University of West Hungary
Faculty of Economics

THE ANTECEDENTS, CORRELATIONS, SIDE EFFECTS AND CONSEQUENCES OF OUTSOURCING AND PRIVATISATION IN THE OUTSOURCING PRACTICE OF TOTAL AND CERTAIN HOSPITAL ACTIVITIES

Theses of Doctoral (Ph.D) dissertation

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**Signature of the advisor**
1. Research history, objectives and hypotheses

The aim of the research was examining the special features of outsourcing activities in our national healthcare with special regards to outsourcing hospital activities, preparing the ground for it and its impacts on certain jobs as the topic of the research. The research embraces the experience gained in outsourcing certain service activities till handing over all the services of the entire hospital.

It is inevitable to see hospitals as service units that, together with the other service providers, operate in a hostile or harmonious way. At the same time, hospital management is forced to accept the method of 'accepting and following price' instead of 'setting the price' as the flat rate DRG (Diagnosis Related Groups) system orders them to do so. DRG financing\(^1\), whose one possible adaptation is the national HBCS, is used in many of the developed countries. It has to be used properly similarly to financing techniques and it is continuously developed to meet the challenges. DRG (or, more precisely, PSC-Patient Classification System) is used for health care planning as an instrument of hospital management for utilisation review, payment and several other purposes (ESKI, 2010).

The institutions are compelled to face economic constraints and increasing social demands continuously while they also have to obey legal regulations and raise the standards of quality services at all times. Managerial approach has to be applied in all the aspects of healthcare as in many cases we can find old fashioned structures and traditions. Basically, hospitals have to perform similar business and economic functions (especially HR, finance, controlling, PR) to those of other enterprises but, at the same time, special functions in connection to healthcare must also be run such as medicine controlling, caretaking management etc. (Karner, 2007).

Nowadays the explicit or implicit competition that can also be felt in healthcare greatly depends on capital intensive equipment and investment in addition to the skills, qualifications, creativity and labour force of the staff that result in significant competitive advantages.

\(^1\) case based financing
Hospital management has to carry out their tasks based on state regulations and with constraints where financing and remuneration do not follow external economic changes at the proper rate.

The objective of the dissertation is to present the opportunities by means of which the owner or operator can organise special health services as a public task and can also perform other duties. The author illustrated with the results of the research what impacts outsourcing has had on the working conditions and job security of people working in different special areas of healthcare. The author has also stressed that in many cases the reason for the failure of hospital outsourcing in Hungary lies in improper preparation and the total lack of initial economic efficiency calculations.

The author has examined in her paper if the form of operation plays a role in running hospitals and whether the useful rules of outsourcing and privatisation in several aspects of life, in the production and service sector would prevail here, too.

The definition of privatisation has a special meaning in terms of hospitals today. The topic of the dissertation is interdisciplinary involving some aspects of economics, finance, sociology, psychology, human resources, marketing PR and management.

The research serving as the basis of the dissertation was designed to identify record and utilise outsourcing applied in healthcare.
2. **Hypotheses**

The issue of outsourcing has raised a lot of debates since the beginnings. Based on the experience of the author gained at the hospital the following hypotheses were established in the research to be tested, accepted or rejected. The primary research is based on the following hypotheses.

**H1.** The special features of certain areas must be examined before making the outsourcing decision as they have different features and opportunities. Part of the medical-professional and caretaking areas must be kept in the own hands of the hospital.

**H2.** The specialist literature mainly stresses the possible advantages of outsourcing. As a result, many regarded outsourcing as a measure with positive impacts although the possible risks and disadvantages may be greater than the advantages due to improper preparatory steps. Well established and considered outsourcing decisions, preliminary calculations and career models are necessary in order to motivate decision makers not only on economic efficiency considerations.

**H3.** The former negative experience on outsourcing has shaken the faith of the managers and employees of healthcare institutions in this managerial technique, so it has also had an impact on the further spread of outsourcing in healthcare.

**H4.** The interests of certain jobs and professions do not differ regarding outsourcing in healthcare institutions.

**H5.** The generally applied outsourcing-like solutions cannot be used without any modification in healthcare outsourcing without paying attention to its special features. Disregarding this aspect often results in the management’s using insourcing technique.
3. The content, methodology and justification of the research

The research as the basis of the dissertation is based on quantitative methods supplemented by a qualitative method, i.e. in-depth interviews. The qualitative method ensures objectivity and with its help, generalisations can be avoided. Qualitative methods can also be used to justify the findings.

Regarding the importance of the topic it is essential to present knowledge, data and information published by others and express my the opinion of the author. The objective of the author is to evaluate secondary research results supplemented by primary research.

During the secondary research the objective of the author was to critically synthetize Hungarian and foreign literature on the topic. In addition to exploring internet-based and library sources, the author was striving to take part in professional conferences and make use of publication opportunities. While thematically and comparatively analysing literature the author was also engaged in studying sources mainly in English and German.

The former colleagues of the author, hospital managers working in diverse special areas were asked to fill in the questionnaire and pass the survey to their subordinates and managers of other hospitals who they are in contact with. Moreover, the questionnaire was also sent electronically to the participants of healthcare management trainings and conferences organised for PhD students. They were also requested to forward the questionnaire to the hospital management of their region. The application of the snow ball technique could ensure more and more questionnaires filled in.

The questionnaires sent were filled in by 265 persons involved in hospitals of which 258 served as the basis of the research as 7 questionnaires could not be used.

The qualitative research was carried out in person by means of in-depth interviews to obtain more detailed and precise opinions by considering subjective factors. The six in-depth interviews took 30-60 minutes during the author had the opportunity to understand and get to
know the opinion, attitude, experience and way of thinking of the respondents and to explore the current situation.

By combining qualitative and quantitative methods the objective of the author was to make the research reliable and authentic. It was also important that the respondents should concentrate on the topic of the research and the objective of the author was punctual data recording. In-depth interviews were first recorded, then transcribed and described. The author was striving to make an interview based on a two-way communication when respondents answer the questions raised in addition to give a detailed account of their opinion on the topic.
4. The analysis, description and process of the research method

The main target group of the dissertation were the current and the former employees, workers, managers of the national hospitals together with the managers of two large hospital suppliers. At first the hypotheses were examined which were made more exact during the research, and then the specialist literature was analysed followed by statistical evaluation.

The focus of the in-depth interviews as part of the exploratory research was the examination of the hypotheses and the addition of new aspects and points of view.

IBM SPSS 17.0 statistical analysis software was used to carry out statistical analysis, which ensured all the basic functions necessary for the entire process of evaluation.
5. **New and novel scientific results**

In the topic of outsourcing the new scientific results of the research can be summarised as follows.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>The results of the research</th>
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<tr>
<td><strong>H1.</strong> <em>The special features of certain areas must be examined before making the outsourcing decision as they have different features and opportunities. Part of the medical-professional and caretaking areas must be kept in the own hands of the hospital.</em></td>
<td>The hypothesis is considered as proved.</td>
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<td><strong>H2.</strong> <em>The specialist literature mainly stresses the possible advantages of outsourcing. As a result, many regarded outsourcing as a measure with positive impacts although the possible risks and disadvantages may be greater than the advantages due to improper preparatory steps. Well established and considered outsourcing decisions, preliminary calculations and career models are necessary in order to motivate decision makers not only on economic efficiency considerations.</em></td>
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1. In some fields of health, their characteristics, operations, economic characteristics should be explored during the preparation outsourcing. Need to be considered the decision points that are representative for the processes. These can be for example: capital intensity, high investment demand, slow recovery, lack of skilled labour, etc. Professional medical, nursing and other professional areas under the core activity should have a priority, because they provide the primary determining earnings of the institution.

After statistical analysis of survey data, it became clear that outsourcing means something totally different for a doctor working in the core area with a good profession, who, if provided with unsatisfactory working conditions and salary after the outsourcing, can easily find another job in Hungary or even abroad in contrast with e.g. a porter/receptionist, kitchen hand or pay roller who have enjoyed the security of being a public servant. The decreasing financing and the decrease of the number of active beds as a consequence was one of the main reasons for restructuring the activities and structures of hospitals. However, ensuring the medical and caretaking functions of the departments require a suitable number of beds and financing. The selection of healing and rehabilitation for outsourcing can modify patient-doctor relationships and the areas of outsourcing. The different special areas have different requirements in terms of the impacts of outsourcing. Not only medical-caretaking professions differ from other jobs in this respect but also the specialists of certain caretaking professions have different attitudes. All this justifies the hypothesis according to which the relationship between special areas and jobs can markedly be different with different opportunities and threats for them. The hypothesis is considered as proved.
**T2. In recent years, the domestic specialist literature mainly stresses the possible advantages of outsourcing.** Hardly talked about the disadvantages of the outsourcing, about the losses of professionals in the human resources, or possibly many suffered economic losses. **Well established and considered outsourcing decisions, preliminary calculations and career models, proper preparation, proper communication are necessary in order to motivate decision makers not only on economic efficiency considerations.**

Based on the synthesis of the critical nature of domestic and international literature that, the author found, before making decisions on outsourcing, it is necessary to identify the variables of decision making, working out alternatives and defining limitations. After that the criteria and the minimum and maximum value of the objective function can be set. It is also important to have a function of utility, to set marginal utility and the problems should be solved by mathematical methods while paying attention to the special features of healthcare.

Outsourcing can be regarded economic efficient if service is provided at least of the same or better standard at decreasing costs, or the service paid for is much better for the same price.

However, the implementation of outsourcing and the change of operation themselves are not enough to reach the target as other elements of expenses can occur such as the amortisation of the assets involved in the company or rehabilitation contribution whose effects on management can easily be underestimated during the preparatory phase. We can say, that the original presumption is proved.

**T3. Between 2006-2010 the Hungarian health system was famous for outsourcing-anomalies, the failure of those. Just then the information perceived and/or real news led to hospital managers, employees, the general public typically harbours hostility to outsourcing techniques regarding, and this effect was more dominant in the spread of outsourcing.**

As a result of the economic policy of the change of the regime and the following years the forced adaptation of service providers was the consequence of the adaptation to limited public financing resources. The possibility of breaking out was thought to be lying in strengthening managerial knowledge, outsourcing certain services, organisational development and new
service areas (caretaking, cosmetics). All these points for both healthcare and the public service sector to break out meant and still mean a severe pressure for innovation. At the same time, due to the totally unstructured legal system and the mistakes of the policy on hospitals the failure of outsourcing could have been foreseen. Most employees in hospitals accepted the news of outsourcing unfavourable with a kind of objection, the trade unions of hospitals only concentrated on abolishing the resistance of the management of local governments and organising campaigns when this issue was included by any of the points on the agenda of meetings.

It is sad that outsourcing served as an ersatz in Hungary. Although we know that modern West European countries assign the proper human and other economic resources to the tasks of supplying a given population (in addition to prevention), a fixed sum is ensured by the budget. If financing decreases, outsourcing in itself can make the situation worse. However, the private sector works differently.

Typically clear outsourcing backed by figures is implemented. Based on the analyses of the author on the healthcare sector it turned out that employees have mixed feelings and attitudes to outsourcing. While they acknowledge its financial rationale and regard efficiency to be likely, they are uncertain about job security and future career.

In addition to the possibility of narrower career opportunities keeping and maintaining jobs is still doubtful as a result of outsourcing. As a consequence, there is tension at work and the attitudes of employees to the systems established throughout the years are changeable.

The differences in trainings and qualifications are considerable from the point of view of keeping jobs. Changes in daily routines and procedures call for further trainings, which mean a burden for employees. The hypothesis is considered by the author.
T4. The hospital medical professional group, nurses, and non-core, background activities categorized on the basis of the type of work. The research showed that the attitude of the groups, interests, motivations vary regarding outsourcing, as well as differing views of a potential benefits of outsourcing is typical.

At the beginning of the research the author presumed that the players of the hospitals are unanimous in expressing their opinions on outsourcing. However, this hypothesis had to be rejected. Rather, its opposite was proved in the dissertation. Outsourcing in healthcare outlined by economic needs resulted in a global emergency arrangement and a visible failure. It was proved that there were marked differences in the attitudes, expectations and hopes of the single professional groups during the process of outsourcing. Players in non-core areas are more open to outsourcing with slighter opposition to it as many of them can obtain better working conditions or salaries in the private sector. They remain in healthcare for cosiness or family reasons and they do not change. The difference in salaries and positions can also serve as an explanation to different attitudes to outsourcing. Outsourcing the activities of different professional areas embraces diverse special features and opportunities. The hypothesis is rejected by the author.

T5. Outsourcing management technology required other adaptations, other methods and tools in health care as a competitive economy. If policy makers ignore these features, it is the failure of outsourcing, where appropriate, to the failure and ultimately can lead to insourcing.

There is no possibility for a perfect market competition in healthcare, which has several reasons. Instead of the classical, two-player market deal a third party is also present here partly financing services. Moreover, due to information asymmetry it is not the patient as the consumer who decides on the required services, it is, however, the doctor who not only acts as the one who orders the service in practice but also as a service provider. Through outsourcing fixed costs can be transformed into not fixed, flexible ones depending on needs so it can seem to be an ideal solution to tackle economic problems even in healthcare. However, the current practice in Hungary shown a different picture in several areas of healthcare. Nowadays in
many cases insourcing is typical of hospitals, not outsourcing. After collecting and processing literature and the own experience of the author concluded that outsourcing can be practical in the for-profit sector for the industry and production as well as service providing that comply with certain criteria as outsourcing can improve the company’s results. It is, however, obvious that in healthcare several special and typical circumstances and points must be considered before making the decision on outsourcing to make this method successful.

The specific areas of outsourcing in healthcare make businesses operating in this sector comply with special expectations in terms of infrastructure and professionals. Some of them can be imaging diagnostics (CT, MRI, X-ray, endoscope etc.), laboratory and isotopes that require huge investments in buildings, machines and equipment, and last but not least, finding loyal, professional staff is also a serious challenge before making decisions. The hypothesis is considered as proved.
6. **The practical implications of conclusions and recommendations drawn from the results of the research**

During the preparation of the dissertation the author found it important to get to know and examine the special features of outsourcing in healthcare and also explore new possibilities for further outsourcing by drawing conclusions from the present situation.

It was proved that the interests of some professionals in hospitals can be diverse in terms of outsourcing. The attitude of employees is also different and often it is their fear of the unknown what keeps them back from preferring outsourcing as an instrument of management, which differs from job to job. The relevant literature in Hungarian and in a foreign language also supports the fact according to which very frequently there are no economic efficiency calculations and no proper preparation for outsourcing in healthcare institutions. That is why it failed in many cases.

It is inevitable to prepare economic efficiency calculations before outsourcing activities on the basis of which well-grounded decisions are made by the management. Proper communication with employees, subordinates, GPs and anyone concerned is of vital importance before outsourcing is carried out. The positive attitude of those concerned, mainly the employees, can make but also can break the deal.

Selecting the proper service provider is also decisive in the process. Selection must be made with proper care, preparation and well organised negotiations.

While outsourcing is a well-established managerial instrument in the for-profit sector, it is a source of tensions in healthcare. It can be stated that in the often 'feudal' healthcare modern technologies and updated techniques (medicine, procedures, equipment) spread fast, modern managerial theories, however, can penetrate much slower and be accepted by leaders who understand them and want to introduce them, too.
Hospitals are subject to disclose all the details on outsourcing to their operators. The selection of different companies, sharing the tasks and defining rules as well as applying the relevant procedures of the act on public procurement can raise (and raised) serious legal and medical-professional concerns.

The regulations of the Act on Public Procurement slow down the process itself. Slow announcements and the meticulous circumstances made hospitals extend the already existing but terminating contracts in many cases.

From the part of the hospitals recording the requirement for the service provider in a contract, the points of accomplishment, price and terms of payment as well as setting the standards of quality and investments expectations had to face difficulties several times.
7. **Directions of suggested further research**

The author would suggest a further multiple research by increasing the number of the elements in the sample that is closer to a representative one in terms of recording the data of the questionnaire on the one hand and extending qualitative research on the other hand. The focus of in-depth interviews at the making of the dissertation was on the healthcare management per specialist area as well as the employees of the supplying companies as partners in outsourcing. The opinion of the experts of healthcare management, whose involvement can also be highly recommended, could further make the picture more complex.

In addition to the hospitals in Hungary the research could be extended on an international level, so there would be an opportunity to map international experience on outsourcing.

The author would also think essential to study from international experience with special regards to the opportunities hidden international practice as well as the permanent and continuous consultation between those concerned.
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2013

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