

Outsourcing Share of the Cost of Public Hospitals in Turkey

Ali Kahramanoğlu¹, Muhammed Cihad Demir²

(1. Selçuk University, Turkey; 2. Kahramanmaraş Sütçü İmam University)

Abstract: Pressures to reduce costs are forcing hospitals to examine alternative strategies. Outsourcing has become a basis strategy in the public hospitals and has recently grown considerably in popularity. The impetus for this trend was the initiated by the Ministry of Health in Turkey with the fact that private sector pressures and competition would make public sector more efficient. Outsourcing arrangement can be an attractive option for cost management, providing benefits not only in terms of economics, but also in terms of quality and medical support. In this study, outsourcing strategy was examined in a large scale state owned hospital in Turkey. Results of this study show that outsourcing in hospitals in Turkey is used in which areas and in what quantities. How much of the total cost is divided on this issue and this method has been investigated both employees and hospital as well as the advantages and disadvantages.

Key words: cost management; hospital management; outsourcing; Turkish health sector

JEL codes: M400, M410

1. Introduction

Variability occurs in service organizations due to demand-side (customer) and supply-side (capacity) issues. Uncertainty in demand happens when customer arrivals cannot be predicted, and because there is variation in the length of each customer-provider encounter. Services generally cannot be inventoried, as they tend to be consumed as they are produced (Murdick et al., 1990). This characteristic, combined with demand uncertainties, leads to problems in matching available capacity to demand as it arrives (Lovelock, 1984; Sasser, 1976). These scheduling problems increase when the type of capacity available is difficult to “ramp up” quickly, or when available capacity is unsuitable for the demand at hand, for instance when temporary employees are used to do skilled jobs (Schmenner, 1995).

Outsourcing leads to organizations use resources effectively and get them a possibility to concentrate on the jobs they knew very well (Hatch, 1997, Kocel, 2005) and also determine benefits of outsourcing as lower cost, higher quality, greater flexibility in the provision of services and a more rapid response to changing service and customer needs.

Competitive pressures, rising income level, technology development and increasing expectations of people along with globalization led to use widely outsourcing by organizations to survive and maintain their continuity. So, the use of outsourcing has grown exponentially in recent years with predictions for continued growth (Foxx et

Ali Kahramanoğlu, Ph.D., Lecturer, Selçuk University; research areas/interests: accounting, public accounting, accounting. E-mail: akahramanoglu@selcuk.edu.tr.

Muhammed Cihad Demir, B.A., Kahramanmaraş Sütçü İmam University; E-mail: cht-dmr@hotmail.com.

al., 2009). Most organizations now outsource various internal functions or sub-functions to outside vendors (Eliot, 1998, Kremic et al., 2006). The primary reasons for outsourcing are that decision-makers have wanted to reduce costs and increase efficiency, focus on core competitive advantage (Young, 2005) by relocating limited resources to strengthen their core product or service (Hatch, 1997, Kocel, 2005), introduce workforce flexibility, improve management of industrial relations' problems, satisfy decision-makers' personal objectives and adhere the ideology of governments (Young, 2005). Kakabadse and Kakabadse (2000) states that there are three major categories of motivations for outsourcing: cost, strategy, and politics. The first two commonly drive outsourcing by private industry. Political agendas often drive outsourcing by public organizations.

Outsourcing, or contracting out, alongside the privatization of public utilities, has been used extensively in the public sector in the Turkey throughout the late 1990s as part of new public management. The primary stated aim of all governments in the privatization process has been to increase efficiency and decrease costs by integrating private sector practices into the public sphere.

2. Literature

Empirical research provides a complex range of evidence of the effects of outsourcing (Young, 2000, for a fuller discussion of these effects). In regard to costs Domberger et al. (1987) in their investigation of contracting out of hospital domestic services reported that costs savings amounted to twenty per cent. Hodge (1996, p. 54) reviewed the international empirical literature on contracting out government services published between 1974 and 1995 which amounted to a sample size of 20,131. He concluded that an average cost reduction of between 9 and 14 percent was achieved.

As has been reported the theoretical and empirical outsourcing literature identifies six reasons for outsourcing:

- to reduce costs;
- to focus on core competitive advantage;
- to introduce workforce flexibility;
- to manage industrial relations problems and the associated increase in the power of management over labour;
- to satisfy personal objectives; and
- to shape public sector agencies to align with the agenda of the government providing the funding.

3. Outsourcing Process

Decisions of using outsourcing must be made relative to two distinct issues: (1) what service to outsource and (2) what vendor to use. Although choices relative to the service itself must generally precede vendor selection, these two decisions must be made concurrently. The decision-making process of outsourcing is illustrated in Figure 1 (Foxx et al., 2009).

The process starts with the pre-decision stage on the left-hand side and moves sequentially to the right. During this period, the organization develops an awareness of service outsourcing and identifies areas in which it could benefit from its use. These potential benefits motivate efforts of the organization to seek further information relative to service outsourcing and to initiate a more thorough examination of their specific options. The organization next enters the decision period. At this point, the organization has neither committed to outsource nor to do so by contracting the service. Over the course of the decision period, the task to be outsourced is defined, the

actual decision process is initiated, and a decision is made of whether to outsource or not. In the case of service outsourcing, these choices must be made with regard to both the task and vendor. Because outsourced services are more likely to be custom offerings and vendors have differing competences, decisions concerning the task and vendor typically cannot occur sequentially, but must occur in parallel. In fact, tasks under consideration often must be evaluated in light of whether any vendor is capable of providing the desired service. The outcomes of the decision period are choices regarding the service(s) to outsource, if any, and which vendor to select. During the post-decision period, evaluations of the outsourcing decision are made. If the decision to outsource a service was made and a vendor selected, performance will be evaluated relative to the vendor's service provision. Initially, an organization may choose to in source a task and surveys show organizations do in fact do so. Likewise, an organization initially deciding to in-source a task can choose to outsource it to a vendor at a later time. In either case, postpurchase evaluation will provide feedback for later decision-making (Foxx et al., 2009).

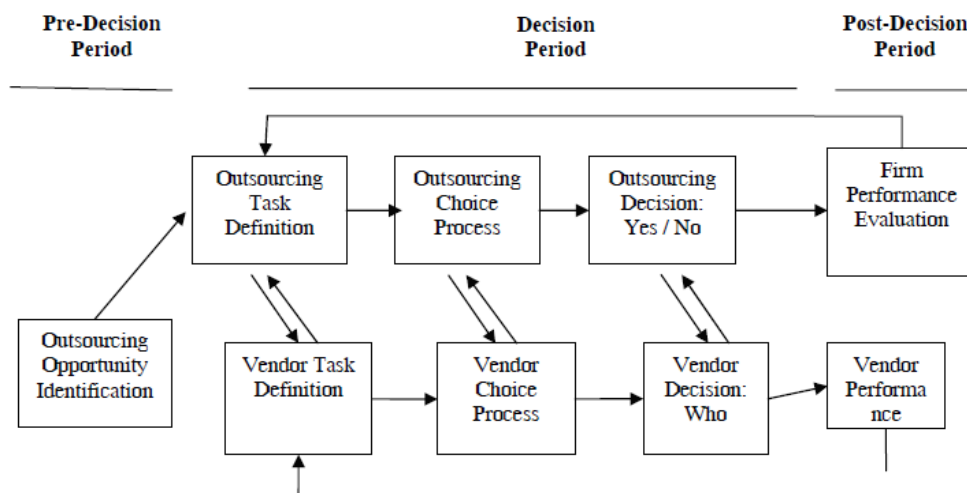


Figure 1 Organizational Decision-making Process for Outsourcing

4. Advantages of Outsourcing

- Core activities of the business take center stage. Outsourcing non-core activities such as administration and back office operations helps to put the focus back on the core functions of the business, such as sales and marketing.
- One of the biggest advantages of outsourcing is cost savings. The lower cost of operation and labor makes it attractive to outsource.
- Outsourcing reduces overhead costs that usually come with running back-end operations.
- When certain functions of an organization become operationally uncontrollable, outsourcing helps to overcome such difficulties.
- A company's cash-flow can be streamlined.
- By increasing productivity and efficiency, a business can be more successful and better-prepared for market challenges.
- Outsourcing frees an organization from investments in technology, infrastructure and people that make up the bulk of a back-end process' capital expenditure.
- Outsourcing gives businesses flexibility in staffing and manpower management. Since the service provider is

responsible for managing the workforce, you save costs and can also pick the best people to run your core functions.

5. Disadvantages of Outsourcing

- One of the biggest disadvantages of outsourcing is the risk of losing sensitive data and the loss of confidentiality. It is important, therefore, to have checks in place to avoid data loss.
- Losing management control of business functions mean that you may no longer be able to control operations and deliverables of activities that you outsource.
- Problems with quality can arise if the outsourcing provider doesn't have proper processes and/or is inexperienced in working in an outsourcing relationship.
- Since the outsourcing provider may work with other customers, they might not give 100% time and attention to a single company. This may result in delays and inaccuracies in the work output.
- Hidden costs and legal problems may arise if the outsourcing terms and conditions are not clearly defined.
- If important functions are being outsourced, an organization is mightily dependent on the outsourcing provider. Risks such as bankruptcy and financial loss cannot be controlled.
- Not understanding the culture of the outsourcing provider and the location where you outsource to may lead to poor communication and lower productivity.

6. Hospital Outsourcing in Turkish Health System

Hospitals have for a couple of years sought relief from financial pressure by outsourcing some of the services that do not belong to their core competences, such as IT services, catering and cleaning. But not all the expectations of the late 1990s for this strategy have been fulfilled (Thalmayr, 2005). This is true for both sides of the market. Neither hospitals nor service firms have been entirely satisfied. Hospitals have sometimes complained about the quality of the services which they receive from outside and the service firms have had their hopes of higher profits dashed.

One of the main problems, especially in the area of technical and facility management, was the fact that many service firms have underestimated the problems associated with servicing an institution like a hospital which in many regards is different from industrial clients. Therefore, hospitals complained about the low quality of the services provided from the outside compared to those they were used to. Own personnel was much more integrated into the daily life and the procedures of the hospital and understood more easily the problems and needs of doctors and patients than outside firms used to quite different environments. Although the purely technical side of facility management, for example, does not differ fundamentally between hospitals and other areas like industrial firms or administrative units, nevertheless those service firms which undertook no special efforts in adapting to hospitals failed.

In Turkey, outsourcing is used for cleaning, security, laundry, ground services, labs, x-ray visualization, cooking service, information system and care services. Almost all of the services except management, treatment and nurse services, is provided by outsourcing systems. In recent years, for example last year a big scale hospital has 1473 employer for outsourcing sector which have totally 2215 employer. It has cost 13% of total cost. In 2014, It has 11% and in 2013 was 9%. This shows that in Turkish health sector, outsourcing is grow up rapidly.

References

- Burkholder N. C. (2006). *Outsourcing: The Definitive View, Applications and Implications*, John Wiley & Sons, Inc.
- Foxx W. K., Bunn M. D. and Mccay V. (2009). "Outsourcing services in the healthcare sector", *Journal of Medical Marketing*, Vol. 9, No. 1.
- Schonteich M. (2004). "Outsourcing: Risks and benefits (Chapter 2)", in: M. Schonteich, A. Minnaar D. Mistry, & K. C Goyer (Eds.), *Private Muscle: Outsourcing*, Monograph No. 93, Pretoria: Institute for Security Studies.
- Young S. (2005). "Why outsource and what makes it work? Alternative arrangements for work in the health sector in Reworking Work AIRAAN", in: *Proceedings of 19th Conference of The Association of Industrial Relations Academics of Australia and New Zealand*, Volume 1 refereed papers.
- Hodge G. (1996). "Contracting out government services: A review of international evidence", Monash University, Melbourne.
- Tushman M. (1977). "A political approach to organizations: a review and rationale", *Academy of Management Review*, Vol. 2, No. 2.
- Koçel T. (2005). İşletme yönetimi, 10, Basım, Arıkan Basım Yayın Dağıtım Ltd. Şti. İstanbul.
- Kakabadse A. and Kakabadse N. (2000). "Sourcing: New face to economies of scale and the emergence of new organizational forms", *Knowledge and Process Management*, Vol. 7, No. 2.
- Hatch M. Jo. (1997). *Organization Theory: Modern Symbolic and Postmodern Perspectives*, Oxford University Press.
- Thalmayr M. (2005). "Outsourcing – Die zweite Welle", kma–Das Magazin für die Gesundheitswirtschaft,
- Hazelwood S. E., Hazelwood A. C. and Cook E. D. (2005). "Possibilities and Pitfalls of Outsourcing", *Healthcare Financial Management*, Vol. 59.
- Sasser W. E. (1976). "Match supply and demand in service industries", *Harvard Business Review*, Vol. 54, No. 6.
- Lovelock C. (1984). *Services Marketing*, Prentice-Hall, Upper Saddle River, NJ.
- Kremic T., Icmeli O. and Rom Walter O. (2006). "Outsourcing decision support: A survey of benefits, risks, and decision factors", *Supply Chain Management: An International Journal*, Vol. 11, No. 6.
- Eliot L. B. (1998). "Outsourcing of organizational functions", *Decision Line*, A News Publication of the Decision Sciences Institute, Vol. 29.