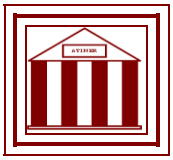
ATINER CONFERENCE PAPER SERIES No: HEA2012-0348

Athens Institute for Education and Research
ATINER



ATINER's Conference Paper Series
HEA2012-0348

Contracting Out in Hospitals: Evaluation of Hospital Managers

Cagdas Erkan Akyurek
Research Assistant
Hacettepe University
The Faculty of Economics and Administrative Sciences
Department of Health Administration
Turkey

Sukru Anil Toygar
Research Assistant
Gazi University
Social Sciences Institute
Turkey

ATINER CONFERENCE PAPER SERIES No: HEA2012-0348

Athens Institute for Education and Research
8 Valaoritou Street, Kolonaki, 10671 Athens, Greece
Tel: + 30 210 3634210 Fax: + 30 210 3634209
Email: info@atiner.gr URL: www.atiner.gr
URL Conference Papers Series: www.atiner.gr/papers.htm

Printed in Athens, Greece by the Athens Institute for Education and Research.

ISSN **2241-2891**
22/11/2012

An Introduction to ATINER's Conference Paper Series

ATINER started to publish this conference papers series in 2012. It includes only the papers submitted for publication after they were presented at one of the conferences organized by our Institute every year. The papers published in the series have not been refereed and are published as they were submitted by the author. The series serves two purposes. First, we want to disseminate the information as fast as possible. Second, by doing so, the authors can receive comments useful to revise their papers before they are considered for publication in one of ATINER's books, following our standard procedures of a blind review.

Dr. Gregory T. Papanikos
President
Athens Institute for Education and Research

This paper should be cited as follows:
Erkan Akyurek, C. and Anil Toygar, S. (2012) **"Contracting Out in Hospitals: Evaluation of Hospital Managers"** Athens: ATINER'S Conference Paper Series, No: HEA2012-0348.

Contracting Out in Hospitals: Evaluation of Hospital Managers

Cagdas Erkan Akyurek
Research Assistant
Hacettepe University
The Faculty of Economics and Administrative Sciences
Department of Health Administration
Turkey
Sukru Anil Toygar
Research Assistant
Gazi University
Social Sciences Institute
Turkey

Abstract

The aim of this study is to deal with the theoretic dimensions of Contracting Out which have been implemented widely in health institutions in Turkey since 1990 and accepted as a privatization application. Beside this, to investigate the managerial dimensions of Contracting Out in The Ministry of Health and University Hospitals in Konya based on the assessments of hospital managers, the reasons for implementation and non-implementation as well as favorable and unfavorable results of the implementations were also other aims of this study.

This study covers all the Ministry of Health and university hospitals in Konya Metropolitan area. The questionnaire developed by Ergin (2003) was used to collect data from the head physicians, head physician deputies, hospital managers and hospital manager deputies of these hospitals.

The most highlighted reasons of Contracting Out by managers are "To increase the quality of services", "To increase the patient satisfaction" and "The need for efficient service". The most underlined results of Contracting Out are "The increase in service quality", "The satisfaction of the need for efficient service" and "The increase in patient satisfaction". In the dimension of the study which questioned the concerns about Contracting Out indicated to providing services away from the quality expectations set at the beginning, possible lower costs in case of providing services in-house and the difficulties in control.

Although the Contracting Out interventions in public sector are structured by legal procedures, the expectations of hospital managers from these interventions are to provide services more efficient, more effective and higher quality in lower costs. The results of the study indicates that the reasons and results of Contracting Out show parallelism. This also indicates to a perception that Contracting Out satisfies the expectations directed to itself.

Contact Information of Corresponding author:

INTRODUCTION

Privatization, by the end of 1970s became a global trend and a policy regardless of the development level, economic and political regimes. Today privatization is defined as a means to decrease the public sector deficit, to increase economic effectiveness, competition and efficiency by countries which have strong market economies. Privatization also defined by developing countries as a means to accelerate development, correct the imbalances in public structure, decrease the public sector deficit and inflation (Ergin, 2003).

Because of the effects of privatization over all economic and social fields, this approach finds place to itself in health sector. The privatization became an important health policy because of the problems like increasing cost of healthcare, the inequalities in using health institutions and services and scarcity of public resources.

Contracting out (CO) is still a public policy of privatization and implemented widely. This privatization method is related to financing of some services by local or federal governments provided by private sector. It includes partnerships or delegations in various sectors owned by government (Hartley and Huby, 2001).

Why and under what conditions are decisions to CO for hospital services made? The purpose of this research is to explore these consequences and the conditions effecting CO processes. We should start with the definition of contracting. A contract is a mutual agreement between two or more partners that something shall be done or forborne by one or both; also a writing in which the terms of a bargain included. Contracts define relationships between many categories of participants in any health care system: between health care providers and their suppliers, between individuals and insurers, between hospitals and insurers, between government unit and providers, between third party payers and physicians and many others. The contents, specifications and forms of contracts vary widely in accordance with the parties involved, their purposes, legal or other requirements and other considerations characterizing the environment in which they are undertaken (Savas and Tragakes, 1995).

As understood from the definition of contracting, under CO arrangements, an organization contracts out with for profit as well as not-for-profit organizations for the delivery of goods and services. In other words the government or the organization purchases services from a private firm or a non-profit organization (Aktan, 2004). CO is a provision side privatization initiative referring to the tendering of publicly provided activities which might, in consequence, be contracted out to private companies (Tatar, 1993).

In an increasingly competitive environment, hospitals are contracting out for services that have previously been performed in house in an effort to cut costs and increase efficiency. Over the past several years, both the number of contracts and the amount of resources spent by hospitals on them has grown dramatically and is expected to continue in the foreseeable future (Lutz, 1993). There seems nothing new and peculiar with the technique since it has always been a phenomenon with both public and private sectors. The main tenet of the

CO initiatives seems to lie in the belief that private sector, when subjected to competition, is inherently more efficient and effective than public sector. Therefore many hospital ancillary services such as cleaning and catering have been contracted out to private firms (Tatar, 1993).

In the past, organizations tended to use CO and outsourcing as a means for procuring basic materials and supplies to enable their core business performance (Heinbuch, 1993). Increasingly there is an obvious trend toward contracting for other than traditional support services, where in organizations contract for the management of services closer to the core of their business (Prager, 1992). These services may be those that the organization previously created and performed by itself for example hospitals contract for catering services (Byrne, 1998).

POSSIBLE ADVANTAGES AND LIMITATIONS OF CO

Everyone must be aware of that the expected benefits of CO in theory is not completely achievable in practice. The challenges in creating competition among suppliers, concerns about efficiency and difficulties about managing CO process effectively cast a cloud on the theoretical benefits of CO. In addition the controllability of the costs of CO is low (Ergin, 2003).

There are many arguments in favor of contracting out for public goods and services. But also, there are some disadvantages of CO. Advocates of this method claim CO has the following superiorities (Aktan, 2004; Ergin, 2003; Taylor, 1993; Taylor, 1994; Kee and Matherly, 1996; Quinn et al., 1991):

- ✓ CO is efficient and effective, because it fosters and initiates competition. The competition among firms bidding for a service contract drives the cost down. Empirical studies clearly prove that the cost of the services provided by government is much higher than when the services are provided by private contractors. This is one of the most cited reasons for CO are the anticipated cost savings.
- ✓ CO has implications for increasing access to and improving the quality of health care.
- ✓ CO also provides better management than public management because decision making under CO is directly related to the costs and benefits. In other words, this method fosters good management because the cost of the service is usually obscured.
- ✓ CO would help to limit the size of governmental units at least in terms of the number of employees. On the other hand, it is a fact that over-staffing is common in publicly owned enterprises.
- ✓ CO can help to reduce dependence on a government monopoly which causes X-inefficiencies and in effectiveness in services.
- ✓ Under a CO method, contractors can be penalized if their service is of poor quality and unsatisfactory. Contractors must provide good services in order to renew the contract.

- ✓ CO is more flexible in terms of responding to the needs of citizens. Greater flexibility in the use of personnel and equipment would be achieved for short term projects, part-time work etc. Whereas bureaucratic formalities are said to be very common when the service is delivered by government. Less tolerance and strict hierarchy in bureaucracy are the reasons of the inflexibility in publicly provided services.
- ✓ The monopolies in public sector are the insufficient bureaucracies which satisfies the needs of producer groups instead of consumer groups. This situation can be overcome with CO.
- ✓ The competition can force public producing units to revise their production processes.
- ✓ CO can affect patient satisfaction positively.
- ✓ It is possible to overcome shortcomings in personnel quantity with CO.

Although it seems that CO has resulted in significant savings, it has been subjected to fierce debates. The debate over CO tends to take place over some particular issues such as efficiency, quality and some other strategic issues such as public employment etc. (Tatar, 1993). Opponents of CO argue that this system mainly has the following deficiencies (Aktan, 2004; Tatar, 1993; Ergin, 2003; Scott, 1992):

- o Corruption may be widespread in the process awarding contracts to the individuals or private firms.
- o Contracting may limit the flexibility of organization in response to emergencies because contractors are liable to default and go bankrupt in their activities.
- o Competitive tendering is not costless; there are costs to the organizations decreases monitoring and enforcing contracts.
- o Contractors may hire inexperienced transient personnel at low wages by ignoring contract requirements or by providing inadequate supervision and the result is low quality.
- o CO involves laying off public employees. As a result of this, government has to pay unemployment compensation to the laid off public employees. They may also qualify for various public welfare programs. Those are hidden costs.
- o There are direct and indirect costs associated with CO. They include consideration of the costs of the process followed as well as the cost of ongoing monitoring and maintenance of contractual relationship.
- o The costs of CO are out of control. Billions of taxpayers' dollars have been wasted to pay for excessive costs over and above original bids.

Although, there are some drawbacks to CO, it has been alleged that, they can be eliminated by taking some precautionary measures. For example, a genuine rivalry is important for improving efficiency. There is a danger that competition will be restricted to the members of established trade associations, with the possibility that collusion may result in private monopolies replacing state monopolies. On the other hand, regular re-contracting should also be required so that competition occurs. Regular re-contracting also forces

contractors to work efficiently so they can renew the contract. Long term contracting also should be avoided to obtain maximum cost savings, bidding requests should be publicized as broadly as possible. Finally, upon completion of bidding process, performance of the contractor should be monitored and evaluated regularly (Aktan, 2004).

FACTORS AFFECTING CO

Uncertainty is likely to influence CO. However, it is not clear how uncertainty will impact this decision. In the presence of high levels of exogenous uncertainty, the ability of organizations to reach the full potential of CO may be problematic (McInnes, 1999).

Service complexity should increase the potential for information asymmetries, which increases the potential of opportunistic behavior (Vining and Globerman, 1999). In the presence of low levels of complexity, it will be easier to support different CO outcomes.

X-efficiency is based on the assumption that the individual is the basic decision unit and the individual has discretion, but lacks motivation and/or incentives to minimize cost. X-efficiency is part of economic efficiency and facilitates a discussion in relation to the degree a firm utilizes or under-utilizes its resources (McInnes, 1999).

It is anticipated that *organizational characteristics* relating to the size and ownership, and *institutional constraints* relating to union relationship and labour relations may influence CO decision. Generally speaking, it is anticipated that CO will vary across functional areas. It is anticipated that smaller organizations will tend to contract out more, given the limited ability to take advantage of economies of scale opportunities that are available to larger organizations. It is also anticipated that highly unionized firms should tend to contract out less, given the constraints contained in the collective agreements and the high degree of unionization (McInnes, 1999).

MATERIAL AND METHOD

In the time period after 1980, in many countries including USA and UK also developing countries like Turkey, the transfer of several services to private sector firms by the way of CO has come up and applied too often in almost all sectors (Ergin, 2003).

CO is a relatively new business strategy adopted by many health care organizations in Turkey. At the beginning of 1990s, large sized hospitals began to contract out noncore services such as catering, housekeeping and security. Although CO was primarily preferred to obtain noncore services, it has extended to both administrative services such as payroll, billing and data entry, information technology, public relations and core (clinical) services such as radiology. Today, CO is being used by almost all health care organization of

every size. Health care organizations have accepted CO is a proactive and cost-effective option for obtaining services needed (Mollahaliloglu, 2009).

The aim of this study is to deal with the theoretic dimensions of CO. Beside this, to investigate the managerial dimensions of the CO in The Ministry of Health and University Hospitals in Konya based on the assessments of hospital managers, the reasons for implementation and non-implementation as well as favorable and unfavorable results of the implementations were also other aims of this study.

The universe of the study is Ministry of Health and university hospitals in Konya which is one of the biggest cities in Turkey with a population over 2.500.000. The questionnaire developed by Ergin (2003) was used to collect data from the head physicians, head physician deputies, hospital managers and hospital manager deputies of these hospitals. The questionnaire is composed of five parts including totally 36 statements about CO.

The study includes the hospitals only in one city and private hospitals were excluded. It is not true to generalize the findings of this study country wide and to private sector hospitals. This is the main limitation of the study. The answers given by participants are assumed to be reflecting the current situation exactly.

FINDINGS

The descriptive information about the hospitals and participants is presented in Table 1. There are five hospitals in Konya metropolitan area except private sector hospitals. Two of them are university hospitals, the others are affiliated to Ministry of Health. There are 78 participants working at these hospitals in managerial positions and most of them are hospital manager deputies (n=47, %60.3). According to table the most crowded group in educational degrees is the "Bachelor's Degree" (n=25, %32.1).

Table 1. Descriptive Information About Hospitals and Participants

	Frequency	***Percent***
Hospitals in Konya Metropolitan Area		
Selcuklu Medicine Faculty Hospital	7	9.0
Meram Medicine Faculty Hospital	19	24.4
Konya Education and Research Hospital	13	16.7
Meram Education and Research Hospital	28	35.9
Beyhekim State Hospital	11	14.1
Distribution of Participants According to Tittle		
Head Physician	2	2.6
Head Physician Deputy	19	24.4
Hospital Manager	10	12.8
Hospital Manager Deputy	47	60.3
Distribution of Participants According to Educational Degree		
High School	4	5.1
Associate's Degree	15	19.2
Bachelor's Degree	25	32.1

Post Graduate and Doctorate	16	20.5
Medicine Faculty	4	5.1
Medical Specialist	14	17.9
Total	***78***	***100.0***

Before dealing with the findings about CO, the difference in total frequencies in Table 1 (n=78) and the other tables (n= 65) must be explained. In the questionnaire, it is asked to the participants if they contract out any of their services last year or not. If the answer is "Yes" the participant is directed to the next part to make assessments about CO. But if the answer in "No" the questionnaire is finished in the first part for that participant and naturally for that hospital. In Konya Education and Research Hospital, the hospital management had not contracted out any of its services in last one year. Because of this, 65 questionnaires are included in CO assessment.

In Table 2, we see the possible reasons that direct managers to CO implementations. The most cited reason is "*To increase service quality*" (mean = 4.55). Most of the managers believe that it is possible for them to increase service quality with CO. *Increasing patient satisfaction* (mean = 4.43) *and the need for efficient service* are the other most cited reasons.

Table 2. Possible Reasons to CO

	Frequency	***Mean***	***Std. Deviation***
To increase patient satisfaction	65	4.43	.901
To increase service quality	65	4.55	.811
The necessity resulted from the quantitative shortcoming of personnel	65	3.95	1.037
The need for efficient service	65	4.25	.969
The encouragement of federal government and legal necessities in this way	65	3.17	1.084
Good news about the other hospitals' implementations	65	2.66	1.215
The demand for reaching technological innovations	65	3.83	1.282
The demand for utilizing expertise inherent in the service	65	3.63	1.431
To empower the image of the hospital	65	3.72	1.218
To gain financial saving	65	3.54	1.521
To constitute an effective control and supervision system	65	3.11	1.359
The demand for allocating time to the services about patient care which are the core functions	65	3.66	1.189

The assessments of managers about the possible consequences of CO is presented in Table 3. Managers give the highest score to "*increased service quality*" as a result of CO (mean = 4.38). The most cited second consequence of CO is the "*secured service efficiency*" with a mean of 4.18. The managers

also imply that *patient satisfaction can be increased* with CO (mean = 4.05). The assessments of managers also show a parallelism between the possible reasons and possible consequences of CO.

Table 3. Possible Consequences of CO

	Frequency	***Mean***	***Std. Deviation***
Patient satisfaction increased.	65	4.05	.909
Service quality increased.	65	4.38	.963
The quantitative shortcoming of personnel resolved.	65	3.71	1.208
Service efficiency secured.	65	4.18	.967
The adaptation to technological innovations secured.	65	3.74	1.136
Expertise inherent in the service utilized.	65	3.68	1.147
The image of hospital empowered.	65	3.71	1.142
Financial saving secured.	65	3.68	1.470
An effective control and supervision system constituted.	65	3.18	1.286
More time allocated to the services about patient care which are core functions	65	3.58	1.261

Table 4 presents us the unfavorable aspects of CO. According to managers the most unfavorable aspect of CO is "*Not providing services in adequate quality*" (mean = 3.54). Beside this, managers underline possible *lower costs in case of providing the service in-house* (mean = 3.14). *The difficulty of controlling service* is one of the most cited unfavorable aspect of CO (mean = 3.02).

Table 4. Unfavorable Aspects of CO

	Frequency	***Mean***	***Std. Deviation***
The difficulty of sharing management power	65	2.95	1.340
Not providing services in adequate quality	65	3.54	1.105
The difficulty of controlling service	65	3.02	.976
Lower costs in case of providing service in-house	65	3.14	1.413
Damages in hospital image	65	2.55	1.061
Double-head in human resources management	65	2.66	1.361

When we group participants as physicians and others, we saw some statistically significant difference between groups' perspectives in some statements. There is a statistically significant difference between physicians and other managers' view in a possible reason of CO which is *"To empower the image of the hospital"* (.002, $p<0,05$). Beside this, the difference in the ideas of groups about a possible consequence of CO which is *"Patient*

satisfaction increased" was found statistically significant (.002, p<0,05). Details are presented in Table 5 and Table 6.

Table 5. The Mann Whitney U Test Results of "To empower the image of hospital" statement

	Groups	n	Mean Rank	Sum of Ranks	U	p
Physicians	Head Physicians and Deputies	15	45.77	686.50	183.500	.002
Managers	Hospital Managers and Deputies	50	29.17	1458.50		P<0,05

Table 6. The Mann Whitney U Test Results of "Patient satisfaction increased" statement

	Groups	n	Mean Rank	Sum of Ranks	U	p
Physicians	Head Physicians and Deputies	15	44.97	674.50	195.500	.002
Managers	Hospital Managers and Deputies	50	29.41	1470.50		P<0,05

CONCLUSION

The expectations for CO as a means of privatization and outsourcing are generally gathered around the need of more efficient, effective and quality service. In Turkey, CO implementations in Ministry of Health and university hospitals are mainly regulated by Public Contracting Out Acts numbered 4734 and 4735. Because of this, legal regulations are the main factor that determines the quality, efficiency and effectiveness of CO implementations more than preferences and actions of hospital managers.

According to results of the study, increasing the quality of the service is the most cited institutional reason of CO. In parallel with the enhancements in quality consciousness both for service providers and patients, the increasing

importance of concepts such as patient rights, patient safety and continuous quality improvement in recent years, this result wouldn't be surprising. It is also clear that CO implementations must be integrated with the other applications which serve to reach the same targets.

The most cited possible reason of CO is to increase the patient satisfaction and this is closely related with the first result. We all know that providing quality service effects patient satisfaction positively.

The need for efficient service is one the possible reasons of CO that participants cited most. In thıs context, we see a difference which was found statistically significant. The difference is between the perspectives of managers who are physicians and who are not. The physician originated managers and the other managers have different perspectives about the contributions of CO to the image of hospital.

The most cited consequences of CO by managers are increase in service quality, secured service efficiency and increased patient satisfaction. When we look at the possible reasons and consequences of CO, we saw a parallelism between them. Table 7 clearly presents this situation.

Table 7. The Parallelism Between the Reasons and Consequences of CO

Possible Reasons of CO	***Mean***	***Possible Consequence of CO***	***Mean***
To increase service quality	4.55	Service quality increased.	4.38
To increase patient satisfaction	4.43	Service efficiency secured.	4.18
The need for efficient service	4.25	Patient satisfaction increased.	4.05

Not providing services in adequate quality, possible lower costs in case of providing service in-house and the difficulty of controlling service are the main concerns of managers about CO. With the recognition of all these concerns, it will be true to consider that they can be eliminated by taking some precautionary measures.

Consequently, we must not forget that CO is a method that can be used to reach objectives like efficiency, effectiveness and quality and CO is not an objective or an end in itself. The CO implementations that does not serve and contribute to the predetermined objectives would only be a waste of resources.

BIBLIOGRAPHY

Aktan, C.C. (2004). *Privatization & The Turkish Experience*. Ankara: Seçkin Yayıncılık A.Ş.

Byrne, G.M. (1998). "Hospital Contracting: Decision-Making." Ph.D. diss. New York University.

Ergin, G. (2003). "Hastanelerde Hizmet İhaleleri: T.C. Sağlık Bakanlığı Hastaneleri Yöneticilerinin Değerlendirmeleri." MsC. diss., Hacettepe University.

Hartley, K. & M. Huby (2001). Özelleştirmede İhale Politikası: Teori ve İspatı. İzmir: Takav Matbaası. [In Turkish]

Heinbuch, S.E. (1993). "Walk the talk: Applying TQ principles to and element of management development." *Journal of Management Development* 12(7): 60-70.

Kee, R. & C.M. Matherly (1996). "Assessing the financial feasibility of outsourcing." *Healthcare Financial Management*, April: 25-32.

Lutz, S. (1993). "Contract managers gearing up for reform: More management companies are being asked to provide capitated rates or lock in prices with long-term contracts." *Modern Healthcare* 23(35): 47-64.

McInnes, M. (1999). "The Contracting Out Decision: Evidence from The British Columbia Health Sector." MsC. diss., Simon Fraser University.

Mollahaliloglu, S., S. Kavuncubasi, H. Gursoz, I. Agirbas, H.O. Ari, H.G. Oncul, R. Akdag & M.M. Younis (2009). "Outsourcing Profile in the Turkish Health Care System." Journal *of Health Care Finance* Summer 2009: 74-82.

Prager, J. (1992). "Contracting Out: Theory and Practice." Economic Research Reports: RR92-50, October 15, C.V. Starr Center for Applied Economics, New York University Faculty of Arts and Science Department of Economics.

Quinn, J.B., T.L. Dorley & P.C. Paquette (1991). " The Intellectual Holding Company: Structuring Around Core Actitivies." In: J.B. Quinn & H. Mintzberg (ed.), The Strategy Process: Concepts, Contexts, Cases, 324-330. Englewood Cliffs N.J.: Prentice Hall.

Savas, B.S. & E. Tragakes (1995). "Contracting as a tool for implementing public health policy in health care." Paper presented at the Seminar on Public Health Management, February 27, in Copenhagen, Denmark

Scott, W.R. (1992). *Organizations: Rational, Natural and Open*. Eglewood Cliffs N.J.: Prentice Hall.

Tatar, F. (1993). "Privatisation and Turkish Health Policy." Ph.D. diss., University of Nottingham.

Taylor, K.S. (1994). "Hired Hands." *Hospital & Health Networks* 68: 58-63.

Taylor, K.S. (1993). "Contracting gains around: annual survey shows %10 rise in use of contract services." *Hospitals* 67:32-42.

Vining, A.R. & S. Globerman (1999). "Contracting Out Health Care Services: A Conceptual Framework." *Health Policy, Elsevier* 46 (2): 77-96.