PhD Research Proposal

DECISION MAKING IN OUTSOURCING SUPPORT SERVICES IN THE UK PUBLIC HEALTHCARE

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1.0 BACKGROUND TO THE RESEARCH

Outsourcing of support services is not a new concept (Russell and Taylor, 2003; Yang and Huang, 2000; Yang et al., 2007; Winkleman et al., 1993). For a long period businesses have outsourced non-core services such as catering, accounting, information technology, payroll or using outside 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 service providers in strategically important activities (Sanders et al., 2007). Momme and Hvolby (2002) argue that outsourcing should be considered a dynamic process as any decisions concerning outsourcing should be in line with the strategic direction of the organisation.

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 are that it belongs to the people, is accountable to the people, embodies the values of the community, can concentrate resources on the poorest, and is able to provide the geographical spread of services. 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), reveals that one third of all public sectors services worth £79 billion are delivered by the private sector. The government claims it outsources to achieve value for money rather than lower costs. The Work and Pensions Secretary, cited in Hayward and McNestrie (2009), announced 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 this involves health, life and welfare of patients (Peisch, 1995). The factors that distinguish hospitals from other business venture are the facilities are open 24 hours a day, 7 days a week and 365 days a year as hospitals provide particularly complex services and a mistake can cost a life (Lennerts, 2009). Therefore, these characteristics demand exceptional operating conditions.

Due to the increasing trends towards outsourcing, managers are feeling the pressure to make the right sourcing decisions as the effect on 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 this decision will affect flexibility, customer service and core competencies of the organisation (McIvor, 2000). As such, this study will look into the decision making process in outsourcing support services in the public healthcare context. The following sections detail the research problem as an initial step for this research.

2.0 THE PROBLEM STATEMENT

A research problem is an issue or concern that needs to be addressed (Creswell, 2003). Creswell (2007) further added that the intent of a research problem is to provide a rationale or need for studying a particular issue or problem. This research problem can be derived from personal experience, a job-related problem, research agenda or scholarly problem. For this particular study, the research problem is explained further in the following paragraphs.

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 contract for a 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 is growth in the outsourcing. This happens as additional knowledge is required in relation to outsourcing 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, concept, philosophies, procedures, methodologies and practices of outsourcing. Half of all outsourcing agreements fail because organisations neglect appropriate analysis (Hall, 2003). Furthermore, Meisler (2004) concluded that lack of analyses on outsourcing decisions is the main contributor for 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 which were 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; Sislan 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 the outsourcing decision making in the public sector particularly in the healthcare sector. The next section is the review of the literature.

3.0 LITERATURE REVIEW
3.1 OUTSOURCING

3.1.1 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 of 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.

3.1.2 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) defines 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 exists inconsistencies and lack of clarity in the way in which the personnel within organisations interpreted the core competence of the organisations. 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 customers changed.

3.1.3 Strategic Outsourcing

As organisations evolved and developed greater capabilities, the sourcing requirements changed (Sanders et al., 2007). Van Heok (1999) emphasised that the correct balance between in-sourcing and outsourcing differs between industries; and organisations within industries (Blumberg, 1998). An outsourcing strategy can be visualised as having two important features namely: breadth and depth. Breadth is the number of activities (such as accounting, maintenance and security) to be outsourced as a percentage of the total number of activities in the organisations. Depth is the extent to which organisations outsourced that activity on average (Gilley and Rasheed, 2000). Gilley and Rashid proposed that outsourcing strategy will be developed from the breadth and depth dimensions.

It has been argued that outsourcing decisions are rarely considered strategically (Lonsdale and Cox, 1998; Barragan et al., 2003) whereby most organisations are keen to outsource merely to reduce costs (McIvor et al., 1997; Ngwenyama and Bryson, 1997; Canez et al., 2000). Hence, outsourcing should not only be viewed as a cost cutting exercise; it has a strategic agenda as the organisation tries to acquire the optimum size to fit new environments (Rothery and Robertson, 1995). Through strategic sourcing, organisations can lower their long term capital investments and leverage their key competencies significantly (Quinn and Hilmer, 1994). Outsourcing has emerged as an important business approach whereby competitive advantage may be gained as services are produced more effectively and efficiently by service providers (Yang et al., 2007). Furthermore, sourcing decisions based on cost only will lead to the deterioration of the organisation itself (Welch and Nayak, 1992).

3.2 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).

3.2.1 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 Chief Executive Officers (CEOs) power, the delegation of authority and the performance of an organisation. The decision to outsource for critical activities should falls under the responsibility of top management (Baily 1987; Baily and Farmer, 2008) as this can avoid sub-optimisation (Branemmo, 2006). However, involvement from 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 consist of multiple sections. However, there are circumstances whereby outsourcing decisions gravitate away from the centre of the organisation, as most outsourcing was 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). From the literature reviewed, there is no evidence of research found on the persons involved in decision making in the United Kingdom healthcare sector.

3.2.2 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 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 will outsource their expertise on those commodity-like and matured activities that have minimal or no impact on the 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 organisation. 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 be very important to the running of the business, thus extra careful need 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 the 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 activities 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 such as to preserve jobs (Venkatesan, 1992).

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

As for the healthcare sector, outsourcing occurred 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 outsourced in public healthcare sector were cleaning, security, cafeteria, legal and clinical/equipment maintenance. On the other hand, the activities being least outsourced were laundry, laboratory and food. Moreover, literature from 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.

### 4.0 AIM, OBJECTIVES AND RESEARCH QUESTIONS

The aim of the research is to develop a decision making model in outsourcing support services for public hospitals in the United Kingdom. To arrive at the said aim, these objectives have been formulated as follows:

1. To review the Government policies towards the outsourcing of support services in the public healthcare sector in the United Kingdom;
2. To investigate the outsourcing decision making process currently practised by public healthcare;
3. To identify the persons involved in the outsourcing decision making process in the public healthcare;
4. To identify support services being outsourced in the public healthcare and the reasons for selecting these services
5. To analyse how these support services are selected;
6. To develop and test a suitable model that embedded the key factors to be included when deciding to outsource support services in the public healthcare.

The aim and objectives will be informed by the research questions formulated as follows:

1. What is the Government policy on outsourcing support services in the public healthcare sector in United Kingdom?
2. What are the current practices of decision making in outsourcing?
3. Who are the people involved in the decision making process?
4. What are the activities being outsourced?
5. Why are these activities outsourced?
6. How are these activities selected for outsourcing?

5.0 RESEARCH METHODOLOGY

5.1 RESEARCH APPROACH

There are basically three approaches to research namely quantitative, qualitative and mixed methods. Therefore, three considerations play into this decision i.e. the research problem, the personal experience of the researchers and the audiences for whom the report will be written (Creswell, 2003).

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, identify variables that can be measured or hear silenced voices, rather than use a predetermined information from the literature or rely on results from other research studies. It is also conducted because researchers also need complex, detailed understanding of the issue which are established by talking directly to people, going to their home etc. As the author needs a detailed understanding of the complex process involved in outsourcing decision making, interviewing the person(s) involved will be carried out. Therefore, the research approach adopted for this particular study is a qualitative approach.

5.2 RESEARCH STRATEGY

Research strategy is referred as “a framework for analysis, something that will give structure to the enquiry and make the researcher think of methods of data collection and sources” (Grix, 2001). There are a number of research strategies that can be adopted for a research. According to Yin (2009), each 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 4: Relevant Situations for Different Research Strategy

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

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

Yin (2009) asserts that when the research questions focus mainly on ‘what’ questions, one of the 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 question which enquire as to ‘how’ and ‘what’ can be considered as a 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 author does 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.

5.3 RESEARCH DESIGN

Research designs are about organising research activity including collection of data, in ways that are most likely to achieve the research aims (Easterby-Smith et al., 2008). The design of the case study will be informed by the following paragraphs.

5.3.1 Case 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 than single case study as 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 cited in Yin, 2009). 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 goes. Creswell further asserts that there is no set number of cases to be adopted; commonly researchers choose no more than four or five cases in a study.

5.3.2 Unit of Analysis

Unit of analysis can include individuals, groups, organisations, social categories and institution (Neuman, 2006). Meanwhile Creswell (2007) opines that a unit of analysis for case study could be the studying of events, a program, an activity, or more than one of these. It is possible for researchers to mix units of analysis, but there is a need to distinguish between them in the study and remain aware of their relationship with the level at which it is being conducted (Grix, 2001). For this particular study, the unit of analysis of this study is the process of outsourcing decision making in a public hospital.

5.4 RESEARCH TECHNIQUE

Research techniques are the collection of primary and secondary data and the analysis method for both sets of data (Saunders et al., 2007). The following sections describe the data collection and data analysis techniques to be adopted in this research.

5.4.1 Data Collection Technique

Creswell (2007) identifies four basic data collection methods 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 namely 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 the semi-structured interview, as the main technique for the data collection.

Triangulation in the data collection method can help by encouraging 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.

6.0 EXPECTED CONTRIBUTION TO KNOWLEDGE

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 to the healthcare sector in particular. At the end of this study, a decision making model will be developed and this will facilitate the healthcare sector in its sourcing decision making.
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