externalize services and activities traditionally managed in-house, leveraging scale

economies and focusing on the expertise of the outsourcee.

On the strategic side, outsourcing can be seen as an instrument that managers can use to maintain a focus on the core competences (Roberts, 2001). Nonetheless, there is a high risk of fragmentation of control on the core activities and on externalized functions (Roberts, 2001; Billi et al, 2004). In fact, it is not always clear which core and non-core activities shall be externalized (Billi et al, 2004; Macinati, 2008), and this issue can lead to mistakes in externalizing competences that are critical for the success and competitive advantage of the organization (Roberts, 2001), exposing the organization to the risk of services below the standards.

3. Methods

This report summarizes multiple studies on the outsourcing strategies applied to the healthcare sector. We collected the extant literature on the topic using the databases PubMed, Elsevier Science, ISI Web of Knowledge, EBSCO, and Google Scholar. The key search terms were: outsourcing, externalization, New Public Management, and outsourced processes. Secondary search terms were: offshoring, efficiency, patient care. The search was conducted between January 2010 and November 2011, and was limited to studies in English and Italian. The body of knowledge that we collected comprises publications from diverse fields, ranging from economics to management, and medicine, that was published between 1989 and 2011.

4. Preliminary results

The illustration of the potential impact of outsourcing on healthcare practice may be analysed from several different standpoints. We consider both the perceptive and the technical side of the health outcome. We argue that healthcare organizations should set up proper mechanisms for the governance of the overall transactions related to outsourcing in order to extend the span of control over the external providers as long as the effectiveness and the efficacy of the general outcome is not compromised.

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