

## **Outsourcing of Hospital Support Service in Malaysia: A Survey Results**

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### **Abstract**

In Malaysia, over the last decade, outsourcing has become one of the major issues in health care. Two major concerns are related to the practice. The first one involves the suitability of the outsourcing strategy, principally with reference to the outsourcing of hospital support service. The second one relates to the actual benefits of the outsourcing practice in terms of cost reduction and increasing efficiency.

In order to achieve the research objective, a questionnaire was developed and, after a pilot test. It was mailed to public hospital development unit, service providers and consultant. The data gathered concerning their experience and knowledge and the response rate was around 39%. The survey results clearly demonstrate that to do the project successfully, a number of stages need to be considered in outsourcing strategies and process. These result also indicated that the outsourcing projects of public hospital in Malaysia are expand and increasingly in used. It is improving the service and getting more efficient to the service. Very few of the respondents agree on the inefficient and unsuccessful of the outsourcing public hospital support service project in Malaysia.

### **Keywords**

Outsourcing, Outsourcing process, Hospital support service, Outsourcing strategies

### **1. Introduction**

This paper discusses the growth of outsourcing of hospital support service in Malaysian public hospital with the main focus on the effective outsourcing. The growth is directly related to the policy of Privatization Projects, undertaken by the Government of Malaysia. A related policy supportive outsourcing has been set from the Malaysia Incorporated, which influenced by perception of successful corporate-state relations in Japan, South Korea, Taiwan and Singapore. This concept has been promoted by the Malaysian Government since 1983 with the aims of fostering complimentary links between the public and private sectors and minimizing unproductive competition and duplication between them (Ministry of Information, 1991).

It is important to explore the meanings of the term "privatization". In its general meaning, the Malaysian Ministry of Finance has defined privatization in very broad term as "the transfer of the public sector activities and functions to the private sector" (Barracrough, 2000). Therefore, in this paper, the term "privatization", "outsourcing" and "contracting out" will be used interchangeably.

Outsourcing specifically refers to the process of transferring a functional area that was previously managed and staffed within an organization to the third party, which it can be an individual, a partnership or a company (Young, 2001).

In the government of Malaysia view, privatizations relieves the state of financial and administrative burdens, improve productivity, facilitates economic growth, reduces the size of the public sector and the presence of the government in the economy, and facilitates national development target (Barraclough, 2000; Ministry of Information, 1991).

According to the Ministry of Health, this biggest healthcare privatization project was finalized by the ministry in 1996. And, under an agreement originally made in 1994, hospital support service were transferred to 3 separate private providers, who would be responsible for the ownership, management and operations of hospital support service in medical institute as well as the general, district and nucleus hospitals operated by the Ministry of Health. It involves the clinical waste management services, cleansing services, linen and laundering services, facility engineering maintenance services and biomedical engineering maintenance services.

This is called as “outsourcing” the hospital support services. Providers were selected through open tender bidding and were awarded on a regional basis. The providers refer to Faber Medi-Serve Sdn. Bhd. for Northern Region of Peninsular Malaysia and Sabah, Sarawak in East Malaysia, Radicare (M) Sdn. Bhd. for Central and Eastern Region and Pantai Medivest Sdn. Bhd. for Southern Region of Negeri Sembilan, Melaka dan Johor. Along the concession period, the providers were required to fulfill a number of performance indicators set by the government or they will get the penalty for none compliance.

Before decide whether to outsource or not, it is vital to study the theoretical studies related to outsourcing to meet the target and objectives. Furthermore, outsourcing theory can be used to explore some of the implications of these contractual problems and arrangements.

This paper starts with a brief discussion of the aims of outsourcing, outsourcing theories and outsourcing process. Then follow with a finding from the survey.

## **2. Aims for Outsourcing**

There are many reasons why the government may choose to outsource and very rarely will it be for one single reason. Some common reasons are:-

### **Reduce Cost**

Cost of operational can be reduced by lowering the cost of non-core service to the business. It is usually concerned with better cost control, which assumes that in-house costs are known precisely beforehand, although that is not always the case. This will involve reducing the scope, defining quality level, re-pricing, renegotiation, cost re-structuring (Engardio *et al.*, 2006).

### **Technical and Operational Expertise**

In some cases the outsourcing is concerned more with gaining access to technical expertise which may not be available in the outsourcing organization. The technical and operational expertise would be too difficult, cost and time consuming to develop in-house.

### **Time Saving**

There may be an emphasis on time saving for some organizations (cost control in terms of staff time costs). Increasingly, perhaps, many outsourcing relationships are becoming partnerships as outsourcing becomes an accepted way of conducting business, and relationships between those involved develop over time (Grover *et al.*, 1998).

**Focus on Core Business**

Organization is focusing more on developing the core business. They outsource their support service to services companies.

**Improve Quality**

Organization will achieve a step changes in quality through contracting out the service with a new service level agreement, KPI's, performance level and etc.

**Knowledge**

Wider experience and knowledge gained from the accessibility to the intellectual property.

**Contract**

Outsourcing involve a legally binding contract to the providers' either it is short term or long term contract.

**Reduce Risk**

Outsourcing can reduce risk and increase control by providing increased visibility to the outsourced process; access to industry best practices; and access to state-of-the-art in enabling technology. In fact, outsourcing can reduce business risk in four major categories – strategic risk, operational risk, financial risk, and compliance risk.

### 3. Outsourcing Theories

In explaining on the outsourcing, process, principles, types and aim, the related theories are used before decided to outsource or not to outsource.

- Core Competencies
- Resource-Based Theory
- Resource-Dependent Theory
- Transaction Cost Theory (TCT)
- Agency Cost
- Partnerships
- Game Theory
- Contingency Theory

### 4. Findings from the Research

Pilot study was conducted at the end of 2007, to get a good study design. Even though, conducting a pilot study does not guarantee success in the main study, but it does increase the likelihood (Teijlingen Van *et al.*, 2001). The term 'pilot studies' refers to mini versions of a full-scale study (also called 'feasibility' studies), as well as the specific pre-testing of a particular research instrument such as a questionnaire or interview schedule.

The questionnaires are mailed to 136 hospitals in the early of 2008 and 3 parties are involved in the research from every hospital. They are development unit of hospital, providers and SIHAT, the consultant appointed by the government to monitor performance of the providers. The questions are drafted differently to match with their responsibility and job. Each set of questionnaires was analyzed differently by using SPSS. The response rate from the development unit of hospitals are about 40%, whereas from the providers and SIHAT were about 30%.

The questionnaires are divided into 5 sections, i.e: Demographic Section, Evaluation System Section, and An Overview - Outsourcing HSS in Malaysia, Integrative Variables and Implication of Outsourcing. Every respondent has successfully answered all questions in the questionnaires. After analyzed the demographic section, it can be explained that the questionnaires have been answered by more than one personnel.

#### 4.1 Demographic Section

**Table 1: Job Position**

Job	Development Unit of Hospital (N=53)		Service Providers (N=36)		SIHAT (N=38)	
	Agree	Disagree	Agree	Disagree	Agree	Disagree
Hospital/Managing Director	10		5		6	
Contract Officer	3		2		3	
Facilities Manager	31		20		18	
Facilities Officer	9		9		11	
Others	-		-		-	

#### 4.2 Implication of Outsourcing Section

Hospital support service at government hospital in Malaysia growth efficiently after outsourced. The majority of respondents agreed that the quality and productivity of hospital support service increase every year.

**Table 2: Quality and Quantity of HSS Before and After Outsourced**

Question	Development Unit of Hospital (N=53)		Service Providers (N=36)		SIHAT (N=38)	
	Agree	Disagree	Agree	Disagree	Agree	Disagree
1. Has the quality of service increase every year?	51	2	36	0	36	2
2. Has the quantity of service increase every year?	53	0	36	0	38	0

However, 75% of the respondent claimed that the operation cost increased every year. According to the Facilities Manager from the Northern Region, the cost of operation increased aligned with the quality and quantity increased in the task given. Furthermore, the scope of job and responsibility was also increased as the government developed new hospitals.

**Table 3: Operation Cost**

Question	Development Unit of Hospital (N=53)		Service Providers (N=36)		SIHAT (N=38)	
	Agree	Disagree	Agree	Disagree	Agree	Disagree
1. Has the cost of operation increase every year?	49	4	26	10	36	2

The satisfaction level of the services outsourced can be ranked as cost reduction (89%), strategic capabilities (86%), efficiency (80%), speed to market (65%), and quality and productivity (60%).

**Table 4: Satisfaction Level on the HSS**

	How satisfied is your company with the services outsourced	Development Unit of Hospital (N=53)		Service Providers (N=36)		SIHAT (N=38)	
		Sat.	Unsat.	Sat.	Unsat.	Sat.	Unsat.
a.	Quality and Productivity	36	17	21	15	20	18
b.	Cost Reduction	52	1	32	4	30	8
c.	Efficiency	45	8	29	7	28	10
d.	Strategic Capabilities	47	6	31	5	31	7
e.	Speed To Market	40	13	16	20	19	19

Generally, outsourcing has advantages other than to reduce costs; it can also introduce labour market flexibility, and focus on core competencies (Industry Commission, 1995; Young, 2000).

#### 4.3 Integrative Mechanism Variables Section

From the findings, most of the respondents agreed that the key success factor of effective outsourcing can be achieved if some considerations been taken on the following matters:-

1. Contractual arrangement (i.e: tendering method, procurement method, content of agreement)
2. Selection of providers (qualification, financial background, technical background, etc)
3. Transparency (costing data, expenditure, etc)
4. Political interference
5. Negotiation (among the economist, professional personnel, etc)

#### 4.4 Outsource HSS Section

Referring to the finding 2, the reasons of outsourcing can be defined as to:-

1. Reduce costs and increase efficiency (Eisenhardt, 1989; Williamson, 1979)
2. Focusing on core competitive advantage (Porter, 1980)
3. Workforce flexibility (Atkinson, 1984)
4. Reduce the problems of managing industrial relations (Benson and Leronimo, 1996; Burgess and MacDonald, 1990; Pfeffer, 1992)
5. Personal objective of decision makers (Pfeffer, 1994)
6. Align public sector agencies with the ideology of the government providing the funding (Feigenbaum and Henig, 1994)

#### 4.5 Monitoring and Evaluating System Section

From the survey, it shown that most of the respondents convenient with the measuring tools used by the government and consultant. i.e interview and questionnaires. However, they feel unhappy with the penalty taken by the government. They want this matter to be discussed and formulated properly. Furthermore, all parties declared that the standard evaluation form has not yet been revised since 1996.

**Table 5: Evaluation Form**

Question	Development Unit of Hospital (N=53)		Service Providers (N=36)		SIHAT (N=38)	
	Yes	No	Yes	No	Yes	No
Do SIHAT use a standard evaluation form?	53	0	36	0	38	0

**Table 6: Frequent Revise Evaluation Form**

How frequent do SIHAT revise the evaluation form?	Development Unit of Hospital (N=53)	Service Providers (N=36)	SIHAT (N=38)
Always	0	0	0
Seldom	4	10	0
None	49	26	38

**Table 7: Relationship Between Parties**

Question	Development Unit of Hospital (N=53)		Service Providers (N=36)		SIHAT (N=38)	
	Good	Bad	Good	Bad	Good	Bad
How would you describe the relationship with SIHAT and Providers?	53	0	30	6	35	3

The outsourcing market has been growing for decades and the impact of services on the performance is still growing. And, the impact comes from the relationship between client/ outsourcer and service providers. Lepeak (2003) said, from the survey it shows that one of the most direct correlations to outsourcing satisfaction is how much money the providers has spent on managing the relationship. He said, the more they spent the happier they are. According to Levina and Ross (2003), the value of outsourcing depends on the characteristics of the client (outsourcer), vendor (service provider) and relationship. Relation between parties becomes more vital and more problems can be resolved as they have skills in solving outsourcer problem. Therefore, the need for governance structure in outsourcing relationships is undisputed.

## 5. Summary of Survey Findings

The results from the questionnaire were in themselves enlightening. Many of the respondents agreed that there are many factors and criteria should be taken before government decided to outsource. This is to make sure that the outsourcing project provided governments with tremendous costs savings and service quality improvement. In the other words, effective outsourcing will be achieved in the future, even though to date, public sector outsourcing has earned a mixed record of success, failure, praise, and criticism.

Assessing government core competency is often an ambiguous process. The scope of government services, as well as the complex interactions among agencies at all levels of government, makes it challenging to identify an articulated government strategy, competency, or mission. Some might argue that government exists solely to provide unemployment benefits, income assistance, national defense, interstate highways, and other services that are too complex or costly to be provided by the private sector. As a result, assessing governments' "non-core" functions is a demanding task.

An essential aspect in the decision to outsource is the development of the relationship between the outsourcer and the provider. The factors that influence the decision to outsource are important for providing the groundwork for developing an outsourcing relationship.

Another recommendation to improve the outsourcing of hospital support service, relates to performance measurement. The performance of providers should be evaluated frequently and the measuring tools of the performance should be always revised.

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