How insourcing rather than outsourcing gave substantial savings and improvements

Getting the balance right between reducing costs, and improving productivity and efficiency is a tough task in any economic climate. But with a little outside help, Oslo University Hospital’s bosses managed to do just that with its cleaning services department.
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M astering the art of cost cutting while boosting productivity is never easy. Since the onset of the global economic crisis in 2008, organizations have had to make difficult decisions to keep their businesses going. Unemployment has risen the world over, with investment in new products and services dropping, and business leaders slashing prices to retain customers.

Given the difficult conditions they face, it is easy to see why many management teams in the public and private sectors consider reducing outgoings while attempting to retain their strategic agility, quality and service levels. But slashing budgets and cutting expenditure without disrupting the business or harming its growth potential is a big challenge.

One approach that some businesses take is to outsource non-core activities – a strategy that the bosses of Oslo University Hospital (OUH) implemented between 2000 and 2010 when looking to cut their textile cleaning facility’s costs. With some 11 tonnes of cleaning still done internally, staff were struggling to hit their daily targets. To address the issue and lighten the load, the management considered outsourcing the rest of the cleaning services. But while working with EY two years ago, management decided to try something new: insourcing.

In 2011, a team of EY specialists that included Kjetil Helle, Aleksander Haug Laache and Bard Karlsen, worked with OUH’s management to assess efficiency throughout the hospital. The aim was to improve productivity, raise staff morale and make savings without having to outsource services to external partners.

“We see politicians trying to drive and improve performance by outsourcing and introducing various structural, governance and cost-cutting measures. Less common is to engage, develop and use the competence of existing employees to improve their own processes,” Helle says. “They should think about how physicians and nurses can help improve their hospitals, or how headmasters and teachers can boost their school’s performance. People who work in a hospital or school should be empowered and responsible for their department’s performance, and have the opportunity, authority and skills to improve things themselves.”

The EY team’s experience of working with several large organizations to improve performance was applied to the OUH project. Helle and his team understood that by improving the cleaning service team’s productivity, management could cut the workload, relieve the pressure on staff and boost morale. This approach would also give the cleaners more time to complete their work, removing any need to outsource services to third parties.

From the outset, the EY team focused on boosting productivity, making cost savings and giving staff morale a much-needed boost. If productivity could be significantly improved, then the resulting spare capacity could be used to insource what was being done by external providers, without adding any resources. To achieve this, it was going to be necessary to breathe new life into an institute that had struggled since forming a year earlier.

In bad shape
The merger of three Oslo medical facilities in 2009 gave birth to OUH, Northern Europe’s biggest hospital, with 22,000 employees and around 3,000 beds. The alliance’s goal was to consolidate medical services in the city, improve efficiency by treating patients at one facility instead of several, and slash the costs associated with operating three hospitals.

In theory, the plan to consolidate the hospitals and reduce expenditure was sound. But in practice, standards throughout the merged organization dropped sharply.

After years of substandard maintenance, the facilities, pipes and electricity systems in each OUH building were below par. Working in such conditions took its toll on the staff, many of whom were frustrated by the lack of investment and their increasing workloads.

The situation was particularly bad for the 74 employees in the cleaning services team, who were tasked with washing bed sheets, pillows, garments and clothing for doctors, nurses and patients. Aside from the poor working conditions, the staff had to contend with a crippling workload and send the textiles to about 250 delivery locations throughout OUH.

“Trying to keep up with customer demand was always an everyday struggle,” Helle says. “The backlog was big and they had frequent stock outs. They were basically just trying to push as much textile as possible through the production facility, having little or no idea of the actual customer demand. The staff were disengaged because they never managed...
In addition to outsourcing, the hospital’s management briefly considered investing in a new cleaning services facility. “But that would take many years and lots of money,” Karlsen says. “Generally, business leaders want to know how they can cut costs and achieve the same, or even better, results with fewer resources, but no one can really answer that.”

Once the idea to build a new facility had been scrapped, the bosses decided to give insourcing a go. “Ours and the management’s thinking was not to focus on having fewer resources, because we knew we could cut costs by doing the right things. Quality costs less, not more. Instead of focusing on cutting costs, we and the directors looked at how they could improve their service using existing resources.”

**Nursing OUH back to health**

With a strategy in place, EY and OUH’s management set about creating a cost-effective system that would improve efficiency, help the cleaning services team to hit its daily targets and, in turn, boost morale within the department.

The blueprint focused on three areas: cleaning operations, logistics and customer needs, and leadership and engagement. The first involved making sure there was a continuous flow of clothing and bed linen going in and out of the cleaning services department, including improving the overall equipment effectiveness of the machines.

The second was achieved by introducing a simple, yet effective, schedule showing when garments were arriving, whose job it was to unload and clean them, and daily deadlines for completing the work. An inventory was posted on the wall with details of the type and amount of clothing that needed cleaning, and the clothing and bed linen that each hospital department required at any one time. Based on the inventory, the staff could see how large or small the workload was, and the type and amount of cleaning they needed to do each day.

For the third task, EY trained and coached the managers of the cleaning services team. “It was important to look at the whole structure of the division and make sure there were people on the ground to manage the operation effectively,” Helle says. “OUH’s management introduced daily targets and early morning meetings to ensure everyone knew what was expected of them.

“The hospital’s leaders worked with the team to get each member engaged and address the problems in the cleaning services department. They’re now encouraging employees to identify the problems and work as a team to solve them, permanently.”

From start to finish, it took about six months to implement the strategy. During that time, OUH’s management identified inefficiencies in the cleaning services department, introduced a system whereby all staff understood the needs of all divisions, and helped forge greater collaboration between the management and workers.

They also increased productivity, with the team cleaning 53% more clothing each hour, equating to about 13.5 tonnes a day. Sick leave dropped by 22%, costs were slashed by 15% to 20% and staff morale received a much-needed boost. “Motivating the staff and improving the mood within the division was one of the biggest challenges,” Laache says.

“The hospital’s management worked with the staff to get them focused on the operation and make sure they ran the department properly. It was tough, because they had basically been neglected over a long period of time, but the directors overcame this by engaging them, making them responsible for their performance and getting them to focus on the job in hand.”

Once the six-month operation was complete, EY asked each member of the cleaning services team to fill out a questionnaire. Of the 90% who responded, 74% said they were more motivated than before the project started.

“The bosses managed to cut outgoings by not concentrating on costs,” Helle explains. “Their focus was on satisfying customer demand, quality improvement and getting the best out of the workforce, because it’s difficult to motivate people or engage with employees by slashing budgets. Making their working life easier and less stressful, and removing waste and inefficiency makes them happier and more engaged.”

The strategy clearly paid off. Motivation is high, the staff are happy, efficiency has improved and productivity is up, while costs are down. What would most companies, in today’s challenging global market, give to achieve similar results? ■