TECHNOLOGY

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the other side of outsourcing

AT A GLANCE

Outsourcing IT is the subject of much discussion in health care today. However, many of the key rationales for out-sourcing—including lowering costs and improving service—may not come to pass. Outsourcing may be appro-priate in extreme situations, but most hospitals would be better advised to manage the very important strategic resource of healthcare IT themselves.

It's hard to open a healthcare publication or attend a seminar these days without reading or hearing about the advantages of IT outsourcing, often including testi-monials from satisfied providers who have outsourced their IT function. Today, hospitals are on such tenuous financial ground that outsourcing IT is tempting for many CEOs and CFOs. However, many organizations that have outsourced IT have encountered problems that are rarely mentioned in articles and seminars.

Point/Counterpoint
Let's look at the main rationales healthcare executives cite for outsourcing, accompanied by potential flaws in each rationale.

Point. Healthcare organizations need to focus on so-called core competencies—such as providing high-quality patient care—and not be distracted with the burdens of over-seeing rapidly changing computer technology.

Counterpoint. The vast majority of hospitals have overseen IT for more than three decades, so why is IT no longer a core competency? With the advent of computerized physician order entry and electronic health records, IT is as core to patient care as any other hospital department.

Point. There is a dearth of leadership of IT departments today.

Counterpoint. If your CIO is weak, counsel him or her, and if the CIO doesn't improve, find another one. A hospital wouldn't outsource finance because of a weak CFO.

Point. Hospital IT staffs typically lack up-to-date technical knowledge or have gaps in skills.

Counterpoint. Knowledge and skill gaps should be addressed by increased training and improved CIO leadership. Hospitals routinely address such gaps in other departments through training.

Hospitals should not assume that vendors will be better IT managers than hospitals. After all, vendors face the same challenges that hospitals do in managing IT.

Point. Outsourcing can reduce the significant costs associated with IT.

Counterpoint. Outsourcing can add a vendor's profit margin to your IT payroll expense, thus increasing IT costs.

Point. Outsourcing allows a hospital to take a major leap forward with core system technology.

Counterpoint. Hospitals have shown their ability to make major leaps forward in technology in their work to address the challenges of Y2K and HIPAA.

Point. Outsourcing can turn around unsatisfactory service levels associated with the current IT function.

Counterpoint. Hospitals are fully capable of improving service by working with department management and staff. For example, hospitals have used patient satisfaction results to improve departments such as nursing and dietary for years.

Hospitals should be wary of sales pitches that emphasize these rationales for outsourcing IT, and they should not assume that vendors will be better IT managers than hospitals. After all, vendors face the same challenges that hospitals do in managing IT.

What Is Outsourcing?

The meaning of the word *outsourcing* has become ambiguous these days. Typical examples of outsourcing in health care include dietary and housekeeping services. In these instances, often only the department director or manager is outsourced, with the bulk of the employees remaining on the hospital's payroll. But what does outsourcing mean for IT? Here are three typical types of IT outsourcing:

> *Total:* The entire IT department's staff is transferred to the employment of an outside firm.

> *Management:* The CIO (whether VP, director, or manager) is employed by an outside firm, while the rest of the IT department remains as hospital employees.

> *Partial:* A specific function of IT, such as the help desk, network administration, or the data center, is transferred to an outside firm.

For the remainder of this article, we will use outsourcing to mean the transferring of IT employees—whether the entire staff or a segment of the staff managing a specific function—to an outside firm.

Working with Outsource Firms

Today, there are three general types of vendors one can consider for IT outsourcing: information system vendors, IT consulting firms, and IT utility firms. Working with each of these types of firms presents unique challenges.

Information system vendors. It is extremely difficult for such firms to run an IT shop with a competitor's system due to the proprietary nature of information systems. Outsourcing to an information system vendor amounts to signing up for its system and losing competitive advantages when shopping for new systems.

IT consulting firms. Hospitals outsourcing to consulting firms need to beware of proposed new projects that are labeled as beyond the scope of the outsourcing engagement and that will increase costs for the hospital (and revenue for the consulting firm).

IT utility firms. Such firms do not specialize in health care and so might staff a hospital's project with experts from another field. Hospitals may not want to invest time teaching these experts about the nuances of managing information in health care.

General Outsourcing Problems

No matter which type of firm you consider, IT outsourcing presents several problems that are difficult to overcome.

Service-level agreements. Such agreements are intended to quantify the quality of service a hospital will get from an outsourcing vendor. Measures might include user satisfaction or system response times. However, meas-

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uring such criteria objectively and fairly is fraught with difficulty, including the inherent perception that measures created by the hospital will favor the hospital and measures created by the vendor will favor the vendor. There is no easy answer to this conundrum except identifying neutral third parties for the evaluation and paying even more for their services.

Exit strategy. In case things don't work out, it is easy to put into an agreement that the employees will return to the hospital, but as the old song says, "How you gonna keep them down on the farm once they've seen Paree?" An outsourcing firm can offer many benefits, from stock options to diverse career paths, that your hospital cannot offer.

Employee motivation. When the IT function is part of a hospital, IT staff are motivated to do what's necessary to improve patient care—the mission of the hospital. However, would that same level of motivation exist among staff employed not by your hospital but by an outside firm?

Outsourcing Costs

Usually, outsourcing will ultimately raise, not lower, IT costs. There is no such thing as a free lunch. The primary ways to lower IT costs are to reduce the number of FTEs or to reduce service levels. If there were easy ways to knock several million dollars off of your current IT budget, your CIO would have recommended them long ago. Providing high-quality IT service costs money, and an outsourcing firm has the added burden of needing to show a profit. In addition, it's just plain business sense that any new projects are new costs to the outsourcer, and the firm must pass those costs on to you or go out of business.

Valid Reasons to Outsource

The outsourcing pitfalls mentioned so far are intended to give CFOs and CEOs perspective on the prospects of outsourcing. Outsourcing is not a silver bullet for most hospitals, but an extreme step to be taken only in extraordinary circumstances. When you outsource IT, you are turning over an increasingly important strategic resource to an outside entity to operate within your organization. IT is vastly different from doing the laundry or cleaning the halls.

However, outsourcing can be an appropriate step under certain situations.

Runaway IT costs. If an organization's IT costs are so far above the norm that extreme measures are required, outsourcing might slow uncontrolled future growth. You might use a benchmark of the percentage of a facility's overall budget that is being expended in IT, with two norms: 2 percent for community hospitals and 3 percent for multihospital systems or academic medical centers. If your costs are approaching double those figures, then outsourcing might help rein them in, even allowing for the outsourcing firm's profit margin.

Brain drain. If your surrounding geographic area has a large IT industry that is pulling away your IT talent and making it too difficult to recruit new IT employees, outsourcing might help because an outside firm would be a more attractive employer for IT professionals.

Imminent, challenging implementations. If a hospital is facing a significantly large conversion in the near future, an outside firm might be a good insurance policy, even at higher costs than handling the conversion internally.

Broken pieces. Your help desk, network function, or some other segment of your IT service may be so broken that you should solicit bids to outsource this piece of your operation. Carefully checking references and competitively negotiating contacts among niche firms might result in an interim improvement.

The Worst Reason to Outsource

The worst reason for outsourcing is the desire to abdicate responsibility for a difficult and challenging area. With declining payment, significant responsibility to guard against fraud and abuse, questions about charging and

LET US KNOW

If you have thoughts about the pros and cons of IT outsourcing, let us know. Letters to the editor of *hfm* can be sent c/o Dorothy Karmowski to dkarmowski@hfma.org.

collections, and many other healthcare challenges, IT may feel like the straw that breaks the camel's back, leading hospital executives to investigate placing the burden on someone else's shoulders. However, outsource firms have similar challenges burdening them, including the need to enhance revenue, meet competitive pressures, attract and retain qualified staff, meet regulatory requirements, and so forth.

Like all major decisions in health care, this one needs to be taken slowly and deliberately, with counsel taken from those who will not benefit from giving advice. Out-sourcing IT may sound tempting, but we all can name many fads in healthcare management that sounded good at one time, but did not deliver on their promises. Ultimately, there are more reasons not to outsource IT than to outsource. ●

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