Lessons Learnt from Literature: Exploring Outsourcing in Rural Hospitals and Health Services in Tasmania

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Introduction

The focus of this paper is on the literature exploring outsourcing, its principles and rationale and its application in rural hospitals and health services in Tasmania.

While only a relatively small body of literature exists directly relating to the practice in hospitals and health services in Australia, literature related to workforce issues in rural areas represents a major body of research. Workforce issues in rural Tasmania contributing to the growth in outsourcing health care services are dramatically exacerbated by its fast becoming Australia's state with the oldest population and increasing shortages across the full range of health care professions being of concern.

While a major and highly successful trend in business management, literature related to outsourcing applied to health care services reveals far more complex issues involved in the implementation and modes of delivery. Where literature on health care outsourcing services in hospitals show and delineate various drivers and modes of delivery, the principle of outsourcing, applied to small rural hospital and services globally appears increasingly primarily based on tactical imperative. Outsourcing as a tactical imperative reveals workforce issues pertaining to aging population, chronic disease and the need of innovation in government and cross-sector planning and use of healthcare in current health care policy documents (Report, 2005).

This paper examines research gaps which are present in health outsourcing practices and lessons learnt from the literature for rural Tasmanian hospitals and health services.

The national context of health outsourcing

Australian social policy historically shows a unique relationship between state and civil society, whereby charities and non-governmental organisations (NGOs) have played a major role in government attempts to create a private welfare sector of welfare NGOs from the early 1820s onwards (Brennan, 1998). From the 1980s to 1990s, both federal and state governments attempted to reshape the provision of community services and reframe important elements of the relationship between state and civil society. Both Labour and Coalition governments shared the desire to reform public sector administration and develop new relationships between market, state and public sector and welfare NGOs. Radical transformations, begun in the 1970s, were most fully expressed in the Coombs Report (1976), resulting in changes in the composition of public services, which brought about a re-think of what the public sector does (Alford and O'Neill, 1994) and how it should equate to private sector and civil society, reframing users of services as 'consumers' rather than 'citizens'.

The Australian Government's National Competition Policy (NCP) set in motion the most extensive economic reform program in Australia's history. It was implemented in 1995 by the Council of Australian Governments (CoAG) in accordance with Section 7 of the Industry Commission Act 1989. State Governments' response to the NCP agreement when introducing competitive neutrality principles through the application of outsourcing varied enormously. While it was claimed (Fairbrother et al., 2002) that Victoria had made the greatest privatisation advances of all Australian states in the break-up and sale of state utilities and other government monopolies (Young, 2005), Tasmania was seen as setting a benchmark in the implementation of State Partnership Agreements. The Review of Progress Improving Efficiency and Effectiveness of Local Government, Application of National Competitive Policy to Local Government (NOLG and Publications, 2003, 2002-2003) published the implementation of the Partnership Agreements Program as a program allowing the two levels of government to work together to improve economic, environmental and social development at the local, regional and state-wide level. The successfully implemented Partnership Program between the Tasmanian State and Local Governments was seen as a major and first-of-its-kind reform achieved across all Australian States (ibid). How then does national policy effecting outsourcing relate to Health Care issues in Tasmania?

Tasmania's performance, outlined in the National Competition Council Assessment (NCCA, 2004) reviewing reform legislation, has been seen as excellent, as 82% of its stock legislation, 82% of its priority legislation and 95% of its non-

priority legislation had been reviewed and, where necessary, been reformed. Reviews in relation to health services and professionals encompassed the Medical Practitioners Registration Act 1996, Optometrists Registration Act 1994, Pharmacy Act 1908 and a number of Acts under the umbrella of drugs, poisons and controlled substances (NCCA, 2004).

In the Inquiry into Health Funding Submission of May, 2005, the Australian Local Government Association (ALGA) gives particular attention to:

'the roles and responsibilities of local government with regard to health and related services, funding arrangements and better defining roles and responsibilities between different levels of government' (ALGA, 2005a).

The ALGA (2005a) report showed that health services administered by local government concentrate on planning, coordination, policy development and, in many cases, direct service provision of population-based public health services to their local communities. The services and activities provided by local government include environmental health activities (environmental protection); development and implementation of public health policies (water, air or food standards); health promotion and preventative health program and services (health inspections, food, child health, community hospitals, mental health programs and services); recreational and leisure facilities; promotion and increment of resident access to health services (specific languages information).

Key issues emerge from the ALGA report, related to medical services and the declining community access to primary and acute health services. The ALGA (2005b) submission shows the impact of the medical shortages in that, while access to health care is a federal and state government responsibility, local governments have increasingly become engaged in the recruitment and retention of health professionals, resulting in increasing rural GP practices that will be owned by Local Councils. In its 2005 Inquiry into Health Funding, ALGA welcomed the establishment of the Australian Government's $15 million Rural Medical Infrastructure Fund targeted to assist rural Councils to recruit and retain GPs. Nevertheless, outsourcing effects on rural health services have not been examined in any degree of depth.

What is outsourcing?

Competition, as the central concept of privatisation under which outsourcing operates, enables private sector providers to offer services to a wide range of stakeholders, including public institutions. Definitions of outsourcing touch on contract, 'outside', variety of methods of contracting for labour; external agency responsibility; contrasting activities; 'in-house'. Outsourcing is a relatively recent addition to dictionaries (1980s) and is not included in Roget's Thesaurus. The Oxford English Reference Dictionary 1996 (Pearshall and Trumble, 1996) simply states: 'outsource: obtain (goods etc) by contract from an outside; contract work out – outsourcing' (p.1034), the emphasis being on 'contract'.

Amiti and Wei (2004) suggest that, to date, there is no agreement on the term outsourcing; the American Heritage Diction defines outsourcing as 'the procuring of services of products ...from an outside supplier or manufacturer in order to cut costs', saying some people interpret outside to mean outside the firm and others outside the country, both the usages being common and emphasising the 'outside' aspect.

Young (2000) suggest that the term has been defined in a variety of ways and refers to a 'variety of methods of contracting for labour' (p. 99), ranging from traditional sub-contracting, to employees tendering for the provision of a service that they provided while on the payroll, to the full tendering service of a tendering process or function to an outside organisation seen as 'the phenomenon of transferring services to a third party that had traditionally been carried out in-house' (p. 99). Outsourcing is defined for this study as the conscious decision and action to move one or more internal activities to an external vendor (Borg, 2003). According to Borg, different categorisations of outsourcing include primary and secondary value chain outsourcing; selective and full outsourcing; and tactical and strategic outsourcing.

Kakadadse and Kakadadse (2003) raise the issue that the term is applied to a range of at times contrasting activities. While there are a variety of opinions related to defining outsourcing, Young (2003) also notes that major elements are, first, the third party should be outside the normal employment conditions that govern traditional employees of the organisation and, second, the functions should have been previously conducted in-house.

In negotiating outsourcing and healthcare IT, Suomi and Tankapaa (2004) propose a concept of governance which can be applied to overall management in healthcare; governance is 'a structure giving meaning and rules to an exchange relationship' (p.359), whereby it does not only mean management, but a reciprocal relationship between management and governance structures. Meaning and rules refer to both motivation and guidance functions of exchange relationships; governance structures guide and refer to something meaningful, aimed at eliminating negative behavioural effects in exchange relationships, such as opportunism. They also contribute to quality control. The rules or guidance functions contain three types of entities:

- Rules on how an exchange relationship can be entered
- Rules on how to perform an exchange relationship
- Rules on how to control and follow-up an exchange relationship.

Reasons for outsourcing

There is very little literature on service outsourcing; studies on service outsourcing and employment effects have mainly been conducted by management consultants, mainly focusing on the economic aspect as a management strategy and examining outsourcing in terms of business processes (Klotz and Chatterjee, 1995, Kiel, 1997, Chalos and Sung, 1998, Barney, 1999). The main body of Australian literature directly addressing issues and causes of outsourcing in the health care services consists of case studies of rural and major hospital outsourcing (Young, 2003 and 2005), with Young's (2003) evaluation of the application of economic theory in relation to outsourcing firstly carried out at a single-site hospital.

Corbett (2005) suggests that the reasons for outsourcing for company management include lower costs; improved service; obtaining expert skills; improved processes; improved focus on core activities; however, except for two or three very specific examples, companies primarily outsource to reduce their costs. Examining further reasons for outsourcing, Young (2005), similarly to Corbett (2005), arrives at six core reasons:

- probing the economic causes of outsourcing, the premise that managers want to reduce costs and increase efficiency (Williamson, 1979);
- focus on core competency, raised by Porter (1980 cited in Young, 2005, p.27);
- corporate strategy theory;
- workforce flexibility (Atkinson, 1984 cited in Young, 2005); to reduce the problems of managing industrial relations, said to increase management power over labour, hence weakening the power of trade unions;
- political and public choice in dealing with outsourcing; and
- the desire to align public sector agencies with the ideology of the government providing the funding (Feigenbaum and Henig, 1994 cited in Young, 2005). The motives behind this reasoning, she suggest, 'assumes that decision makers are motivate by a desire for power and see this being fulfilled by acting in the interests of the government' (p.27).

Young's (2005) findings support different reasons for health outsourcing related to management; her study examines reasons and approaches used in three health organisations, introducing outsourcing in both clinical and non-clinical areas. Based on the six reasons for outsourcing, she concluded that an overarching view was that, by responding to government ideology about outsourcing, costs would be reduced; however, for specific decisions made on different bases (i.e. characteristics of labour market, employee skill levels), the perception was inconsistent. Further, the use of outsourcing to solve staff-management issues was not always effective, as contract managers were unaware of specific requirements of hospital services. The use of outsourcing in problematic internal relationships generally improved relationships and staff morale, alongside long contractual terms, where culture and values began to be shared. Young (2005) concluded that the power of managers was a moderating factor between the desire for outsourcing and whether outsourcing actually occurred.

Outsourcing in health services

As noted earlier, other than Young's work, Australian research literature on the subject of outsourcing in health care services and its implications is limited. The central body of literature appears to emerge from a management and an IT-based perspective. Issues surrounding health care outsourcing being linked to pressures on health care services emerge, however, as major global and national concerns in the literature surrounding the workforce shortages of health care professionals, particularly in rural areas (Nancarrow, 2003, Report, 2005, Duckett, 2005a). Global mobility of the health care workforce exacerbates shortages in rural areas world wide (Moran et al., 2005). Nancarrow et al. (2003) find that there has been little analysis of the evolution of the workforce as a whole and across the professional boundaries in the healthcare workforce; changes have been discussed from individual disciplines, yet the dynamics of each are linked to the inter-relationship between components of the workforce and they should be taken into account as well.

The drivers for outsourcing in rural hospitals and health services can be summarised in the diagram on page 13:

Drivers for outsourcing in rural hospitals and health services

The recent Productivity Commission Report on Health Care in Australia (Report, 2005) addresses the major issues that underlie outsourcing of healthcare in rural Australia, i.e. workforce shortage and aging populations particularly in rural and remote Australia. Among its initiatives and systemic changes, it emphasises a grater emphasis on multidisciplinary care along with new education and training models. The Australian Health Care economist, Duckett (2005b) argues that future workforce planning should not be based on providing more of the same; rather roles of professionals need to change along with workforce planning emphasising workforce substitution, i.e. creating a different mix of responsibilities, requiring changes in educational preparation and increasing emphasis on inter-professional work and common foundation learning.

## What are the disadvantages of outsourcing?

Disadvantages and problems associated with outsourcing show dependence on vendors; failure to realise higher costs; loss of control, including strategic flexibility; lower morale among permanent employees; and organisational resistance along with lack of transparency in cost structures (Borg, 2003, Chabrow, 2005). Early studies (Quiggin, 1994) find that there is strong evidence that competitive tendering and contracting leads to cost savings for governments (Commission, 1996a and 1996b), but there is little agreement as to whether these cost savings are primarily realised through improvements in operating efficiency, or by shifting cost burdens from governments to employees and service users.

The case for outsourcing on the grounds of efficiency–enhancement (and cost reduction) is not easily substantiated; Jenson and Stonecash (2004) observe that heterogeneity in service provision outputs is common:

> Public and private schools, hospitals, and social services rarely have the same kinds of students, patients, or clients. Most studies comparing public and private organisations lack any evidence about the quality of services, thereby making it difficult to judge whether lower costs result from greater efficiency or reduced service (Starr, 1988 cited in Jenson and Stonecash, p.8)

Overseas studies surveyed by the Productivity Commission showed that service quality had generally declined following contracting out (Ascher, 1987 cited in Fraser & Quiggin, 1999), while others found no evidence of statistically significant change(Savas, 2000). Humphry (2000) further noted that:

> The debate over cost savings has tended to obscure other benefits, which can arise from properly implemented outsourcing such as wider access to technology and technical skills, strategic partnership in a dynamic technical environment and an opportunity to manage capital expenditures more effectively (p.24).

Literature on the disadvantages of outsourcing focuses on loss of control and questions the basic ideology behind of cost savings and its implications.
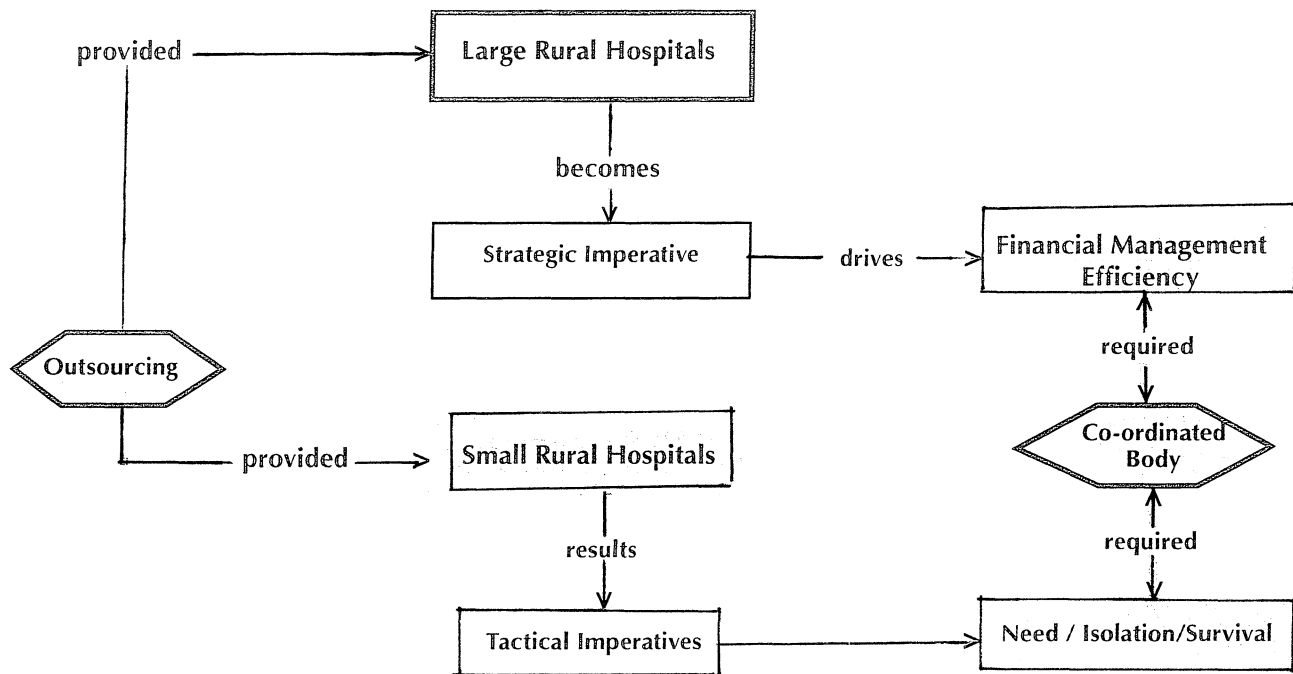
Lessons learnt from literature review for rural Tasmania health services

The literature review presented some insights surrounding the concept and practice of outsourcing relating to the future for health care outsourcing in rural hospitals and health services in Tasmania.

Coordination of outsourcing strategy

There is a need for coordination of strategies and bodies addressing outsourcing in rural Tasmania; coordination may easily be built between a numbers of bodies addressing workforce issues in rural health attributed to ageing rural populations and professional health care worker shortage.
As Tasmania has the highest proportion of rural population of all states in Australia, it has a major advantage in that the distance between the three major cities is not great in comparison with other states.To take advantage of this favourable condition, there is a need for a consolidating body to draw together needs and strategy based on short- and long-term outsourcing issues. An inclusive health outsource task force should be formed to address short- and long-term needs of health care in Tasmania.

Outsourcing should engender a collaborative team approach

Outsourcing should be undertaken as a collaborative team approach. It is easy for each party to protect their own interests and use outsourcing to solve their own problems or to maximize their gains. This self-interest can create mistrust among participating parties. Short-term and long-term collaborative work needs to be fostered. Outsourcing in rural Tasmanian hospitals and health services should be seen as a complex set of relationships to maintain health care provision.

Outsourcing is an indication of or response to skill shortages

Outsourcing in Tasmania is carried out when a service or task requires expertise which cannot be adequately provided by the outsourcing agent.Thus, outsourcing can be viewed as an indication of or a response to skill shortages at a local level and national level.
It is important to contextualise skill shortage in rural areas; there is a big shortage of health specialists whereas it can be the opposite in an urban context. Skill shortage should be seen in terms of distribution at different levels.

Outsourcing requires a paradigm shift

Financial constraints can force health services to use outsourcing to cut costs for survival; however, this should not be seen as an isolated strategy. Consideration should be given to the various relevant discourses of outsourcing which include various parties such as workers, local community, clients and private and government agencies. Communication and education are important in outsourcing. The principles and implementation of outsourcing should be communicated to the parties involved and should not be a decision made solely at the top level.

Outsourcing should consider local community and its identity

One of the concerns of outsourcing in rural areas is that local community and its identity are not taken into account in the planning and implementation of outsourcing, which is often made on a financial basis. Factors, such as community spirit, communal support, transport, etc. should be considered. While it is acceptable to outsource certain services to the 'outside', consideration should also be given to social capital building in the community.

Outsourcing should be subject to quality control

Increase resources to government agents to examine tendering processes and quality control; i.e. when a service is outsourced, quality control is also shifted from the outsourcing services to the outsourced agents. The ownership of expertise lies with the outsourced agents and this may compromise the quality of the outsourced tasks. Certain control strategies need to be introduced to ensure that the quality of the outsourced products are maintained (Suomi and Tahkapaa, 2004). For example, regular feedback gathering from clients should be conducted and effective communication between participating parties about aspects of outsourcing, particularly about relevant changes at the outsourced service, should be fostered.

Conclusion

There are varying reasons pertaining to outsourcing carried out in rural health care hospitals and services. Outsourcing in larger rural centre hospitals at the broadest level appears underpinned by the competitive neutrality policy based on cost efficiency. Both literature and data supported a difference in the structure of outsourcing related to the principles and rationales underpinning operating in small rural centre hospitals and services as opposed to larger rural centre services. Literature shows the singular most important reason for outsourcing in small population rural areas relates to the 'need' for a professional healthcare workforce (tactical imperative) rather than to strategy (strategic imperative).

Literature reveals a major research gap in outsourcing health care practice in Tasmania.; whilst Australian research into health care outsourcing touches on rural and urban areas in Victoria and some other states, the difference in rationale and principle underpinning outsourcing practices in each state is based on the foundations laid by their response to implementing the competitive neutrality policy in the mid-1990s. Therefore, the principles and rationale underpinning practice informing the implementation of outsourcing practice and policy in the various states varies significantly. There is still much to be done and discovered for researchers and practitioners in health care services outsourcing in rural Tasmania.

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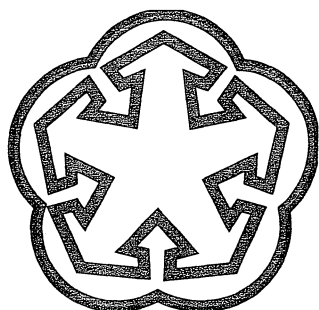Young, S. H. (2005). *Emerald International Journal of Public Sector Management,* 18, 25-36.

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