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Factors Impacting Outsourcing Decisions in Federal University Teaching Hospitals in Southwestern Nigeria: An Empirical Study

By L.O Aluko
Obafemi Awolowo University

Abstract- This study assessed the implementation of outsourcing policy in Federal University Teaching Hospitals in Southwestern Nigeria. It investigated the factors influencing outsourcing in the Teaching Hospitals. Primary data were collected through questionnaire administration. The three Federal University Teaching Hospitals in Southwestern Nigeria used for this study are: Lagos University Teaching Hospital (LUTH), Lagos; Obafemi Awolowo University Teaching Hospitals Complex (OAUTHC), Ile-Ife; and University College Hospital (UCH), Ibadan. The findings revealed that factors influencing outsourcing decision include efficiency and effectiveness (63.4%), cost reduction (60.6%), concentration on core competencies (59.9%), performance enhancement (64.6%), service quality/delivery enhancement (62.9%), access to latest technology (52.3%), acquisition of specialist expertise (59.9%), risk sharing (55.8%), flexibility (59.4%) and better accountability/management (59.4%). The study concludes with the thesis that outsourcing is inevitable and a child of necessity in contemporary public organizations in Nigeria.

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I. Introduction

Public institutions in Nigeria have witnessed various forms of policy reforms in recent times due to inefficiencies that are inherent in the operations of this sector. Some of these reforms which are conceived in the 1990s have been implemented while some are yet to be implemented. As part of its economic liberalization agenda, the government of Nigeria embarked on privatization and commercialization of public institutions aimed at improving the service delivery and overall operational standards of these institutions. For those that could not be privatized or commercialized, the policy of outsourcing or using independent contractors was allowed to some level. It is obvious that global competitiveness is not limited to the private sector, but is also becoming more pronounced in the public sector.

From all indications, it appears that the perceived benefits of outsourcing lured the Federal Government of Nigeria (FGN) into formulating the National Outsourcing Policy in 2007. The policy is premised in part on the need to explore and exploit alternative sources of national income generation base on the realization of the implications of Nigeria's finite oil reserves (FGN, 2007). However, the overall policy objective is the promotion of an enabling institutional, legal, regulatory, technological, and infrastructural environment for the sustainable development of outsourcing business in Nigeria. Desirous of achieving these goals, the Government "jump-started" the process by outsourcing some of its non-critical functions and services in line with section 7 (2) of the policy document. The Ministries, Departments, and Agencies (MDAs) as well as certain institutions were directed to follow suit. In line with the directives, certain functions, which hitherto, were performed by Federal Teaching Hospitals, are now outsourced. Although these job categories are not as specialized as one would expect, but they have been contracted out as government is no longer willing to fund them directly.

Hospitals outsource their peripheral and non-core activities such as catering, laundry and security to specialized non-hospital organizations in order to ensure better focus of management over the core activities. Outsourcing also ensure increase in operational efficiency, access to skilled expertise, better risk management, and cost effectiveness, flexible staffing as basic advantage (Velma, 2001). In Nigeria, the Federal University Teaching Hospitals have embraced outsourcing in order to gain access to some of its perceived benefits as a strategy for improving service delivery. Aluko (2017) identified the services outsourced in public hospitals in Nigeria as non-core services. These services according to her include catering, cleaning, laundry security and environmental unit. It is against this background that this study investigates the factors that influenced outsourcing decision in the study area.

The next section is devoted to review of literature on the subject matter where the origin and development of outsourcing, outsourcing in public hospitals, potential factors impacting outsourcing decisions, as well as theoretical review are covered. Following this are sections on methodology, Data presentation and analysis and finally the concluding remarks.

Author: Ph.D, Department of Public Administration, Obafemi Awolowo University, Ile-Ife, Nigeria. e-mail: oyebolaaluko28@gmail.com

II. The Literature Origin and Development of Outsourcing

Outsourcing is a particular form of externalization of employment involving an outside contractor taking over an in-house function including the management of staff (Taplin, 2008). The concept of outsourcing is traceable to Adams Smith's theory of comparative advantage. It was argued that if a country can supply a commodity cheaper than others, it is better to buy it off her. This intellectual proposition by classical economists though made some two centuries ago, can be said to have laid the foundation for what has today become a management reality that is outsourcing. Originally, this practice was associated with manufacturing firms such as Coca-Cola that outsourced large segments of its supply chain (Tas & Sunder, 2004). As technology continued to advance so did new outsourcing ideas. However, it was the 1960s that saw the rise of specialized companies that promoted their identities as being able to take on and run processes for other organizations (Bendor-Samuel, 2000). The broader use of outsourcing in the industrial market results from the build-up of competitive pressures and progressing globalization (Lewin & Johnson, 1996). They went further by saying that, as the environment becomes increasingly complex, faster advancement of technology, with the consequent changes in the conditions in which any given enterprise functions, becomes necessary and inevitable.

Over the years, as organizations became more complex, their resources also became increasingly specialized and directed towards specific elements of their operations such as project design, engineering, manufacturing, human resources, information technology, sales, and logistics. This specialization encouraged the outsourcing of non-core activities, challenging management to re-evaluate the desirability of traditional vertical integration and the meeting of all organizational needs with in-house support (Boyson, Corsi, Dresner & Harrigton, 1999). In recent years, many other functions in all industries have been actively outsourced, including: payroll, pension administration, information systems and technology, telecommunications, document processing facilities and services, inventory stocking and distribution, facilities management and maintenance, food services, janitorial services and management services (Greaver, 1999).

Lonsdale and Cox (2000) argued that the effect of these public-sector reforms and outsourcing was two-fold: Firstly, it reinforced the idea that third party contractors could provide goods and services more efficiently and effectively than internal departments. Secondly, it contributed to the development of supply markets for services that were increasingly being outsourced by both public and private sector organizations. The 1980s thus saw a change in direction both in terms of the dominant way of thinking about business strategy, and in terms of what strategies businesses were pursuing. The idea of core was dominant as consultants were growing in influence and encouraging companies to follow this line, and managers were re-evaluating the idea that they needed to be vertically integrated and self-sufficient (Lonsdale & Cox, 2000).

III. Outsourcing in Public Hospitals

Hospitals in most countries remain an essential source of critical healthcare services providing both basic and the most advanced form of healthcare to the people, and by virtue of their activities constitute an industry with the largest share of total health expenditure (Adu, Amponsah & Poku, 2014). Since the 1990s, health sector reforms are changing the ways in which services are delivered and financed in public sector hospitals, which is also altering the workforce organization (Roy, 2010).

In the provision of healthcare services, it is believed that the use of technology alone cannot ensure the execution of any work, as technology itself requires service providers with skills. They comprise a wide range of medical, paramedical and non-medical personnel with varied skills and functions, including those who directly oversee the clinical care of patients to those who deal with the supportive aspects concerning the patients and the administration (Roy, 2010).

Continuing, Roy (ibid) stated that the support staff workers constitute the "invisible backbone" of the hospitals. These workers, who are also referred to as blue-collar workers and ancillary staff, deliver a range of services that are essential for ensuring high quality of clinical treatment administered to the patients including caring and healing. He stated further that without the support and proper functioning of support staff members, no hospital can deliver efficient, effective, and quality care to the patients. In public sector hospitals, support staff members form the bulk of manpower, and occupying the lowest rank in the hospital's manpower hierarchy. They feed patients, maintain patients' records, maintain equipments, and provide security among other critical functions, which confirms that hospitals do much more than delivering medical and surgical services. (Adu, *et.al* 2014).

Now that outsourcing of non-core services has been implemented in these teaching hospitals, the common explanation for it is that it would bring down operational costs, and lead to better management of services, without having any adverse impact on the patients, using the words of Dancer (1999). Foxx, Bunnard and McCay (2009) added that, a key motivation for interest in outsourcing in the health field is the intense competitive pressure which healthcare institutions face with respect to improving quality and efficiency, although curtailing cost at the same time. By this, the policy was said to have had a positive effect on accessing to healthcare and efficiency, equality and quality of health services provision (Foxx, *et al.,* 2009).

IV. Potential Factors Affecting Outsourcing Decisions

Several studies have been conducted on outsourcing and factors impacting decisions to outsource by organizations. Kakabadse & Kakabadse (2001) in their survey identified four main factors for outsourcing in public service organizations: to achieve best practice, to improve the cost discipline skills of managers, to improve the quality of the service and to help senior managers focus more clearly on the core competencies of the organization. The factors were grouped into four categories by Kremic, Oya & Walter (2006) and these are strategy, cost, function characteristics and environment. Seth & Sethi (2011) argued that, typical reasons for outsourcing include seeking specialist services and expertise, cost reduction, and enabling human resource specialists to take on a more strategic role. For the purpose of this study, we shall concentrate on strategy and cost functions as the main factors influencing outsourcing decision.

a) Strategic Factor

The first explanation and one that is often found in literature is that an organization will outsource the activities that are not strategic (non-core), and keep in-house those that are closely linked with their core business (core competencies). Core competencies are what an organization uses to sustain a competitive advantage, it is therefore a strategic factor that has attracted much attention and is often linked to outsourcing decision (Kremic *et al,* 2006; Sislian & Satir, 2000). They provide value to customers and are difficult for competitors to replicate (Mohiuddin & Su 2013). Researchers have argued about services to be outsourced and those ones that should remain in-house. Mohiuddin & Su (2013) stated that any function or sub-function that is strategic and an essential part of the core competency of an organization should not be outsourced but anything that is not core competency can be outsourced. They went further by saying that outsourcing non-core activities and concentrating on core activities organizations may increase their performance by becoming more flexible and innovative. Aluko (2017) opined that outsourcing of non-core services relieves the management of a lot of burden thereby concentrating on organization's core competencies. Ichoho (2013) concluded that the outsourcing of non-core activities allows an organization to increase managerial attention and resource allocation to those tasks that it does best and rely on management teams in other firms to oversee task at which the organization is at a relative advantage.

Service quality refers to the improvements in service and quality which outsourcing can deliver (McIvor, 2013). Outsourcing provider can access more advanced technologies and count on more motivated staff and better management systems in order to be able to achieve a better service coordination or control, or, simply, is more strongly committed than the internal staff to make the alliance with the client work properly (Clark, Zmud & Mc Cray, 1995). McIvor (2013) concluded that specialist vendors can often provide higher levels of service quality than those of internal functions within the client. Elmuti (2003) demonstrated that outsourcing benefits an organization's performance by improving its expertise and service quality, minimizing the number of employees it needs, optimizing its processes, and reducing costs and administrative burden.

Outsourcing additionally provides a large degree of flexibility in the utilization of resources and makes it easier to face business level volatility, as the provider is left to deal with fluctuations in outsourced activity workloads (Jurison, 1995). Outsourcing flexibility include demand flexibility, operational flexibility, resource flexibility or the flexibility of a number of other strategic elements. Long contracts outsourced into a limited market have sometimes resulted in a loss of flexibility (Bryce & Useem, 1998), According to Kremic, *et al.,* (2006), organizations sometimes consider outsourcing in an effort to increase flexibility. Another factor for outsourcing may be better accountability. Managers in public organizations generally realize an accountability improvement in the particular function being outsourced (Deakin & Walsh, 1996). This assertion is in line with the argument of Industry Commission (1996) that, competitive tendering and contracting can increase the accountability of government agencies by forcing them to specify clearly the objectives of the service and the responsibilities of the service providers, making it easier to identify who is responsible for different aspects of the service.

b) Cost Factor

A prominent theme in the literature is that most outsourcing is primarily motivated by the organization's efforts to reduce costs (Meckbach, 1998; Hendry, 1995; Welch & Nayak, 1992). According to Fill (2000), cost efficiency remains the primary explanation for the development of outsourcing. If a function is to be outsourced for cost reasons, then it is assumed that the current in-house costs are higher than the expected costs for purchasing the service (Hansen, 2009). However, there is a significant uncertainty about the expected savings generated by outsourcing as cost savings may not be as high as sometimes reported (Alexander & Young, 1996). The basic fact however is that, despite the uncertainty, many organizations outsource to reduce costs and therefore the higher the internal cost to perform the function relative to the expected cost of purchasing the service the more likely the function is to be outsourced (Kremic, *et al*., 2006).

V. Theoretical Review: Resource-Based View

Resource-based view was first propounded by Penrose in 1959; then rediscovered by Warnerfelt in 1984 and finally developed into a more robust theory by Barney in 1991. This theory has been employed for outsourcing decisions, shifting the attention from transaction costs and opportunism to competitive advantage (Gottschalk & Solli-Saether, 2006). The resource-based view of an organization rests on an assumption labeled as the inside-out perspective. The inside-out perspective is described as a perspective that builds on an assumption that organizations should clarify the availability of internal resources before they seek after resources outside the organization (Prahalad & Hamel, 1990). The resource-based view provides an approach that regards the organization as a set of resources and capabilities that are treated as the strengths that must be supported and that should guide the organization's strategy (Grant, 1991). The core issue in resource-based theory is how to identify and exploit existing resources more effectively in the organizations (Hedman & Kalling, 2002). A conclusion made from this is that if a resource is seen as necessary for the organization's competitive advantage it should be handled internally. However, as Mata, Fuerst & Barney (1995) describe it, whether an organization gains competitive advantage from a resource depends on how the organization manages the resource.

A resource must be considered valuable for the organizations in order to be called resource in the resource-based theory. Valuable in this setting means that the resource enables the organizations to conceive or implement strategies that improve efficiency and effectiveness in the organizations (Barney, 1991). For resources to be valuable and become a competitive advantage resource, a number of criteria must be satisfied. According to Cheon, Grover and Teng (1995), first, the resource must have a value, expressed as being valuable for the organization; second, the resource must be rare, which means that it must be unique or rare among the organization's competitors; third, the resources must be imperfectly imitable, which means that it is not possible for the competitor to imitate the resource; and finally, the resource must be impossible to substitute, which means that the organization's competitors cannot substitute the resource with another resource.

Those theorists who support the resource-based theory consider that resources can be exploited by means of contracts (Barney, 1999; Gainey & Klaas, 2003; Grant, 1991), and so this perspective may be a theoretical framework that helps in the decision-making about which activities to outsource and which to perform in-house. Within that perspective, the core competences approach is one of the most powerful frameworks to explain why companies turn to outsourcing (Gilley & Rasheed, 2000; Cheon, *et al*., 1995). This approach suggests that an organization should invest in those activities constituting core competences and outsource the rest (Prahalad & Hamel, 1990; Quinn, 1992; Quinn & Hilmer, 1994), since the former activities are those providing the organization's growth and direction (Peteraf, 1993).

In this respect, Prahalad & Hamel (1990) point out that improved performance in an organization can be achieved through focusing on those resources that provide the core competences. What this means is that outsourcing decision requires deep understanding of the core competences upon which the organization builds its future competitive advantage (Bettis, Bradley & Hamel, 1992).

VI. Methodology

This study adopted descriptive research design method. This method elicited opinions from respondents with regard to the subject of the research. The opinions of the study population were collected through administration of questionnaires that asked questions concerning the factors impacting outsourcing decisions in Federal University Teaching Hospitals in Southwestern Nigeria.

The study targeted a population of 1,069 from all the categories of staff that is, Medical, Paramedical, Administration, Engineering/Technical and Non- Regular staff in the three Federal University Hospitals in Southwestern Nigeria. These Teaching Hospitals are: Lagos University Teaching Hospital (LUTH), Idi-Araba, Lagos; Obafemi Awolowo University Teaching Hospitals Complex (OAUTHC), Ile-Ife; and University College Hospital (UCH), Ibadan. This study used Yamane (1967) formula to pick the sample. This was done to take care of risk level as well as the level of sampling error.

Data was collected from primary sources through survey method by the use of questionnaires. The questions were close ended where a number of alternative answers were to be chosen by the respondents using a five point likert scale. The respondents were required to give their independent view on the factors impacting outsourcing decisions in their respective hospitals. The data presented in this study was based on the 982 questionnaires that were filled correctly and returned out of the total number of 1,069 copies administered. Data was presented in form of tables and charts for easy interpretation and recommendations in decision making process. The quantitative data was analyzed through descriptive statistics.

VII. Data Presentation and Analysis

This study sought to establish the factors impacting outsourcing decision in Federal University Teaching Hospitals in Southwestern Nigeria. In an attempt to determine these factors, the respondents were asked to indicate the extent to which they agreed or disagreed to the listed factors of outsourcing policy in their respective hospitals. From the table below, it is evident that better accountability/management and efficiency/effectiveness were the prime factors (2.45) that influenced outsourcing services in the hospitals under study. Other factors identified by the respondents in order of priority are: enhances service quality/delivery (2.43); enhances performance (2.42); improves flexibility (2.39); acquisition of specialist expertise (2.37); cost reduction (2.32); facilitates risks sharing (2.32); concentrates on core competencies (2.31); and facilitates access to latest technologies (2.21).

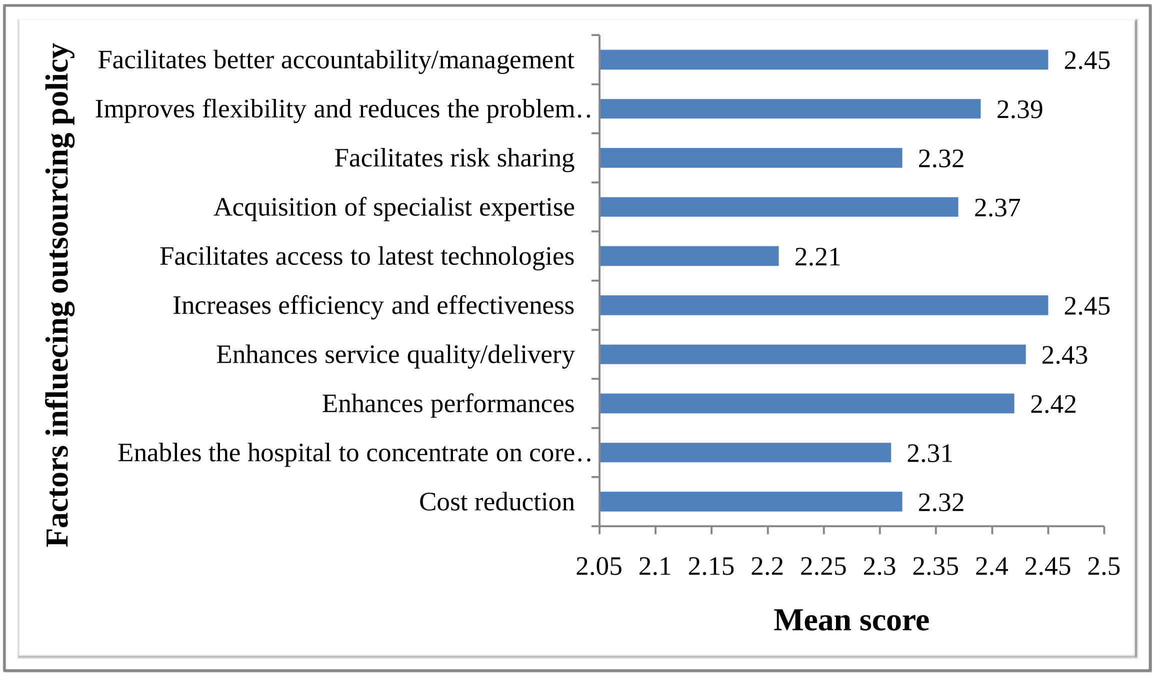
Furthermore, the grand mean was 2.37. This is an indication that responses tend towards "agreed" option to all the factors influencing outsourcing decision. However, out of the ten (10) factors identified from the literature, only four factors have mean score lower than the grand mean, five factors were higher than the grand mean while only one factor had equal mean with the grand mean. Deductively, factors influencing outsourcing decision from the perspective of the respondents were majorly enhancement of service quality/delivery, efficiency and effectiveness, performance, flexibility, and better accountability/ management. These are as presented in Table 1 below.

Table 1: Response on Factors that influenced outsourcing Decisions

Factors	Neutral	Strongly Disagree	Disagree	Agree	Strongly Agree	Total	Mean
Cost reduction	172 (17.5)	121 (12.3)	94 (9.6)	411 (41.9)	184 (18.7)	982 (100)	2.32
Enables the hospital to concentrate on core competencies	157 (16.0)	118 (12.0)	119 (12.1)	441 (44.9)	147 (15.0)	982 (100)	2.31
Enhances performances	145 (14.8)	99 (10.1)	104 (10.6)	468 (47.7)	166 (16.9)	982 (100)	2.42
Enhances service quality/delivery	134 (13.6)	101 (10.3)	129 (13.1)	443 (45.1)	175 (17.8)	982 (100)	2.43
Increases efficiency and effectiveness	127 (12.9)	100 (10.2)	132 (13.4)	448 (45.6)	175 (17.8)	982 (100)	2.45
Facilitates access to latest technologies	159 (16.2)	121 (12.3)	188 (19.1)	379 (38.6)	135 (13.7)	982 (100)	2.21
Acquisition of specialist expertise	137 (14.0)	103 (10.5)	158 (16.1)	426 (43.4)	158 (16.1)	982 (100)	2.37
Facilitates risk sharing	142 (14.5)	97 (9.9)	195 (19.9)	401 (40.8)	147 (15.0)	982 (100)	2.32
Improves flexibility and reduces the problem with management	137 (14.0)	90 (9.2)	172 (17.5)	423 (43.1)	160 (16.3)	982 (100)	2.39
Facilitates better accountability/management	112 (11.4)	95 (9.7)	191 (19.5)	409 (41.6)	175 (17.8)	982 (100)	2.45
Grand mean	2.37						

Source: Fieldwork, 2016

The mean score shown in Table 1 were used to generate the chart below.



Source: Author's Field Survey, 2016

Figure 1: Factors influencing outsourcing policy

VIII. Summary and Concluding Remarks

From the information presented in the analysis, it is clear that the factors impacting outsourcing decision in the hospitals under study are: enhancement of service quality/delivery, increases efficiency and effectiveness, enhances performance, improve flexibility, better accountability/management, acquisition of specialist expertise, cost reduction, facilitate risks sharing, concentrate on core competencies, facilitates access to latest technologies. The findings of this study is supported by Elmuti (2003) who found that outsourcing benefits an organization's performance by improving its expertise and service quality. Mclvor (2013) stated that specialist vendors can often provide higher levels of service quality than those of internal functions within the client. Foxx, *et al*., (2009) concluded that outsourcing in the health sector had a positive effect on accessing to healthcare and efficiency, equality and quality of health services provision.

Furthermore, the findings of this study corroborated the existing literature which says that, hospital outsource their peripheral activities in order to ensure increase in operational effectiveness and efficiency that may result in better quality, greater efficiency, shorter investment cycle and increasing returns (Kakabdse & Kakabadse, 2001; Velma, 2001; Vintar, 2011). Lonsdale & Cox (2000) argued that third party contractors could provide goods and services more efficiently and effectively than internal departments.

The findings also supported the work of Sislian & Satir (2000), Quinn (1999), Lankford & Parsa (1999) and Wright (2001), when they opined that, because of intense competition, organizations are forced to reassess and redirect scarce resources to where they make the greatest positive impact, namely the organization's core functions. Outsourcing of non-core activities allows an organization to increase managerial attention and resource allocation to those tasks that it does best and rely on management teams in other firms to oversee tasks at which the organization is at a relative advantage (Ichoho, 2013; Aluko, 2017). Deakin & Walsh (1996) asserted that managers in public organizations generally realize an accountability improvement in the particular function being outsourced.

In addition, the findings of this study is consistent with the works of Jurison, (1995); Kremic, *et al*., (2006); Vintar, (2011) which demonstrated that, organizations sometimes consider outsourcing in an effort to increase flexibility. On the contrary, Bryce & Useem (1998) opined that long contracts outsourced into a limited market have sometimes resulted in a loss of flexibility. Mui, (2003); Rothman, (2003) asserted that through outsourcing of non-core services, organizations gain access to scholarly assets and access to wider knowledge and experience. According to Brown & Wilson (2005), this situation may come about if a company finds in-house staff knowledge insufficient for a given task. Kremic, *et al*., (2006) perceived outsourcing as a way to reduce the organization's risk by sharing it with suppliers and at the same time acquire the positive attributes of those suppliers.

The findings of this study is also in line with the evidence from the literature which revealed that most outsourcing is primarily motivated by the organization's efforts to reduce costs (Meckbach, 1998; Hendry, 1995; Arnold, 2000; Fan, 2000). This is supported by Adegoroye (2006) when he argued that the central thrust of public sector outsourcing in Nigeria is to reduce wastes in public sector governance by giving out certain aspects of services hitherto performed by public institutions to private providers, that is, to be competitively hired and held accountable to deliver pre-agreed quality standards at a cost considered competitive. However, there is a significant uncertainty about the expected cost reduction occasioned by the implementation of outsourcing policy. There is increasing evidence in the literature that cost savings have been over-estimated and costs are sometimes higher after outsourcing (Bryce & Useem, 1998; Pepper, 1996; Vining & Globerman, 1999). In addition to not realizing the costs that originally drove the outsourcing initiative, there are also some additional indirect and social costs that may be incurred (Gillet, 1994; Maltz & Ellram, 1997). But the message in the literature is that the desire for cost savings may drive many outsourcing initiatives.

From the foregoing discussions, we conclude on the note and thesis that outsourcing in public organizations is inevitable. And as such, outsourcing is a child of necessity and has become part and parcel of life globally.

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