

**INFLUENCE OF OWNERSHIP PATTERN ON  
OUTSOURCING PRACTICES: STUDY OF HEALTH CARE  
INDUSTRY**

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## ABSTRACT

Economic pressure and competition on health care organizations require them to be efficient and redefine their core competencies. Strategy development involves matching an organization's internal resources, skills and competencies with its external environment. In outsourcing, a firm contracts out an in-house activity or function to another company. Outsourcing is a topical issue and is common across the industries and functions. This aim of thesis research was to investigate the extent and intent of outsourcing in hospitals and to identify the influence of hospital ownership on outsourcing practices. The findings of this research revealed that outsourcing is a common phenomenon in health care sector and is likely to intensify in future. Hospitals outsource both clinical and non-clinical activities. Moreover, the reasons for outsourcing and for refraining from outsourcing healthcare services were also indentified. Further to this, the ownership pattern influences the extent and intent of outsourcing in hospitals.

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### CHAPTER 1: INTRODUCTION

*The first chapter of this thesis puts forward an introduction of the subject matter of the thesis. First, a brief background of the research area is presented. This includes importance of health and healthcare sector; and linkage of outsourcing to strategic management. This is followed by the overall purpose of the research, research objectives and justification of the research. The chapter ends with an outline of the thesis and chapter summary.*

#### **1.1 Background of the Research:**

Health is a key driver of socioeconomic progress of a country. Health development is directed by ethical principles of equity. Poor health inhibits individuals from realizing their full potential. Good health has a positive, sizable, and statistically significant effect on aggregate output of an economy (Bloom, Canning, & Sevilla, 2001). (Bloom et al., 2001).

United Nations (UN, 2007) puts reduction of child mortality, improvement of maternal health and prevention and treatment of chronic diseases among its millennium development goals. The present era observes an unmatched increase in public and private expenditure on health (WHO, 2007). The constraints on public funding made situation worst. It amplifies economic pressure on healthcare organizations for better clinical and organizational performance and to be efficient (Fine, 2002).

The groundbreaking work of Prahalad & Hamel (1990a) resulted in a lot of discussion in the area of “core competence”. Lei, Hitt, & Bettis (1996) defined firm’s core competencies as a

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set of problem-defining and problem-solving insights. A firm's competitive advantage is derived from this unique knowledge (Spender, 1996). Ross, Wenzel, Mitlyng, & NetLibrary (2002) argued that understanding of core competencies in health care industry is crucial than any other industry. McIvor (2000b) suggested that outsourcing has emerged from a tactical short-term approach to a more strategic approach that seeks to achieve and sustain competitive advantage. Grant (1996) perceives the organizations as "a unique bundle of idiosyncratic resources and capabilities where the primary task of management is to maximize value through the optimal deployment of existing resources and capabilities". Strategy is "the match an organization makes between its internal resources and skills, and the opportunities and risks created by its external environment" (Grant, 1991). Teng, Cheon, & Grover (1995a) suggest the firm is not limited to exploiting its own stock of resources and capabilities while making strategy. In such a situation, outsourcing is a viable option (Teng, Cheon, & Grover, 1995b)

Outsourcing received enormous attention in the recent times (Amiti & Wei, 2005; Maloni & Carter, 2006; Selviardis & Spring, 2007). A 2003 survey of US and European companies by Michel (2004) showed that around 22 percent companies were outsourcing and nearly half of the companies had plans to outsource their functions. Moreover, 83 percent of large manufactures were using third party logistics provider. Outsourcing can be described as a practice whereby one firms contract out an in-house activity or function that it cannot do well to another company that do (Snyder, 2005). It enables an organization to focus on its handful of core competencies and hire out rest of the business functions to outside contractors (Porter, 2000).

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Outsourcing is common across industries and functions ranging from call centers, medical diagnosis, financial services, tax preparation, software development, etc. (La Londe, 2004) to manufacturing outsourcing to information technology, human resources and marketing and sales (Porter, 2000). Even outsourcing of product design and prototyping of complex products was also evidenced in automobiles industry (Gunter & Melchiori, 2001).

Outsourcing enables an organization to benefit from other organizations' capacity, capabilities and technologies. It frees organization's physical and monetary resources to be spent on its core competencies (Fisher, 2004). The reduced debt and risk resulting from outsourcing gives flexibility (Hogan, 2004). La Londe (2005) suggest that outsourcing converts organization's fixed cost into variable cost giving it flexibility. Outsourcing improves organizational learning (Schlosser, Timpler, & Ghanam, 2006) and provides access to latest technology without substantial investment otherwise required (J. B. Quinn, 1999).

Greer, Youngblood, & Gray (1999a), Laabs (1998), Belout, Dolan, & Saba (2001) and Stroh & Treehuboff (2003) argued that in addition to various benefits, outsourcing also faces many challenges. It may result in permanent loss of in-house expertise when HR functions are outsourced. Organizations handover some control over processes and related strategic issues relating to the outsourced functions.

Vu (2004) states "there is nothing left that's unique, that's proprietary, that's distinctive. It's merely a web that brings together all the various sundries and suppliers. It becomes a completely hollow shell, and it can be blown away with the slightest of pressures". Schlosser et al (2006)

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suggest that outsourcing may negatively affect workers' commitment to the workgroup as they perceive temporary bond with the company and may also experience conflicting loyalties as they are to work for competing firms.

### **1.2 Purpose of the Research:**

The above discussion indicates the importance of healthcare sector and its associated problems. It also put forwards outsourcing as a strategic choice for business organizations. This thesis is developed to investigate the extent and intent of outsourcing in hospitals and to identify the influence of hospital ownership and hospital size on outsourcing practices. It is envisaged in this research that outsourcing extent and intensions significantly differ between public and private hospitals. Moreover, the size of the hospital (measured in terms of number of bed) also influences the outsourcing extent and intensions.

### **1.3 Objectives of the Research:**

Base on the purpose of the study, the objectives of the research are:

1. Identification of extent of services outsourced in hospitals.
2. Identification of reasons for outsourcing as well as reasons for refraining from outsourcing in hospitals.
3. Exploration of extent of outsourcing practices in both public and private sector hospitals and the influence of hospital size on outsourcing extent.
4. Exploration of intent of outsourcing practices in both public and private sector hospitals and the influence of hospital size on outsourcing intent.

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5. Exploration of constraints towards outsourcing practices in both public and private sector hospitals and the influence of hospital size on constraining factors.

### 1.1 Justification of Research:

Hospitals require investment in space, people, equipment and management. Health care market is characterized by escalating costs, limited resources, and increased competition which compels decision makers to explore novel ways to improve organizational efficiency (Magnezi, Dankner, Kedem, & Reuveni, 2006). Billi, Pai, & Spahlinger (2004) divided clinical services into the one which support an institution's strategic goals and core missions and other services that provide support indirectly through margin contribution or clinical support to other critically important areas. Hospitals outsource by transferring all management responsibility to an outside organization specializing in the relevant areas (Kakabadse & Kakabadse, 2000). It enables hospitals to widen its business activities supporting the core competencies (M. K. O. Lee, 1996). King (2000b) elaborated how hospitals benefited from vendor's expertise and economies of scale. Hospitals outsource a variety of services ranging from housekeeping staff to lease of medical equipment and advanced medical services (Mackey, McNeil, & Klingensmith, 2004 Renner & Palmer 1999, Magnezi et al. 2006). Taylor & Blair (2001) reported variety of outsourcing practices in health care sector including specialized clinical services, non-clinical as well as clinical support services, construction, etc. Yigit, Tengilimoglu, Kisa, & Younis (2007) reported that hospitals choose to outsource in order to decrease cost (78.8%), increase the quality of services rendered (65.5%), increase flexibility and share risk (36.6%) and increase profits

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(11.2%). Furthermore, cost analysis and risk analysis were part of the decision to outsource in 63.3 percent and 38.8 percent of the hospitals, respectively.

### 1.2 Thesis Structure:

The thesis in hand consists of six main chapters.

Chapter 1 **Introduction** gave general overview and importance of the thesis topic by describing background and justification of research problem. It also provided specific purpose of research and related objectives and overview of structure of the thesis.

Chapter 2 **Literature Review** gives the relevant literature on outsourcing. It encompasses relevant researches depicting various definitions of outsourcing, trend of outsourcing across industries and functions, importance of outsourcing as an issue and factors influencing the outsourcing decisions.

Chapter 3 **Theoretical Framework and Research Objectives** presents the discussion on the problem areas and detailed objectives of the research.

Chapter 4 **Methodology** explains and justifies in detail the selected research approach used to accomplish the set research problems. It specifically focuses on study design, population definition, target population, sample size, sample selection technique, surveying technique, characteristics of instruments, explanation of research technique, timing of research, etc.

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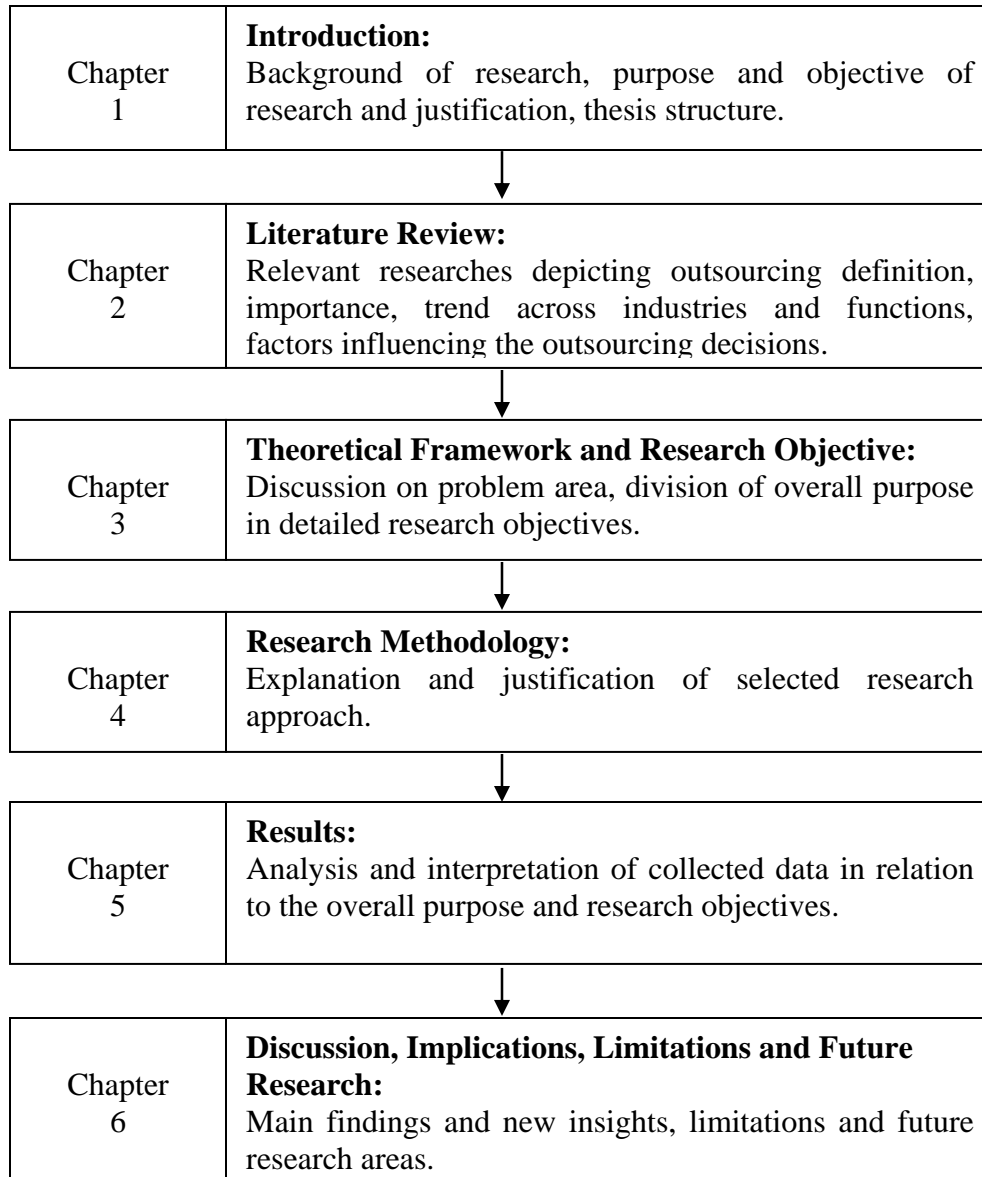
Chapter 5 on **Result** reports analysis and interpretation of collected data in the form of various tables, graphs and pictures along with discussion on the research problem and objectives. It facilitates readership by adopting a step-by-step approach where findings are related to corroborate specific research questions.

Chapter 6 **Discussion, Implications, Limitations and Future Research** closes the thesis. It discusses the main findings by referring back to the purpose of the research and specific objectives and relating it to the findings; and implications. It also addressed limitations and future research areas.

Figure 1-1 illustrates the structure of the thesis.

**Figure 1-1: Thesis Structure**

**Figure 0-1**



### 1.3 Chapter Summary:

This chapter put forward the background of the topic of research, purpose and objectives of research and justification of the proposed study. This chapter elaborated that health is an important area of study. Hospitals are facing challenges in managing investment in space, equipment, facilities and people. Outsourcing is a strategic tool that can facilitate health care organizations in meeting the challenges posed to them. The purpose of this thesis is to investigate the extent and intent of outsourcing in hospitals and to analyze the influence of hospital ownership and the size of hospitals on them. Chapter two will now present the literature review relevant to the purpose of the study.

### CHAPTER 2: LITERATURE REVIEW

*The previous chapter presented the background information on the research area, which his followed by purpose, objectives and justification of the research. The following chapter reviews the relevant literature on outsourcing. The aim of the chapter is to provide an operational definition of outsourcing, establish the importance and relevance of the topic and develop a focus on the topic by extracting relevant literature on the subject matter. As a starting point the chapter explains the concept of outsourcing and recent themes on outsourcing. Then it goes on explaining factors influencing the outsourcing decision (both supporting and constraining factors). The section is composed of a description of reasons to outsource activities or to keep them in-house. Thereafter, next sections explain the outsourcing process, diversity across countries, industries and functions. Finally, a brief profile of outsourcing in Health Care Sector followed by the summary of the chapter.*

#### **2.1 What is Outsourcing?**

Outsourcing can be loosely defined as delegation of firm's in-house activities to an independent outside supplier (Maskell, Pedersen, Peterson, & Dick-Nielsen, 2007). Gilley and Rasheed (2000) argued that outsourcing is the substitution of an organization's internal activities with external purchases. It reduces the organization's involvement in internal activities.

Outsourcing is regarded as an area which has productivity implications on other functional areas and is a strategic decision (Schlosser et al., 2006). Outsourcing appears to be a phenomenon where a firm buys services (which forms part of the value chain of the business) from another