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Outsourcing public sector activities

How is quality maintained when public health care services are subject to contracting out?

Master Thesis

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Abstract

In recent years outsourcing of public health care activities has increased in Sweden. Outsourcing of public health care activities involves possibilities of innovation and improvement according to many, but there are difficulties with how to maintain and control quality in the outsourced activities. The focus of this thesis is on how quality is ensured when public activities are subject to contracting out. Contractual relationships do not function in the same way as administrative channels and therefore, as a result of outsourcing, new procedures has to be developed in order to ensure quality. Material connected to the procurement process of health care in Region Skåne and an interview conducted with an official are analyzed in order to examine how quality is ensured. By examining how contracts are specified, monitoring performed and accountability enforced it is clarified how quality is ensured in activities operated by private health care providers with public funding. The results show that quality is regulated in the contracts but that many of the quality measures are intangible. Follow-up of the activities is carried out by patient surveys, reports and meetings with the private health care providers. Accountability is enforced but through different channels than in the public sector. The many difficulties with monitoring and operationalizing health care outcomes contribute to the relatively intangible measures and control of quality. Furthermore, in order to allow for innovation some responsibility has to be left to the provider.

Keywords: public procurement, transaction cost, principal-agent, health care, Region Skåne

Sammanfattning

Det har under senare år skett en kraftig ökning av outsourcing av offentlig sjukvårdsverksamhet i Sverige. Outsourcing av offentlig sjukvårdsverksamhet innebär enligt många möjligheter till innovation och förbättring. När sjukvårdsverksamhet tas över av privata vårdgivare uppstår det dock svårigheter med hur kvalitet i verksamheten skall kunna kontrolleras. Uppsatsens fokus är på hur kvalitet skall kunna upprätthållas när offentlig verksamhet läggs ut på entreprenad. Studien genomförs med hjälp av ett omfattande material kring upphandlingsprocessen av sjukvård samt en intervju med en tjänsteman på Region Skåne som analyseras i syfte att besvara relevanta frågeställningar. Genom att studera hur avtal är utformade, hur uppföljning sker och hur ansvarsutkrävande säkerställs klargörs det hur kontroll av kvalitet sker i verksamhet som drivs av privata entreprenörer med skattemedel. Resultaten visar att kvalitet regleras i avtalen men att kvalitetsmåtten i många fall är mjuka. Uppföljning av verksamheten genomförs med hjälp av patientenkäter, rapporter och möten med de privata vårdgivarna. Ansvarsutkrävande i verksamheten upprätthålls men sker genom andra kanaler än i offentlig verksamhet. Sammanfattningsvis så sker det ett omfattande kvalitetsarbete i regionen men det finns många svårigheter med uppföljning och att operationalisera vårdresultat vilket bidrar till den relativt mjuka kontrollen av kvalitet. Ett visst ansvar måste även lämnas till entreprenören för att möjliggöra innovation.

Nyckelord: offentlig upphandling, transaktionskostnad, principal-agent, Region Skåne, sjukvård

Table of contents

1 Introduction 1

1.1 Point of departure and background 1

1.2 Research question and aim of the study 2

1.3 Method 3

1.4 Limitations 3

1.5 Outline of the thesis 3

1.6 Notes regarding the translation of Swedish terms 4

2 Theoretical background 5

2.1 The concepts of privatization and outsourcing 5

2.2 Features of public and private sector organizations 6

2.3 Transaction cost theory 8

2.3.1 Incomplete contracts 9

2.3.2 Asset specificity and the ownership of assets 9

2.3.3 The characteristics of services and implications on contracting 10

2.4 Principal-agent theory and the quality-shading hypothesis 11

2.5 Contract monitoring 12

2.6 Accountability 14

3 Region Skåne and outsourcing 15

3.1 The Swedish administrative system 15

3.2 The regional organization 16

3.3 The procurement process 17

3.4 Outsourcing 18

3.4.1 Various methods of outsourcing 19

3.4.2 The increasing usage of outsourcing 21

4 Material 22

4.1 Material used in the analysis 22

4.2 The process of analyzing the material 23

4.2.1 Objectives 24

4.2.2 Contracts with providers 24

4.2.3 Control mechanisms for contracting providers 25
4.3 Difficulties with measuring and interpreting evidence 25
4.3.1 Quality 25
4.3.2 Cost 26
4.3.3 Competition 27

5 Result and analysis 28

5.1 Objectives 28
5.2 Contracts with providers 31
5.3 Control mechanisms for contracting providers 36
5.3.1 Monitoring 36
5.3.2 Accountability 40

6 Summary and conclusions 43

7 References 46

7.1 Publications 46
7.2 Internet sources 47
7.3 Lectures 47
7.4 Documents 47
7.5 Interviews 49

1 Introduction

1.1 Point of departure and background

In recent years it has become more and more popular among politicians in many Swedish municipalities and regions to let market based companies enter previously closed markets for public services. A problem associated with this process is how to ensure quality and to control whether services produced externally live up to the demands set by the public administration. Incidents have exposed defects in the control mechanisms over the outsourced production of public services.

Swedish regions, and county councils, are legally responsible for assuring that a certain level of health care is being provided to citizens whom are entitled to it. In order to do this they have to assure that the services provided to its citizens meet these demands. When activities which are normally operated by public providers are outsourced to external contractors the control over the production and outcome of these services is transferred to the contractor. The public administration looses some of its direct power over the activities in this process. There are some problems associated with this phenomenon. Regions using private health care providers have, in some cases, resulted in incidents that have been reported in the media. One of the more infamous are the problems encountered when the company Carema took over the house call cars in Skåne. The deficiencies in the way Carema conducted the services resulted in threats of financial penalty[1].

Incidents such as this one expose the complexity and importance of the control issue, and the question of how to control private providers is a difficult one. There are mainly two reasons

[1] According to an article in the paper Dagens Medicin, written by Rothelius (2010-02-02).

for this complexity. Swedish regions and counties are legally responsible for ensuring that certain services are provided to citizens entitled to them. The services also must be of a good standard, and regions and counties therefore in some way must insure that health care services meet these demands. Then again, the politicians want to outsource the production of some public services to external providers in order to achieve a different and hopefully better performance. This makes the external provider to a considerable degree responsible for fulfilling political goals and at the same time the politicians can exercise very little direct power over these providers. The issue of public outsourcing is complex and the problem is principally that there is a need of maintaining the quality control while the detailed control over the production is put in the hands of the private providers in order to be able to take advantages of the benefits of outsourcing.

1.2 Research question and aim of the study

In this thesis I am primarily interested in studying how quality is ascertained when public services are subject to contracting out. Contractual relationships do not function in the same way as administrative channels and therefore, as a result of outsourcing, new procedures have to be developed in order to ensure quality. The aim of my thesis is to look at the various ways in which control over external providers is exercised today in order to ensure quality in public services provided externally. The focus is on the contractual situation between the buyer and the contractor, but some emphasis is also on complementary control mechanisms. The research questions are consequently:

How are contracts specified in order to ensure quality?

How is quality ensured through the monitoring process?

How is accountability enforced when public services are subject to contracting out?

The practical relevance of studying this subject is that public procurement, in the scale it is exercised today, is a relatively new phenomenon and therefore the procedures of quality assurance need to be clarified.

1.3 Method

The methodology used in this thesis is a qualitative approach, and the theoretical framework primarily used is transaction cost theory and principal-agent theory. A transaction cost perspective is useful in the analysis of how quality is ensured when public services are subject to contracting out. Principal-agent theory answers useful questions about incentives. The theory will serve as a background for the analysis of official documents related to the procurement process and an interview conducted with an official. The empirical parts of this thesis are based on primary data. By studying various documents related to the procurement process and conducting an interview the aim is to investigate how quality is monitored when public sector activities are subject to contracting out. The interview has been conducted as a complement to the documents in order to answer questions about the follow-up.

1.4 Limitations

The question I am asking in this thesis is how quality is ensured when public services are provided externally. I have chosen to limit the study to one specific area, namely health care. The reason for choosing this area is that health care is a type of service that is associated with requirements for certain quality standards and because there is an increasing trend of contracting out in the area of health care in Sweden. There is a need for an adequate control system since quality is significant. How control is implemented in regards to cost control is not studied in this thesis but the control focus will be limited to control over quality.

1.5 Outline of the thesis

In the following chapters I will answer the question that I have presented in the research question and the problem area section. To do so I start with a chapter of economic theory including transaction cost theory and principal-agent theory. The third chapter presents Region Skåne and a review of the regional organization and the role outsourcing within the organization. In chapter four the procurement process is thoroughly described as well as the method of analysis and the material used in the analysis. Chapter five presents the empirical

findings and combines the theory presented in chapter two with the empirical results, furthermore the analysis are presented. In chapter six a summary as well as some final thoughts is presented.

1.6 Notes regarding the translation of Swedish terms

The focus of this thesis, the public sector, is associated with a number of specific Swedish terms. Some of these terms can be difficult to translate directly into English. I have used official translations regarding the names of the various Swedish institutions where these have been available, and I have also looked at translations used in publications by official institutions. Regarding the names of Swedish institutions I have also used a special dictionary by the Swedish Association of Local Authorities and Regions. In addition to these sources I have used an ordinary Swedish-English dictionary. A list of the special terms and their translations is included as Appendix A, in order to clarify any misunderstandings.

2 Theoretical background

2.1 The concepts of privatization and outsourcing

The terms privatization and contracting are often used in a synonymous manner although they are distinct. This results in some confusion over the meaning of the two terms and therefore a clarification is in order. Privatization signifies a transfer of ownership of physical assets from public to private ownership. The privatized establishment could either be subject to competition or not depending on the environment in which it operates. The magnitude of the competition will depend on government policy and the structure of the industry.

The publicly provided services often have natural monopoly characteristics because least-cost production requires a single service provider. If a government wants to provide a particular service or good to its citizens there are two possible ways. The state can provide the good "in-house", which implies public production, or through competitive tenders (Hart et al, 1997:1131). Competitive tendering is a process where a preferred supplier is selected from a number of potential contractors and in-house public-sector service providers by seeking tenders and evaluating these on the basis of one or more selection criteria. This process is also referred to as contracting. When competition is restricted to outside providers the process is referred to as contracting out. The buyer then enters into a contract with the preferred external provider from outside the agency involving an exchange of services of payments. Contracting out is also called 'outsourcing' (Domberger & Jensen, 1997:68). In this thesis the terms of contracting and competitive tendering will be used to refer to the general process of assigning a supplier to provide serviced under contract.

Contracting involves opening up to competition a set of economic activities which were previously protected from it. *Ex-ante competition* is a distinct characteristic of contracting out which means competition *for* the market. The contract specifications define the market and

organizations are invited to submit bids for contracts. The tenderer with the lowest price will, other things being equal, win the rights to supply the particular services to the buyer. As opposed to privatization the buyer retains a certain control over the activities, monitoring performance, imposing financial penalties or replacing the contractor when necessary (Domberger & Jensen, 1997:68).

Evidence suggests that by putting their services through a competitive tendering process governments can save up to 20 per cent of expenditures. Both privatization and contracting out have experienced an increase and there has been a growth in specialist private-sector firms providing a wide range of white- and blue-collar services (Domberger & Jensen, 1997:68). There has been some debate about whether the observed efficiency gains represent genuine productivity gains or if they are wealth transfers i.e. reductions in wages of the staff. The existing evidence however suggest that the savings come from more efficient use of capital, better innovation stimulated by competition, more flexible working practices and better management (Domberger & Jensen, 1997:74). Previous research shows that, in Sweden, shifting from public production to competition has resulted in cost savings, but the size of the savings are smaller than in similar international investigations. In a study conducted in the early 1990s evidence was found that costs had decreased between zero and ten percent. However, most of the savings were due to improved quality rather than decreasing costs (Andersson, 2002:39f).

2.2 Features of public and private sector organizations

Government agencies and bureaucracies are different from organizations in the private sector of the economy. Many government services have characters of public goods, as they are to some extent non-excludable and non-rivalrous. There are externalities as the services delivered to one person give utility or disutility to others. In the public sector all the interests influenced by the actions and outcomes of a certain agency can involve themselves in advance political bargaining. Therefore government agencies are common agencies with a number of principals who, in order to have an effect on their actions, are involved in a non-cooperative game. The making and administration of public policy is in the interest of all citizens. However, all groups in society do not have the same resources or possibilities to participate and therefore extended public dissatisfaction, due to the outcomes of government agencies

and activities, appear as a consequence of these biases. Many public services are financed from tax revenue entirely or partly and therefore many public services do not charge the direct users for the whole cost. This implies that all taxpayers are influenced by decisions which have an effect on the cost of these services (Dixit, 2002:712).

The activities of private companies affect many people as well but it is however the owners' interest that is dominant and their interest can be as simple as to achieve profit. In a private firm the CEO is the principal with the top management as his agents, each of the managers acting as principal for their own team of agents, etcetera. The private firm is often pictured as a top-down hierarchy, even though this is not fully correct when stakeholders, labour unions and consumer groups act principals at certain levels. However, governments are more than a business as they reflect collective identity, respond to diversity and further social equity (Hefetz & Warner, 2004:174). The public sector is characterized by multi-principal agency. The outcomes of public sector activities influence many groups or people and the political disparities are generally not completely solved beforehand. Some of the principals in the political game that decide upon the rules are themselves agents whose activities the policy or the bureaucracy is trying to influence. These principals/agents are interested in particular aspects of the outcomes and inputs which affect their actions.

Most government agencies perform multiple tasks (their services have many dimensions), and the tradeoffs are not clarified in advance. Many aspects of government agencies goals are not clearly defined which makes it difficult for the agency and the politicians to say what signifies their accomplishment. In some situations it can also be difficult to verify actions and outcomes of public services, as to estimate whether the unclear ultimate goals of safety and quality have been furthered (Dixit, 2002:712f). There are some special advantages of government agencies to be considered. Agents are assumed to achieve utility from money income but can also get utility from other aspects of their task. If agents share some ethical or idealistic purpose with an agency they get utility from working there and when the client gets utility from the actions they take in their job the principal can offer smaller bonus payments and still acquire the same level of effort. If just working in a certain organization is sufficient for the client to get utility then the principal can offer them a lower salary. These kinds of effects are more probable to occur in the public sector agencies than in the private sector, and they might be of special advantage for government agencies that are budget-constrained (Dixit, 2002:714f).

Most public or quasi-public (regulated) agencies used to be monopolies while profit-seeking firm gets strong external incentives from its competition with other firms. The shortcomings of these agencies, such as lack off attention to consumer preferences, poor quality and high costs, were thought to be a consequence of insufficient competition and weak incentives (Dixit, 2002:714). There are potential benefits from contracting in situations where government agencies function as monopoly service providers and the circumstances benefit external production. Sharper incentives can be created by market competition. Contracting can save costs by generating competition among providers, decreasing bureaucratic inefficiencies and avoiding costly labour and supply demands. However, profit-making companies may possibly concentrate on the marketable aspects and disregard others, such as quality and safety, in a service with multiple dimensions (Brown & Potoski, 2003:276). There is a difference between private firms and government authorities in their flexibility regarding contractors. Transparency and equality are main concerns of good government but irrelevant in relations between firms. Also, in the public sector bidding process all potential bidders must be guaranteed access, and therefore the procedure must be structured in a certain way. The bidding process of public authorities is often a more costly, time consuming and complex procedure than of private firms (Prager, 1994:181).

2.3 Transaction cost theory

A transaction cost is a cost incurred in making an economic exchange and every transaction involves a cost in addition to the price. In the case of contracting out the transactions cost includes finding the right supplier, evaluating tenders, writing the specifications and contracts, and negotiating the final contract with the winning tenderer. Transactions are typically characterized by uncertainty, the frequency with which the transactions reappear and the extent to which durable transaction-specific investments are incurred (Williamson, 1979:239). In some situations the cost of transacting can be large enough to offset the profits. Under these circumstances in-house or integrated production is most favourable (Domberger & Jensen, 1997:69).

2.3.1 Incomplete contracts

Market transactions are characteristically governed by contracts. These contracts are in general incomplete due to uncertainty, unforeseen contingencies and asymmetric information. Transaction costs arise as a consequence of contracting since the uncertainty of the other party's actions increases the transaction difficulty. Transactions costs appear, to some extent, in all transactions. Two behavioural assumptions, namely that individuals are *opportunistic* and that individuals are subject to *bounded rationality*, constitute the basis of transaction cost theory. The characteristic of a transaction affect the transaction cost and the importance of contractual incompleteness (Rehn, 2009).

The risk of contract failure is minor when governments can write detailed contracts describing precisely what actions the provider shall take and what outcomes the provider shall accomplish. As a result the transaction costs inherent in negotiation, implementing and monitoring a contract relationship are low (Brown & Potoski, 2003:277). However, when a contract is written it is impossible to include every unforeseen event that might occur during the period of the contract. Contractual incompleteness is therefore a transaction cost that needs to be considered. Contract monitoring unavoidably gives rise to a cost that is worsened by contractual incompleteness. However, studies show that the costs of monitoring are no more then a few percentage points of the contract price (Domberger & Jensen, 1997:72).

2.3.2 Asset specificity and the ownership of assets

Asset specificity measures how specific an asset/investment is to a particular transaction. Specialized investments are investments that are relevant for the production of one service but are very hard to adjust for the production of other services. These specialized investments constitute an advantage to the first contract winner, hence forming a barrier to entry and a risk for market monopolization (Brown & Potoski, 2003:277).

Ownership of assets is significant since it makes it possible to control ex-post contractual effects when the contracts cannot entirely specify the rights and responsibilities of the parties. Whether the ownership of assets stays public or is transferred to the service provider can therefore be of great importance. It is the characteristics of services that determine whether ownership of assets by the buyer or contractor is most likely to be successful. In the case of

labour-intensive services the level of physical capital required is minor. The assets involved are not specific to the contract and can be easily replaced. Ownership is therefore in most cases left to the service provider (Domberger & Jensen, 1997:70).

Where the level of capital investment is moderate but considerably higher compared to the more labour-intensive services there are two possibilities, which are ownership by public sector or contractor. In the case of public ownership the assets could be owned by the buyer and leased to the contractor for the duration of the contract. This may create problems with renewal and maintenance because the contractor's incentive to maintain the assets are limited to remaining their quality until the contract term ends. Under-investment may also become a problem when relation specific investments are insufficient, also because of limited incentive. Therefore it is most common that the contractor should own the assets in these situations where the assets are not specific to the particular contract.

In some contracting situations the ratio of physical to human capital is extremely high because of vast capital investment, as in the case of prison management. If the contractor is to own the facility the size of the investment makes it necessary for the contract to be very long to make the activity lucrative. This undermines the force of ex-ante competition and therefore lowers the potential benefits to the buyer. It also makes enforcing contracting performance more difficult since a termination of the contract requires for the buyer to buy back the facility. If the ownership of assets remains public and is let out to the contractor this again creates problems with maintenance and under-investment. There is also the risk of the potential "hold-up" problem. This implies that when relation-specific investments are made the buyer may try to take hold of additional rents at the re-bid stage (Domberger & Jensen, 1997:70).

2.3.3 The characteristics of services and implications on contracting

Contracting is likely to be more successful in some circumstances than in others, according to the theoretical conditions. The different characteristics of services result in different requirements for specificity of assets. In situations where non-contractable quality characteristics are more significant and the specificity and magnitude of physical assets are greater, contracting out is likely to be less successful. The private contractor's incentive to realise cost savings is normally so strong that he disregards the negative effects on non-

contractible quality (Hart et al, 1997:1127). Contracting out is likely to be more successful in situations where the specificity of assets required to supply the services are smaller and the accessibility of competitive supply in the market is larger (Domberger & Jensen, 1997:71).

2.4 Principal-agent theory and the quality-shading hypothesis

In some situations it can be complicated to identify the quality characteristics of a service and to stipulate the characteristics before delivery. As a consequence it can be difficult to verify that a service provider does not uphold the quality specified in the contract as some characteristics of quality are non-contractable. If one assumes that some quality is non-contractable and that cutting costs have negative effects on quality it can be shown that private providers have a stronger incentive to reduce costs than public providers (Hart et al, 1997:1129). The quality-shading hypothesis states that the contractor's incentive to reduce costs has a tendency to be prioritized over the incentive to uphold or improve service quality. The core problem in situations where governments (principals) regulate the activities of contractors (agents) is information asymmetries and non-consistent goals between principals and agents. Private firms may provide a lower quality service to reduce their costs and raise profits. The greater difficulties principals have monitoring the quality of agents performance and implementing correct performance measures, shirking problems are aggravated (Brown & Potoski, 2003:277).

In situations where governments can write detailed contracts recounting precisely what behaviour and outcomes the contractor should accomplish the risks of contract failure are low, and therefore transaction costs such as negotiating and monitoring are also kept at a low level. Real world complications nevertheless make it impossible to foresee all coming events and to formulate contracts provisions for each particular event (Brown & Potoski, 2003:277). There is empirical evidence that do not support the quality-shading hypothesis, even though these findings are limited. Instead these results show that competition has an ability to lower contract prices and at the same time maintain or improve quality. The improved quality occurs because of enhanced performance monitoring, the possibility to choose between different contractors and a clearer focus on what is required in the service. This implies that a

worsened quality as a consequence of contracting could instead be due to implementation or difficulties of contract design (Domberger & Jensen, 1997:75).

2.5 Contract monitoring

Contracting for service delivery involves risks, which increases the probability of contract failure if ignored. Governments can reduce these risks by effectively monitoring provider performance. Although governments tend to have more ambiguous goals, complex environments, and internal constraints than private firms, they are still purposive organizations that seek to reduce uncertainty risks. Rational governments respond to risks under contract by adopting monitoring procedures to decrease the probability of contract failure. Contracting requires a good monitoring system. Monitoring is a costly activity but effective monitoring can allow governments to obtain the benefits of contracting while avoiding its hazards (Brown & Potoski, 2003:275).

The monitoring process begins with service specification and proceeds with government control and measurement of service delivery. Monitoring is a key feedback mechanism and expensive in terms of information and time. Studies of contracting show that services are more likely to be provided in-house when monitoring and contract specification are complicated. According to Hefetz & Warner (2004) monitoring and principal agent problems are considered the two most important factors in the contracting decision. Contracting is also affected by the market structure. Government managers who understand the significance of monitoring processes that measure quality, cost and citizen satisfaction are successful users of contracts for providing services. Monitoring and management are both important in guaranteeing contracting success, but monitoring is critical (Hefetz & Warner, 2004:175).

When the contract has been let the public authority's involvement with the contractor continues. Due to principal-agent problems auditing of the contracting-out process is required. Depending on the type of service contracted monitoring may or may not require professionals. For instance, if a service directly has an effect on an interest group or citizens, less bureaucratic concern is necessary. Public radio and television broadcasting are examples of services that can easily be monitored by the public hence the monitoring costs are kept down. However, government services such as health care, education or building construction

requires sufficiently qualified monitors in order to ensure contract compliance (Prager, 1994:181). Performance measurement for these kinds of government services requires a professional monitoring system in order to increase the probability of successful contracting (Hefetz & Warner, 2004:175). There are a number of methods through which governments can monitor contracts. Depending on the risks associated with contracting, some monitoring policies are more suitable in dealing with different types of risks. Monitoring procedures such as inspection of provider activities in the field, implementing citizen satisfaction surveys, monitoring citizen complaints and analyzing provider performance data can be of use to governments in order to alleviate risks (Brown & Potoski, 2003:279). Through citizen surveys that present less biased and more systematic studies of provider performance, compared to monitoring citizen complaints, governments can measure public opinion about service quality. These surveys can however be rather costly to administer and analyze. By analyzing provider performance data and records governments can more directly focus on the provider. If the service is easy to measure and the contract clearly states the level of output this can be a highly effective method. The method however requires that the public have enough resources to organize the data and adequate expertise to analyze and interpret it. It also requires for the provider to produce the performance information, which is costly. Governments can also conduct field audits which is a method that may demand less technical expertise but which is costly. This method however allows for the government to achieve direct information about citizen satisfaction, service quality and effort of the provider (Brown & Potoski, 2003:279). However in many instances not enough monitoring is done (Prager, 1994:181).

Service measurability determines how difficult it is for the contracting organization to monitor activities needed to provide a service or to measure the outcomes of a service. Services that have easily identifiable performance measures that correctly correspond to service quality and quantity are more easily measured. If neither the outcome nor the activities performed are easily identifiable a service is difficult to measure, and then the government is under the risk that the provider unseen does not fulfil the stipulated requirements (Brown & Potoski, 2003:277). Performance measurement has been criticized for failing to evaluate some significant aspects of citizen voice and engagement that are central to the governance process. If a good monitoring system is not available this may result in higher levels of contracting back-in (Hefetz & Warner, 2004:275).

2.6 Accountability

Accountability is the ability to call an authority or department into account by having its senior officials answer and explain their conduct, as defined by Domberger & Jensen (1997:76). When a contractor takes over an activity there is a loss of accountability, as a consequence of the authority no longer being in charge. However the government agency remains accountable for the efficient performance of its activities also when they are subject to contracting out. Even though responsibility is shifted from a public-sector organization to the private sector this does not mean that accountability is relinquished for them. Instead the government agency remains accountable for the performance of the activities. The contractual relationships do however not function in the same way as administrative channels.

Nevertheless, contracting out can improve accountability in three ways and need not decrease public-sector accountability. By introducing strict performance monitoring, pushing for evaluation of standards and service specifications and establishing mechanisms for compensation in situations where organizations or individuals have undergone loss or damage, accountability does not need to be decreased but will instead be enforced in a different way (Domberger & Jensen, 1997:76).

3 Region Skåne and outsourcing

3.1 The Swedish administrative system

Municipal self-government is, in Sweden, part of the public power that emanates from the people. Municipal self-government consists of municipalities (the local level) and county councils (the regional level). It is the county councils that are primarily responsible for medical care and medical treatment and they have the right to levy taxes. The county councils do however not control the municipalities in any way.

In Sweden the term regions is as a rule taken to mean the twenty-one counties. The regional autonomous authorities, the county councils, and the government's regional bodies, the county administrative boards, are bound to the counties. In Västra Götaland and Skåne, two of the twenty-one counties, the local independent authorities have a broader commission. In Västra Götaland and Skåne the tasks and duties of the county councils are therefore performed through regions with additional duties beyond the traditional tasks and obligations of the county councils, such as responsibility for growth and development. These tasks comprise making decisions on investments in the regional transportation infrastructure, drawing up strategies for the region's development and allocating funds for development initiatives. Skåne Regional Assembly is the self-governing authority of Skåne, the most southern county of Sweden. Every four years the decision-making assemblies in the two regions and nineteen counties, namely the Regional Assembly and the County Council, are directly elected.

According to the Swedish model regions and municipalities are equal parties but responsible for different duties. The regions are mainly responsible for health care, but some health care activities, such as residential care for elderly people, the municipalities are responsible for. Sweden has traditionally had a system with strong national and local levels. Up until now the

regional level has not been very important. The regions of Västra Götaland and Skåne are however evidence of the growing importance of the regional level

3.2 The regional organization

The highest decision-making political organ of Region Skåne is the Regional Assembly which consists of 149 members elected by the inhabitants of Skåne every four years in an election. Region Skåne's areas of responsibility are health, medical and dental services, town and infrastructure planning, public transport, trade and industry development, promotion of investment, culture and environment. The political work is concentrated on setting up good conditions and opportunities for Skåne to develop into an attractive region where people want to live, work, establish businesses and study. The competences are financed mainly by income tax, and it is the Regional Assembly that decides the level of the tax.

The Regional Executive Committee, appointed by the Regional Assembly, develops and organizes the many issues of regional development. A number of committees are appointed by the Regional Assembly in order to assist the Regional Executive Committee. One of these committees is the Health and Medical Services Committee which is in charge of the healthcare in the region, together with the Regional Executive Committee. The Health and Medical Services Committee is responsible for; preparing cases which are to be decided upon by the Regional Executive Committee and the Regional Assembly regarding health-political issues, developing the healthcare in Skåne according to the guidelines of the Regional Assembly, R&D and decisions about the acceptance of donations in the field of health care. Region Skåne is, through the Health and Medical Services Committee, responsible for representing and protecting the citizens' right to a good and equal health care. The people's need of health care is accommodated by missions to in-house activities and contracts with private health care providers regarding the content, quality and cost of health care (SHP, 2007:2).

The Subcommittee on Health Procurements is a political body that acts on behalf of the Regional Executive Committee. It is the Subcommittee on Health Procurements that has the overall responsibility for most of the procurement of health care services in Skåne. This

responsibility is delegated to them from The Health and Medical Services Committee. It is the Health and Medical Services Committee that, prerequisite the approval of the Regional Executive Committee, instructs the Subcommittee on Health Procurements to formulate bid invitations and to carry out the procurement. The Department of Private Health Care Providers accounts for official support for the Subcommittee on Health Procurements. The Department of Private Health Care Providers prepares and executes the procurement decisions of the Subcommittee on Health Procurements and lies within the Corporate Headquarters. There are about ten officials working at the Department of Private Health Care Providers (www.skane.se).

3.3 The procurement process

According to the Health and Medical Service Act (SOSFS 1982:763) a county or region can sign a contract with private health care providers to perform tasks for which the County Council is responsible (DPHCP, 2009A:4). The decision whether or not an activity should be subject to contracting out is decided at the regional level. The Health and Medical Services Committee presents a motion about contracting out a certain activity. The Regional Executive Committee then votes in order to decide about whether or not to accept the proposition. It is therefore the Regional Executive Committee that makes the decision about whether an activity should be outsourced or not. All public procurements in Sweden are governed by the Public Procurement Act (abbreviated LOU in Swedish). All procurements procedures studied in this thesis have been simplified procedures, which means that all providers have the right to participate, participating providers shall submit tenders and the purchasing authority may negotiate with one or several tenderers (www.kkv.se).

The procurement begins when the procurer starts to search the market for bidders. In the public sector procurement is subject to advertising requirement and a publication of a contract notice is mandatory. There are however a few exceptions to this requirement, specified in the Public Procurement Act. The total requirements for the bids are regulated in the bid specification which can be obtained by all bidding companies from Region Skåne's homepage. The specification regulates the tenders' form and content, for example the tenders have to contain a scheme of how the health care activities will be organized. The bidders then

have to submit their tenders in the prescribed time limit. An incomplete tender result in that tenderer is excluded from the procurement (RS, 2007A:6).

After checking that the tenders have been submitted in the prescribed time limit the administration of the tenders continues as follows. The bids made for the various contracts are first controlled to see if they are reasonable. A control of whether the bidding company correspond to established qualification criteria for technical and financial capacity is made, followed by a control set against the requirements of the service. Apart from these basic criteria the bids are evaluated according to specific demands established by the region. These established award criteria involve quality and implementation, collaboration, activities and price. The tender must contain a description of the tenderer's quality work. A point system is used to evaluate the bidding companies and the awarding of points is based on the established award criteria. It is decided upon how much each indicator should weigh in the decision. The bidder with the altogether highest score and the most economically advantageous tender will be awarded the contract[2].

3.4 Outsourcing

Whereas in-house production remains the primary means through which governments deliver goods and services contracting with private, non-profit and other public organizations takes a strong second. Furthermore, the frequency of contracting out continues to increase (Brown & Potoski, 2003:275). The public sector in Sweden is no exception and is today using more and more non-public alternatives to provide public services to their citizens. The motives for public procurement vary but the politicians all have in common the wish to change something and they use private providers for this purpose. Private health care providers constitute an important part of Region Skåne's health care operations. There is a clear political ambition to have an increased share of business operated by contractors, as an alternative to activities operated by the public, with the motivation of achieving a long-term healthy economy with good quality. Region Skåne is, through the Health and Medical Services Committee,

[2] The procurement process and the preceding decision-making process described in this chapter refer specifically to a situation when health care activities operated by Region Skåne are being outsourced.

responsible for representing and monitoring citizens' interest of a good and equal health care. By missions to in-house activities and contracts with private health care providers about the content, quality and cost of health care citizens' needs for health care is met (SHP, 2007:2).

In order to ensure good quality health care the National Board of Health and Welfare has developed a management system for quality and patient safety. The regulations on a management system for quality and patient safety (SOSFS 2005:12) specify how the work regarding quality and patient safety must be carried out. A clarification of what characterizes good quality health care[3], such as what makes health care considered to be knowledge based, efficient, safe, equal and patient-focused, is presented. All counties and regions are obligated to adopt these guidelines and Region Skåne has introduced the management system. Missions to public and private health care providers are structured according to the management system, which also constitutes an important part of Region Skåne's balanced governance. The aim is to achieve a clearer follow-up with participation of the public administration and the private health care providers, and to ensure a comprehensive view and long-sightedness (DPHCP, 2008A:1).

3.4.1 Various methods of outsourcing

There are mainly two methods of outsourcing health care in Skåne which are contracting out an activity to a private provider or compensating providers through reimbursement laws. Region Skåne has about 800 contractual relationships with different health care providers. This includes primarily individual doctors and physiotherapists working under compensation laws, namely the medical reimbursement law[4] and the compensation law for reimbursement of physiotherapy[5], but also individual contracts with health care providers (DPHCP, 2008A:2). The focus of this thesis is on contractual relationships with individual health care providers, a situation where Region Skåne engages in a contractual relationship by outsourcing activities such as hospitals, house call cars or outpatient psychiatry. However, an

[3] "God vård"
[4] Free translation: Lag (1993:1651) om läkarvårdsersättning.
[5] Free translation: Lag (1993:1652) om ersättning för sjukgymnastik.

explanation of the compensation through reimbursement system is relevant since it provides an overall picture of outsourcing health care in Skåne.

The health care system, "Hälsoval Skåne" means that citizens are free to choose health care from public or private health care providers with public funding. The reimbursement laws functions through directly allocating funds by allowing the end user to purchase the services themselves from a provider of their choice. Citizen choice has an impact on these units since a clinic receives more money the more people who choose to visit. Hälsoval Skåne only includes certain types of health care such as: health care centres, child welfare centres, cognitive behavioral therapy and pain treatment[6]. There is no bidding process preceding the acceptance of the private health care provider. The contracting authority must accept all health care providers who answer to the specified criteria[7]. Introducing the health care choice system is not volunteer but compulsory for all counties and regions in Sweden, according to Swedish law (Johansson, 2010). Control in this system is primarily a matter of registration and certification. It is presumed that dissatisfied customers will change service provider if the quality is not satisfactory. The physicians and their activities working under the compensation laws cannot be directly controlled by The Department of Private Health Care Providers but everything is regulated by law. The Department of Private Health Care Providers is however obliged to follow up the activities even though they cannot control quality.

The focus of this thesis is however on when Region Skåne engages in a contractual relationship by outsourcing its activities. This process of contracting is distinguished by whether in-house public-sector service providers are allowed to send in bids. The decision of whether to allow in-house bids is a political issue. In Skåne no in-house bids are allowed which implies that competition is restricted to external providers. Since in-house public-sector service providers cannot present bids in public procurement outsourcing activities of Region Skåne are thereby limited to contracting out.

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[6] Cognitive behavioral therapy and pain treatment has to be preceded by a letter of referral from a doctor to be covered by Hälsoval Skåne.

[7] According to the law of the free choice system (free translation: Lag (2008:962) om valfrihetssystem , abbreviated LOV in Swedish), www.kkv..se.

The reason for not allowing in-house bids is that not all costs of the activities are observable. One should have to isolate and make all costs visible in order to allow for in-house bids. The in-house public sector services should not be able to free ride because they already have an organization performing the activity, and an administration already carrying out the mission (Johansson, 2010).

3.4.2 The increasing usage of outsourcing

Swedish regions and counties use more and more non-public alternatives to supply public services to their citizens due to various reasons. In Skåne approximately nine out of ten hospitals and 80 per cent of the health care centers are operated directly by Region Skåne. The remaining care is run by private contractors which are under contract. Region Skåne has approximately 800 contractual relations. According to the Health and Medical Services Committee procurement decisions in 2009 and 2010, the private health care's share of the overall costs of health care will increase. The total budget for private care in 2009, excluding pharmaceutical benefits, is 2.1 billion SEK, more than 10 per cent of Region Skåne's costs for health care (DPHCP, 2009A:3). Activities operated by public health care providers in 2010 are, among others, outpatient psychiatry.

4 Material

4.1 Material used in the analysis

In order to answer the research question a number of documents connected to the procurement process have been studied. It is primarily material from four procurements in Skåne that have been used and all of the procurements have been in the field of mental care. Documents such as bid specifications, contracts, bid evaluations and procurement reports have been analyzed with the intention of clarifying the mechanisms behind the procurement process and how quality is ensured through the process of contracting out. A review of the different documents used in the analysis is presented in this chapter in order to give an understanding for the type of material utilized. In addition an interview has been conducted with an official at the Department of Private Health Care Providers in order to study the follow-up process.

The complete requirements of the bids are regulated by the bid specification which all bidding firms can obtain from Region Skåne's web page. The bid specification contains information about the process of procurement, the rules of secrecy as well as the required structure and content of the tender. The specification is a document that is part of the bid specification and that specifies certain demands. The document has to be signed by the tenderer an attached to the bid. The specification is a way for the buyer to ensure some aspects of quality to be guaranteed. It comprises the purpose and focus of the procurement, and the mission. The specification also contains descriptions of technical and functional requirements, procurement rules, award criteria and time plans. In addition to signing the document the tenderer has to; specify how health care will be delivered as well as the procedures of collaboration with other actors, and account for experience and skills. The document states that the requested functions can be solved in several ways and rather than making detailed demands the buyer wants the tenderer to describe its solution and how it supports the requested functionality. The operation mode must be pursued innovatively and provide incentives for activity development and new

solutions. The different tenders will be awarded points depending on how well they correspond to the award criteria stated in the bid specification. The maximum score is three and in order to receive three points the offered service must exceedingly well correspond to the specification, for two points the offered service shall corresponds well to the specification and for one point the offered service meets the specification slightly. Also half points are given (SHP, 2008:1).

A bid evaluation is simply a document that contains information about how each single bid have been awarded points according to the award criteria. It is the bidder with the altogether highest sum of points that in the end is awarded the contract. The procurement report includes a review of the procurement process and how evaluation has been made according to the established criteria. All the firms participating are presented as well as the winning tender.

The contract contains information about the performance of the mission, the types of treatment required, the monitoring process, limit for compensation, requirements of the premises, minimum requirements of the competence of the staff as well as applicable laws, constitutions and standards issued by state and municipal authorities. The contract is the main control mechanism in public procurement, which is typically combined with additional control mechanisms. The relation between politicians and an external party is of a contractual kind and their obligations are regulated in a contract at the time that the contract is being negotiated. The politicians must for that reason be aware of the significance of the difference when external health care providers are used and make their directives clear in the contract. The directives should however be in the form goals in order to allow for some autonomy for the providers.

4.2 The process of analyzing the material

The documents available have been analyzed on the basis of a number of bullet points in order to conduct a systematic review of the material. These points are presented in the following three subchapters.

4.2.1 Objectives

Outsourcing is preceded by political decisions and behind these decisions are the visions and ambitions of the politicians. In order to clarify the purpose of public procurement and to make clear what is important when contracting out it is central to study the objectives of public procurement. The political goals are converted into different measures in order to achieve certain objectives. If increased quality is a purpose of contracting out then this explains why measures are taken to assure quality in the contracts and through monitoring. One of the questions asked when analysing the material is consequently:

- What are the objectives of outsourcing health care activities?

4.2.2 Contracts with providers

A contract is an important control mechanism and a way for the buyer to ensure that important aspects of service are fulfilled in public procurement. According to economic theory the risks of contract failure are minor when governments can write detailed contracts. For this reason it is important to examine whether the contracts are detailed and if they contain identifiable performance measures. With the intention of clarifying the contractual relationship between the buyer and the private health care provider a number of issues regarding the measures and specification of contracts are investigated.

- How are the documents specified in order to ensure quality?

- Are the contracts detailed in order to ensure quality?

- Are there identifiable performance measures that correctly correspond to service quality and quantity mentioned in the contracts, and if so, are these measures used in the auditing process?

4.2.3 Control mechanisms for contracting providers

The contract is an important control mechanism but it is nevertheless important that it is enforced by additional monitoring. There are a number of different methods of monitoring available and the follow-up process is a prerequisite for contracting out. By monitoring provider performance governments can reduce the risks of contracting. In order to ensure that the objectives of contracting, such as improved quality or innovation, are fulfilled monitoring is necessary. Performance monitoring is also an important mechanism to enforce accountability when the government agency remains accountable for the efficient performance for its activities also when they are subject to contracting out.

- Which methods are used to monitor private health care providers, and is there a professional monitoring system?

- How is accountability enforced in order to ensure quality? Is there any reward or punishment associated with the follow-up in order to create incentives?

4.3 Difficulties with measuring and interpreting evidence

There are a number of difficulties related to measuring results and interpreting empirical evidence of studies that have been performed in the field of contracting out. The problems of measuring quality, competition and cost are explained in this chapter in order to give a comprehensive picture of the complicated process of monitoring.

4.3.1 Quality

Competition has resulted in substantial changes in the monitoring of services including a significant emphasis on standards and explicit inspection processes being introduced. The inadequate amount of data available on service quality before contracting out makes it difficult to make comparisons of quality before and after contracting out. This implies complication when estimating whether quality has been improved or not during the contract period. The difficulties in making comparisons are due to substantial information asymmetries

in contract monitoring. The implementation of contracts has almost universally been followed by an increase in performance monitoring which is due to two main reasons. Monitoring has been increased due to apprehensions that the quality of service would be lowered in order to gain cost savings, and that deteriorated performance explained the lower contractor prices, known as the quality-shading hypothesis. The second reason is that the politically and administratively susceptible nature of contracting has increased monitoring. The considerable information disparities before and after contracting out are significant and affect the ability of making comparisons and evaluating the effects of contracting on quality (Domberger & Jensen, 1997:75).

The subjective judgement of individuals also causes difficulties with monitoring. The buyer decides upon specific quality characteristics in order to ascertain a desirable level of quality for its activities which are subject to contracting out. However, the measurements of quality are affected by the subjective judgements of different individuals. The observers diverse opinions of what signifies a high standard creates measurement problems when the standards are not being applied similarly (Domberger & Jensen, 1997:75).

4.3.2 Cost

It is difficult to make comparisons of costs before and after contracting out, as in the case of quality comparisons. To be able to provide appropriate cost evaluations other factors should be held constant. In the case of contracting out this is difficult since contracting brings with it changes in specification of service requirements. Many government agencies and local authorities did not have specifications of service requirements before they let their activities be subject to contracting out which makes before and after comparisons complicated. Another problem is that public-sector accounting methods do not capture the full economic costs of service provision which will make comparisons with the price of a service contract deceptive (Domberger & Jensen, 1997:72f).

Another important issue is whether the cost savings of contracting are due to reductions in wages and salaries for staff, so called wealth transfers, or if they represent actual productivity gains. The available empirical evidence suggest that cost savings stems from more efficient use of capital, better management, more flexible working practices and better innovations

stimulated by competition. However there has been some debate concerning the causes of these efficiency gains (Domberger & Jensen, 1997:74).

4.3.3 Competition

An important issue is whether the potential gains in cost and quality stem from competition or private ownership. Some are of the opinion that the market structure, the public sector service-provider has a monopoly, is the reason for the inefficiency of the public sector. If this is true, and it is competition that stimulates to improved performance, then monopolies in the private sector would not achieve any better performance. However, some critics are of the opinion that the reasons for the public sector not being able to provide services as efficient as the market are that the public sector is not client-oriented and lack incentives to perform. Another contributing factor is that the public sector does not risk being threatened by bankruptcy in case they do not perform well. They can therefore perform poorly without the danger of going out of business (Domberger & Jensen, 1997:75).

The empirical evidence does not clarify whether it is competition or ownership that determines the gains in cost and quality. Evidence show how considerable savings have been achieved by in-house service providers which won a contract in competition with private contractors. The savings accomplished have been significant and not notably different form those achieved by private providers. However, another study found that savings achieved by local authorities whom awarded contracts to in-house providers were significantly lower than for those who engaged private contractors, which implies that ownership does matter. The empirical results are ambiguous and it is not clear whether competition or ownership is the determining factor cost and quality gains (Domberger & Jensen, 1997:75).

5 Result and analysis

5.1 Objectives

The objectives of outsourcing reflect the general ambitions of public procurement. It also states the purpose and what the politicians and officials working for the region hope to achieve with public procurement, i.e. the political goals. In Region Skåne, as in every county or region, there are political goals. The goals are set up by the politicians at the Regional Assembly. One such goal is that health and medical care in Skåne shall be open to different actors including external health care providers. The general strategic objectives of Region Skåne are to develop Skåne into an attractive and competitive region and to use tax funds in an optimal way and to provide safe and effective services of high quality. For private health care providers this implies that the region is to use private health care providers in a commercial way through public procurement. Further, the possibility of establishing new businesses within healthcare services shall be improved through competitive tendering. Private health care providers constitute an important complement to Region Skåne's own health care activities and there is a clear political ambition to increase the number of activities operated by contractors in order to achieve a long term stable economy and a good activity quality. The Health and Medical Services Committee is responsible for developing the health care according to the Regional Assembly guidelines and thus fulfilling the political goals. These goals are however rather broad and not very useful as measures (DPHCP, 2009B:1).

Another of Region Skåne's strategic objectives is that the region is to have a long-term stable economy. This implies that procurement of private health care providers is to be commercial and focus on cost efficiency, innovation and sustainability. Good health care with an efficient use of available resources must be practiced and special efforts taken to reduce drug costs for private health care providers (DPHCP, 2008A:7). The health care services in Skåne are to be open to various actors. Citizens are free to choose public or private health care providers. The

individual is given the right to choose, but also to cancel what is not working (SHP, 2008:3). For each single procurement the mission is to be aligned with the public health care in order to achieve a cohesive healthcare package which meets citizens' needs. Through clear explicit requirements and measurable objectives citizens are to be offered a safe high-quality healthcare (DPHCP, 2008A:6).

The general purpose and objective of a single procurement is formulated in the specification. In the document it is stated that health and medical care in Skåne will be open to different actors including external health care providers. The aim is to achieve a clear focus on the patient with increased accessibility, options, continuity and improvement of the patient situation. The vision is to provide health care where examination, diagnosis, treatment and subsequent follow-up treatment shall take place in a context with a clear patient focus. Care and treatment is to be flexible geographically and as regards to time and the competence is to be gathered around the patient in an appropriate way to ensure the healthcare chain (RS, 2007B:1). The specification has to be signed by the tenderer who also has to specify which work-methodology will be used in order to meet these objectives. In this way it is assured that the tenderer agrees to work in accordance with Region Skåne's objectives.

The procurement of outpatient psychiatric services have been preceded by political decisions and directives on the procurement of a unit in order to change, innovate and improve health care. It is also the objective to contribute to innovations and initiatives in order to discover new solutions so that citizens can be offered the best possible health care and also to create good conditions for effective outpatient psychiatry in the geographic area (RS, 2008D:2). The purpose of the procurements is to meet the citizen need of health care within a certain field, depending on which activity being subject to contracting out (RS, 2007B:2). The practical aim of the procurements studied in this thesis has been to meet Region Skåne's responsibility for its citizen's mental health needs within specific geographic and to achieve a cost-effective psychiatric care, according to the procurement reports (RS, 2008D:1).

By opening up activities to competition which were previously immune from it the ambition of Region Skåne is to increase quality. Diversity contributes to innovations and new incentives which spurs activity development, initiatives and new solutions so that the citizens will be provided the best medical care possible. The main objective of procurement is therefore innovation and the general objective of contracting out is to spur innovation in order

to increase quality (RS, 2007B:1). Diversity is one of many means to change, innovate and improve health care through improved accessibility, options, continuity and a strengthening of the position of the patient. An increased number of private health care providers is also one of several means to get better access within priority areas, according to Region Skåne (DPHCP, 2009A:2). Region Skåne is undergoing a renewal process with an objective to make health care more effective and to increase productivity (DPHCP, 2008A:5). The political will to increase the number of activities operated by private health care providers is one of the means to achieve this objective. Procurement of private health care providers therefore has to be commercial and focus on cost-efficiency, innovation and long-sightedness, according to the region's strategic objectives (DPHCP, 2008A:8).

According to the theory many aspects of political goals are not clearly defined which makes it difficult for the agency and the politicians to say what signifies their accomplishment. This is true also for the political goals of Region Skåne studied in this thesis. There is a general objective of outsourcing which is to increase quality but it is however not clearly defined what actually signifies increased quality. There is also a political aim to make health care more effective and increase productivity. A method to achieve higher productivity and more effective health care is mentioned, which is increased outsourcing of public health care activities. It is then again not mentioned how to measure whether the purpose has been accomplished. Reports state that it has been difficult to evaluate the impact of the procurement because of the difficulty of deducing what concretely is included in the mission on base of the available material (RS, 2010:1).

Even though the missions to external health care providers may seem vague it is not however certain that the missions to in-house activities are more precise. There is a difference between in-house activities and outsourced activities. The missions for in-house activities are often vague and very general. Therefore in some aspects in-house activities take after private health care providers where the mission has been further elaborated as a result of contracting out. The question is then how priorities are made and how health care is carried out in the public sector when mission statements are vague and do not provide sufficient information about how to perform the services? In these cases it is simply up to the employees. For the private health care providers it is more a question of how it should look with the innovations (Johansson, 2010).

By studying the documents it is clarified that the main objective of procurement is innovation. The objectives reflect that innovation is to increase quality of health care activities normally operated by in-house service providers. Procurement shall also focus on cost-efficiency. The objectives coincide with theoretical assumptions of public procurement effects. Empirical evidence suggests that governments can save considerable part of their expenditure by putting their services through a competitive tendering process. Region Skåne's ambition is to spur innovation and increase quality by opening up activities to competition which were previously immune from it. Ex-ante competition is an important factor in obtaining effective results of public procurement. The possibility of establishing new businesses within healthcare services shall be improved through competitive tendering, according to Region Skåne's objectives. It can however be difficult for small firms to break into the market where there are bigger and already established firms (Johansson, 2010).

5.2 Contracts with providers

Market transactions are characteristically governed by contracts. The process of writing specifications and contracts is one of the transaction costs related to public procurement. The rules and regulations in a contract provide the external health care provider with instructions on how to conduct the services. The risks involved in contracting can be reduced when governments can write detailed contracts describing precisely what actions the provider shall take and what outcomes the provider shall accomplish. On the other hand it is not always desirable for the buyers to regulate the activities of the contractor in detail because it hinders the objectives of innovation and development of the activities. In this chapter a review of the contracts as well as other documents related to the public procurement process is presented in order to demonstrate how contracts are specified in order to ensure quality. Outsourcing of health care services has become more frequent in Skåne. For each new contract the officials at The Department of Private Health Care Providers try to be innovative and bring new elements into the contract. Some may be applicable and some more difficult to manage (Johansson, 2010).

The Department of Private Health Care Providers is responsible for elaborating and formulating the contracts for health care activities. However measures are taken already

during the procurement process to ensure quality. The specification is a way for the buyer to ensure some aspects of quality. The tenderer has to sign the specification and specify how health care will be delivered. The tender must also contain a description of the tenderer's quality work. Experience and skills must be accounted for and the tenderer's experience of missions of such nature that may be relevant to the mission of the procurement and references from similar projects undertaken during the last three-year period shall be provided (RS, 2008B:3). By reviewing the provider's earlier missions the buyer can ascertain that the tenderer is suitable for the mission and is able to provide services of good quality.

By evaluating the tenders the buyer can choose the tender that is the most advantageous. The bid specification indicates that the tender that meets the requirements and is deemed the most economically advantageous with regard to the following ranked factors; namely quality and implementation, collaboration, price and activities will be adopted. The factors are weighed differently depending on what is considered to be important in a specific procurement (RS, 2007A:4). This implies that quality is a priority for Region Skåne and this coincides with the stated objectives to increase quality and to improve health care in general. By putting public services through a tendering process potential gains in cost and quality that stem from competition are absorbed. By choosing what is judged as the most advantageous bid quality is ensured.

The contract is a main control mechanism in public procurement. A contract incorporates rules and regulations related to the health care activity subject to contracting out. In the contract the mission is specified, as are some of the responsibilities against the patient. However, the mission is described in rather vague terms. The contract contains information about how the health care activities shall be designed and which types of treatment that should be offered. For example it is required that the activities shall consist of a differentiated range of measures, that the provider must have procedures for treatment and that patients shall be informed about different treatment alternatives (RS, 2009A:3).

In the contract the volume of the procurement is set as well as a limit for compensation. The target group is defined in the contract as it specifies which individuals that should be covered by treatment. The geographical area, and its residents, to which the mission aims primarily is defined. However, due to the policy of free health care choice the residents are eligible to seek treatment from other health care providers just as patients from other areas have the right to

seek care from the provider (RS, 2009B:3). The requirements of the premises are also specified in the contract. According to the document the premises shall be adapted for the disabled and equipped according to medical requirements in order to meet patients' needs with regard to a good and safe treatment environment. The premises shall be designed for the type of activities related to the mission and proximity to public transport facilities shall be provided. In addition, the opening hours of the activities are specified. Minimum requirements of the competence of the staff is set, for instance it is required that the activity shall consist of a doctor with a specialist qualification in psychiatry and a licensed psychologist, according to one of the contracts. The provider shall also ensure that all staff engaged in its activities continuously receives further education. The provider must make place for research and development for employees in its activities (RS, 2009B:20). The personnel involved in the activities must have a fixed location and regular service at this location in order to meet the requirements of patient continuity. The contractor also must comply with applicable laws, constitutions and standards issued by state and municipal authorities. A general openness of the business is required if secrecy laws or other statutes do not state otherwise (RS, 2009B:16).

According to the contract the provider must comply with certain policies and guidelines. This includes following current national standards and complying with Region Skåne's health care policies and health care programs. The provider must also follow the guidelines on medical priorities issued by Region Skåne. The provider shall remit and receive patients in accordance with the rules of Region Skåne and adapt to regulations on medical products (RS, 2009B:15). The provider must manage medical records, archival material and other information about their activities related to the mission in accordance with current regulations (RS, 2009B:16). The provider has full responsibility for the mission and for any damage and losses that may happen as a result of the mission. If demands are brought against the buyer as a result of the provider's action or failure the buyer shall be held indemnified. The provider must compensate the buyer for all costs and losses incurred by the provider violating the agreement (RS, 2009A:16). The provider also must take out and maintain an insurance policy during the contract period (RS, 2009B:19).

In the contract the compensation of the activities is regulated. The provider receives a certain payment, from the buyer, for each service that is performed and there is a specified limit of total compensation for each calendar year (RS, 2009A:8). The provider shall supply a mix of

procured services in the magnitude needed to operate the services according to the mission (RS, 2008A:7). The buyer pays compensation for activities which have been reported according to the regulations. The provider must report monthly all activities undertaken the previous month by submitting an invoice and the details of patient contact. If incomplete or incorrect information is submitted the buyer has the right to withhold the compensation linked to that information until that complete or correct information is presented (RS, 2009B:13). The buyer makes no guarantees regarding minimum levels on the volume that the contract covers (RS, 2008C:13). It also must be clear that the activities are part of Region Skåne's health care package and Region Skåne's logo must be mentioned in marketing (RS, 2009B:24).

According to the contract the provider shall carry out quality work within the areas comprised in the management system for quality and safety developed by The National Board of Health and Welfare (SOSFS 2005:12). Good quality health care shall be provided in accordance with six monitoring parameters, namely safe care, knowledge-based and efficient care, patient-focused care, effective care, equal treatment and care in reasonable time (RS, 2008A:12).

The provider agrees, by signing the contract, to follow Region Skåne's medication list and other recommendations of the buyer. There are goal levels connected to the medication list that applies to the activities of the provider. The provider shall continuously monitor the prescribing patterns and the compliance to the goal levels, lists and recommendations and when deviations are discovered take corrective action. The goal levels may be revised annually by the buyer. If the above goal levels are not followed this will generate additional costs for Region Skåne. In cases where the provider fails to reach these goal figures the extra costs will be deducted from the compensation. Reconciliation of fulfilment of the goal figures will be carried out once a year (RS, 2008A:14). The regulations of medication are rather detailed and specify which medicines that shall be used.

The documents and contracts contain a comprising material on different aspects of the activities. The contract contains detailed elements but as a whole the services are not regulated in detail. The prices that will be paid for the services are precise and there are regulations of the personnel. In some aspects the contracts are therefore not detailed. The contractor is not allowed free hands to provide the services. It is specified the sort of services that shall be provided, but the services are however not regulated in detail. Instead there are

minimum requirements set in order to guarantee certain standards to be fulfilled. The contracts can therefore in many aspects not be considered as detailed but part of the idea with outsourcing is also to leave some responsibility with the provider in order to allow for innovation and improvement. One of Region Skåne's main objectives of public procurement is to spur innovation in order to increase quality. In the contracts there is a lot written about new thinking and innovation. A minimum level is set in the contracts and it is then let to the private health care providers to enter new thinking and innovation in the tenders. For the officials evaluating the tenders it can however be difficult to decide what innovation is. What is considered to be new in Skåne may be thought of as old someplace else. It is also difficult to judge what determines whether people become healthier (Johansson, 2010). According to the theory the risks of contract failure is greater when the contracts imprecisely describe what action the provider shall take and outcomes the provider shall accomplish. There is a risk that quality-shading may appear in the activities but previous empirical evidence regarding quality-shading is however contradictive and it cannot be assumed that quality-shading naturally appear because of outsourcing.

According to the theory services that have easily identifiable performance measures that correctly correspond to service quality and quantity are more easily measured. In the contracts with Integrerad Närsjukvård Malmö KB and Psykolog Partners W&W AB there are identifiable performance measures that correspond to the quality and quantity of services. In one of the contracts it is stated that the proportion of care neighbours satisfied with the forms of collaboration must be at least seventy per cent. The provider shall also reach a business volume of a certain number of patients per year. As for the rest there are not many hard measures in the contracts. There is a large number of instructions and regulations in the contracts but in many respects it is rather vaguely specified what actually shall be accomplished. According to officials at the Department of Private Health Care Providers it is difficult to procure health care. The officials at the Department of Private Health Care Providers have a lot of contact with the private health care providers concerning the interpretation of the agreements (Johansson, 2010). The difficulties may be the reason why there are not so many identifiable measures.

5.3 Control mechanisms for contracting providers

Contracting for service delivery implies risks, which increase the possibility of contract failure if ignored. By effectively monitoring provider performance governments can reduce the risks of contracting. After a contract has been awarded it is up to the buyer to make sure that the health care services are carried out according to the requirements. At Region Skåne it is the Department of Private Health Care Providers that is responsible for monitoring the private health care providers in order to ensure that quality is maintained. Control is exercised in a number of ways. Monitoring can however only be effective if someone is held responsible for the performance of the activities. Accountability is the acknowledgment of responsibility for actions, decisions and policies encompassing the obligation to report, explain and to be answerable for resulting consequences. In public administration accountability is the capacity to call an authority or department into account by having its senior officials answer and explain their conduct. The contractual relationship between buyer and provider does not function in the same way as administrative channels but accountability can still be maintained when contracting out. In order to enable accountability there is a need of means which can be used if the provider does not fulfil the mission according to the agreement. Punishment and rewards associated with the follow-up can be used in order to create incentives for monitoring to be effective. In this chapter a review of contracts and the conducted interview will be presented in order to see how monitoring is performed and accountability enforced when health care services are outsourced in Skåne.

5.3.1 Monitoring

The mission statement of 2010 indicates that monitoring of the mission is to be realized from different perspectives. From the citizen perspective monitoring will focus on the results of patient surveys carried out. A national patient survey has been the base of this follow-up and has provided information about the patient's experiences and opinions. The most common complaint from these surveys has been that treatment has become too impersonal (Johansson, 2010) Private health care providers are also assumed to participate in a number of quality indexes. The ambition is also that follow-up activities must be intensified in 2010 through the concerted efforts both in terms of monitoring activities as follow-up on drug costs and sick leave (DPHCP, 2009A:3). The follow-up on private health care providers shall, as far as

possible, be performed with the same quality indicators as for public activities. The provider shall ensure the future quality and continued development of the activities, guaranteeing continuous evaluation and open comparisons. An advisory board shall be established consisting of individuals with various qualifications and patients must have the possibility to seek a second opinion and to receive a new evaluation (RS, 2009A:12). Continuous monitoring and evaluation shall be in accordance with Region Skåne's ambitions. The health care process should contain programs of quality assurance to guarantee that the established treatment plan is followed (RS, 2009B:4).

The private health care providers are governed by contracts but also to a large extent by the same laws that apply to publicly-run health care. The provider is responsible for that its activities are working according to The National Board of Health and Welfare's rules of management systems for quality and patient safety (SOSFS 2005:12). The health care will also be governed by the decision of Skåne to provide a patient-focused health care reinforcing the values of the National Board of Health and Welfare rules of management systems for quality and patient safety. The development and quality work shall be according to Region Skåne's strategic platform with the vision of a better life in Skåne based on the regional development programme with long-term objectives of growth, attractiveness, sustainability and balance (RS, 2009A:11). An attachment to the contract specifies the quality work and certification of the provider. It contains information about procedures and the personnel accountable of the quality work. A description of the working process is also attached to the contract (RS, 2009B6:1).

In the contracts some of the methods of monitoring are described. A considerable part of the follow-up is conducted by the contractor who also is responsible for providing the officials at The Department of Healthcare Providers with the results of the follow-up. The monitoring procedures are specified in the contract and it is obligatory for the contractor to carry out this follow-up. The contracts indicate that the parties agree to inform each other about the development and content of the activities, initially at least twice annually (RS, 2009A:17) or four times annually (RS, 2009B:24) depending on the contract. It is the responsibility of the buyer to send out an invitation for such a follow-up. This method of monitoring, that officials from The Department of Private Health Care Providers meet with the larger contractors, is realised a limited number of times per year. The rest of the time they keep in contact through telephone and e-mail. The private health care providers often call the department themselves

with questions about how to interpret the contracts, and how to perform the activities in accordance with the regulations (Johansson, 2010). The follow-up varies depending on the agreements and activities subject to follow-up. The contracts specify what the officials shall follow-up on, but this however differs between the various agreements. It is the person responsible for the procurement that introduces the various parameters into the contracts which emanates from the cause, purpose and content of the specification. In each contract the regulations of monitoring the individual agreement are specified. The follow-up of the activities are based on different parameters such as production statistics, listing statistics, staffing situation, financial monitoring, public health work, sick-listing, drug prescription, medical service, contract issues and administrative routines (DPHCP, 2008B).

The supplier's responsibilities in the geographical area are monitored annually per clinic area, to see if citizen's need for psychiatric care is met (RS, 2007B:3). The contractor shall provide an annual activity report for the previous year's activities to Region Skåne under special instructions. The annual report must contain some specific information agreed on in the contract. The provider shall describe the activities, development, content, trends and innovations so that it gives a good picture of the year of activity. The provider also must monitor annually whether peoples' need of outpatient psychiatric health care in the area is met and report this. In cooperation with the buyer the provider shall also elaborate an annual survey which is sent to the buyer's care neighbours in order to measure their satisfaction with the forms of collaboration. The result of the survey is then presented in the annual report. Another annual survey measuring patient (and relatives) satisfaction of health care during the period must be carried out, the results of this survey also presented in the report. The annual report must also contain comments concerning possible deviations, received patient complaints[8], cases submitted to the Patient Committee and to the National Board of Health and Welfare disciplinary board. It also must be accounted for the kind of quality work the provider has carried out in relation to the stated quality goals (RS, 2009B:21). A wide-ranging report on the visits must be presented and contain the share of first visits, return visits, emergency visits, the average treatment time, number of started treatments, number of completed treatments and the number of interrupted treatments. A report of the waiting time must also be submitted. The provider shall upon request submit any other information about

[8] Information about number of complaints, type, action taken and feedback to the activities.

its activities (RS, 2009B:21). In addition to these reviews there is a collective digital follow-up for all contractors, regardless of contract form, which is used to give feed back to the private health care providers and to make comparisons (Johansson, 2010).

The buyer has the right to examine the activities carried out, based on the economic situation, effectiveness and medical quality. The provider is obliged to provide the necessary information needed for the examination. The buyer has the right to use outside auditors and is responsible for the costs relating to the auditor (RS, 2009B:22). The Department of Private Health Care Providers is responsible for controlling that the quality is maintained and to conduct follow-ups. The department reports the monitoring results to the politicians. It is a dilemma to decide how serious deviations one party can make. The contracts are in some aspects vague which often results in different interpretations. Normally the problem corrects itself when it is pointed out and explained to the contractor that they do not fulfil the contract. It is not necessarily the intention of the contractor to violate the agreement, but they may simply have made a different interpretation (Johansson, 2010).

When the contract has been signed the public authority's involvement with the contractor continues. In order to reduce the risks of contracting and prevent quality-shading monitoring is performed. Performance measurement of government services such as health care requires a professional monitoring system. Region Skåne has a professional system for monitoring provider performance. It is the Department of Private Health Care Providers that is responsible for monitoring the private health care providers. According to theory there are a number of methods through which governments can monitor contracts. Monitoring is performed through patient surveys, a comprehensive report submitted by the contractor every year, meetings and telephone contact between Region Skåne and the contractor. The outcomes of health care can often be difficult to operationalize and health care is not uncomplicated to monitor which according to theory implies there is a risk that the provider unseen does not fulfil the stipulated requirements. Since the contracts with the health care providers are somewhat vague this affects the monitoring procedures which must capture the imprecise measurements. The officials at the Department of Private Health Care Providers do however carry out monitoring of provider performance through a number of ways.

5.3.2 Accountability

It is The Department of Private Health Care Providers that is responsible both for formulating the contracts and to realize follow-ups. To affect the performance of the provider there are several examples of rewards and punishment in the contracts used to a varying extent. If a contractor fails to start the activities on the agreed time a penalty has to be paid until the activities are started, this regulation is part of all the contracts. Otherwise the contracts may be a bit vague and there are not many punishments available. According to officials at the Department of Private Health Care Providers it is difficult to determine how much the parties can depart without being punished when there are no clear boundaries. If a contractor deviates the first thing that happens is that it is pointed out to the contractor that they do not act in agreement with the contract and that sharpening is required. If no action is taken by the contractor to improve the situation a written reminder is sent. If there is still no improvement the case ends up at the politicians' agenda. The last step is to take the matter to court where the contract is ultimately terminated (Johansson, 2010).

Criterion-referenced compensation and deduction is used in the contracts. Depending on whether certain objectives are fulfilled the provider is awarded a bonus for each accomplished objective. One aim is that certain numbers of business volume must be fulfilled each year and another that the proportion of care neighbours[9] satisfied with the forms of collaboration must be at least seventy per cent. In order to monitor the satisfaction of collaboration the provider must, in cooperation with the buyer, draw up an annual survey which must be sent to the care neighbours by last February the following year. For each fulfilled objective the provider is awarded a bonus that is predetermined according to the contract. However, if the objectives are not achieved the provider will see its compensation for the previous year reduced by the same amount (RS, 2009:B10f).

Whether the provider has fulfilled the objectives and received the awarding bonuses have an effect on the possibility to prolong the contract. The duration of the contractual period is specified in the contract, and in some cases there is a possibility to have the period agreed on extended. According to the contract Region Skåne will, in order to decide upon the possible extension of the contract, take into consideration to what extent the provider has fulfilled the

[9] Care neighbours such as hospitals, municipalities, health insurance offices and public employment services.

objectives of the procurement (RS, 2009B:2). The provider is therefore held accountable for its activities and if the objectives are not fulfilled within the duration of the contractual period the provider will be punished by not being awarded an extension of the contract. Rewards and punishments are thereby used in connection with the follow-up in order to create incentives. In the contract between Region Skåne and Psykolog Partners W & W AB bonuses are used for this purpose. In the contract it is indicated that if the contractor fulfills certain objectives they will be awarded a bonus and in addition they will be treated favourably when the question about renewal of the contract comes up. For Region Skåne to consider a renewal of the contract it is a prerequisite that the provider has achieved the bonuses.

Region Skåne and Stockholm County Council use public procurement to a large extent in order to provide health care services. This implies that a larger number of contracts are signed by the officials working at these regions. A number of these contracts are prolonged, for practical reasons, but to really take up the advantages of contracting the contracts should be renegotiated, and prolongation only used in extreme emergencies (Johansson, 2010). The reason is that in procurement creativity is absorbed, creativity which will be lost in case of prolongation. Since ex-ante competition is one of the important factors in obtaining certain advantages of outsourcing, such as innovation, this will be lost when competition do not take place. However since prolongation of a contract is based on whether the provider performs well it is assured that some aspects of services are of good quality.

The buyer is entitled to claim penalty if the provider cannot accomplish the mission in its entirety at the latest two months after the activity start up agreed-on. The penalty is at 100 000 SEK after a week. The penalty then increases by twenty per cent per week for four weeks. Thereafter the buyer has the possibility to terminate the contract in its entirety with immediate effect (RS, 2009B:24). If the contract is terminated the provider must reimburse the buyer for all additional costs caused by the annulment (RS, 2008A:21). All the contracts studied include a similar penalty function even though the details of the penalty somewhat vary. The buyer also has the right to terminate the agreement with immediate effect, or at a date specified by the buyer, if the provider does not carry out the tasks undertaken by the provider under the agreement and no correction is made immediately or within sixty days of the reminder. There are as well a number of other circumstances under which the provider can terminate the agreements such as if the provider is bankrupt or in liquidation, a change is made relating the ownership of a majority shareholding in the company of the provider in a way that the buyer

cannot reasonably accept or if the activities of the provider is banned by The National Board of Health and Welfare or any other administrative court. The provider has the right to terminate the agreement with immediate effect if the buyer is in default with payment and does not pay the provider thirty days after written notice (RS, 2009B:23). The provider must recompense the buyer for all costs occurred as a result of the provider violating the agreement (RS, 2008A:16). All private health care providers that have a contractual relationship with Region Skåne are connected to an insurance policy which means that they automatically have insurance cover if demands are brought against them (Johansson, 2010).

According to the theory outsourcing does not need to decrease public-sector accountability. The contractual relationship does however not function in the same way as administrative channels. Theory suggests that accountability can be enforced by pushing for reviews of standards and service specifications, introducing strict performance monitoring and by establishing mechanisms for redress in situations where organizations or individuals has experienced loss or damage. The empirical evidence suggests that there is ongoing work with elaborating the contracts. Monitoring of outsourced health care services is performed by officials at the Department of Health Care Providers. It is also established that he provider has to compensate Region Skåne for any demands brought against them as a result of the provider's action or failure which clarifies responsibility taking in case of loss or damage. Punishments and rewards are used in order to create incentives and hold the provider's responsible for their performance. According to the empirical evidence accountability is thereby enforced but in a different way from public-sector organizations.

6 Summary and conclusions

In my thesis I have looked at several questions. First of all I have tried to describe the objectives of outsourcing in order to clarify what the priorities of the procurement process are. Politicians on the regional level have allowed for private companies to enter markets for public services that were previously closed. The motives for this may vary but in my thesis I have found that the main objective of outsourcing is to spur innovation in order to increase quality, there is a vision to change and improve health care utilizing private providers as a way of achieving this change. Outsourcing however generates problems as a consequence of changes in the public organisation.

The main focus of this thesis was to study how quality is ensured when public services are subject to contracting out. By examining how contracts are specified and how monitoring is performed, as well as the mechanisms of accountability, the various ways in which control is exercised in order to ensure quality are clarified. Health care service delivery is a complex process. Even when formal monitoring do exist, it can be difficult to specify the full range of service attributes and at the same time allow for sufficient flexibility to be responsive to a changing environment. In this thesis I have discovered that the main control mechanism in public procurement is the contract which is typically combined with additional control mechanisms, such as monitoring. In the contracts there are not many identifiable performance measures available. Instead the measures mentioned in the contracts are rather vague. One of the main objectives of outsourcing is however to spur innovation to increase quality which requires to leave some responsibility to the provider in order to allow for innovation and improvement. The contracts contain detailed elements but leave some scope for the contractor to enter new thinking and innovation. The outcome of health care services is difficult to operationalize which is another reason for the soft measures.

An ambitious evaluation of a contract bid is important in order to find the right supplier but if the actual services are not controlled there could be no way of knowing whether the bid was realistic and actually implemented. One of the aims of this thesis has therefore been to

examine how quality is ensured through the monitoring process. After a contract has been awarded it is up to the provider to ascertain that health care services are carried out according to the requirements. According to theory the risks of contracting can be reduced by effective monitoring of provider performance. Region Skåne does carry out monitoring performance. Monitoring of services is by Region Skåne exercised through a professional monitoring system including methods such as patient surveys, comprehensive reports and meetings with the contractor. The outcome of health care services can however difficult to operationalize and health care is complicated to monitor which implies that there is a risk that the provider unseen does not fulfil the requirements. The intangible measurements in the contracts are a result of the difficulties with operationalizing and measuring health care.

The contractor is held accountable through a number of ways. In this thesis I have found that the contractual relationship does not function in the same way as administrative channels but instead accountability is enforced in a different way from public-sector organizations. There are the several ways for the buyer to hold the provider accountable of their performance. Punishments and rewards are used in the contracts in order to affect the performance of the provider. If certain requirements are not fulfilled within a specified time limit the provider's compensation will be reduced. It is taken into consideration to what extent the provider has fulfilled the objectives of the procurement when there is a possibility to have the contract period extended. If the provider does not accomplish the mission it is possible for the buyer to claim penalty. Through monitoring it is ascertained that the activities are according to the regulations and that the provider is held responsible for the activities.

Outsourcing health care activities is in some aspects problematic. The difficulties of operationalizing health care outcomes and monitoring affect the contracts and monitoring procedures. The health care activities are in some important aspects controlled comprehensively and methodically and the provider is held responsible for the activities. The intangible measurements and difficulties with monitoring nevertheless imply that there is a risk of quality-shading. On the other hand one of the main objectives of outsourcing is to spur innovation in order to increase quality and to seize the advantages of outsourcing which require leaving some responsibility to the provider in order to allow for innovation and improvement. It is also important to mention that outsourcing of health care is a relatively new phenomenon and the contracts and procedures are developed continuously.

During my work I have discovered many things that would be interesting to study further. For example it would be interesting to compare the quality work in Skåne with other regions in Sweden in order to examine how contracts are specified, monitoring carried out and accountability enforced. The purpose would be to examine whether quality control is implemented differently and more/less efficiently.

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Appendix A

bid specification - anbudsunderlag

child welfare centre - barnavårdscentral

County Administrative Board - länsstyrelse

county council - landsting

Department of Private Health Care Providers - Avdelningen för privata vårdgivare

Health and Medical Service Act - Hälso- och sjukvårdslagen

health care centre – vårdcentral

Health and Medical Services Committee - Hälso- och sjukvårdsnämnden

National Board of Health and Welfare - Socialstyrelsen

Public Procurement Act - Lagen om offentlig upphandling (abbreviated LOU)

Regional Assembly - regionfullmäktige

Regional Executive Committee - regionstyrelse

simplified procedure – förenklad upphandling

specification – kravspecification/förfrågningsunderlag

Subcommittee on Health Procurements – Avtalsutskottet

Swedish Association of Local Authorities and Regions – Sveriges Kommuner och Landsting