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Growing Complexity of Healthcare IT Will Drive Outsourcing

Technology in general, and IT specifically, have become one of the most pervasive aspects of healthcare delivery, touching nearly all its aspects. Today, a whole new universe of possibilities is being opened up in the shape of e-Health programmes. Most hospitals, however, lack the resources or skills to go it alone in building new IT infrastructures for such e-Health programmes. Many also lack the capacity to train staff to handle complex new software packages or align them proactively to the stillevolving policy requirements and unremitting pace of technological developments in their field.

Public Funds Pose Specific Pressures

In Europe, public funds account for almost 75% of hospital spending and decision-makers have to grapple with questions of efficiency on the one hand, and limited financial resources to allocate to healthcare IT. As a result, hospital managers will increasingly have to consider the only viable way forward – to outsource their IT requirements.

Unfortunately, the first efforts at largescale outsourcing – in terms of Britain's NHS – have not lived up to expectations.

However, there have been encouraging success stories in the case of smallerscale but still-meaningful initiatives – such as those in the Nordic region (covered in the previous issue of Healthcare IT Management). Elsewhere, hospital modernisation efforts – many part of broader equipment and facility renewal lifecycles, and the launch of wholly new hospitals – are both seeing IT outsourcing as an integral part of their plans and programmes. Such a trend is bound to intensify with time.

In conversation with IT experts, both within hospitals and in the vendor community, it is clear that the key phases of a successful healthcare IT outsourcing strategy are essentially similar to that in other user segments. In the broadest terms, the steps are as follows:

î Align Strategic Goals with IT Sourcing and Service Provision

î Select Best Partners

î Contracts: Pilots and SLA

î Successful Transitioning

Align Strategic Goals With IT Sourcing and Service Provision

For most hospitals, the overriding goal is to provide high-quality, patient-centric services. In this case, IT must provide quick access to patient information and allow consultation at prior treatment locations. If such a capacity is not available in-house – and on-demand – there is a clear need for outsourcing.

However, internal IT staff need to remain highly involved, while senior management – alongside their in-house IT staff – need to assess overall choices in terms of platforms and applications, and any latent lock-in or longer-term limitations in their choice of outsouring partners.

Before choosing vendors, requirements must be fitted to such strategic goals– and directed at the attainment of two intandem objectives: operational continuity and service improvement. All these, as well as any (new) regulatory/compliance requirements can be jointly met only through mature outsourcing partners.

Selection of Best Partners

Prior to developing an outsourcing relationship, it is therefore important to assess and make changes in internal IT staff deployments. One sometimesoverlooked fact is that an outsourcing partner, howsoever large in its scale and skills, is no more than a pilot ship for a large liner. Indeed, there are many cases where an outsourcing partner simply swamps the previous internal harmony within the hospital IT department.

It is therefore important to make sure of both strategic and cultural fit in a potential partner. Given the sheer pace of creative destruction in

today's IT industry, it is also crucial to make sure that an outsourcing partner has both the systems integration experience as well as agility and scale to survive what will surely be sweeping shakeouts in the IT services landscape in the years to come.

In the US, many organisations seeking an outsourcing partner firstly make sure that it has an offshore strategy already in place. In Europe, this is also beginning – for example, in the shape of acquisitions in India by the likes of Capgemini (of Kanbay). Steria's morerecent takeover of Indo-British firm Xansa was directly aimed at acquiring critical mass in healthcare IT capacity following its alliance with the Nordic private hospitals group Capio; one of Xansa's biggest customers is the nowtroubled NHS.

Contracts: Pilots and Sla

By far, meaningful outsourcing agreements require vendors to firstly conduct a demonstration and pilot-phase project – in order to assess and fine-tune technological and organisational fit.

In turn, parallel negotiations in such a phase would be best centred on a service- level agreement (SLA) with clearly agreed performance metrics, accompanied by penalty clauses for non-performance.

Successful Transitioning

A successful transition involves both existing hospital IT staff, almost always via training/re-training programmes and employment with the outsourcing partner. In Europe, unfortunately, strict labour regulations and closed-door negotiation practices often force second- best choices.

This takes the shape of finding 'local' outsourcing partners, who lack the scale to hold their own in the face of the sometimes violent winds of globalisation. Such players are unlikely to provide either meaningful business continuity, or even jobs for the hospital IT staff they acquire for the long term.

Early warning signals for overstretch in a partner are therefore crucial. These can be negotiated as opt-outs from the contract based on the pre-agreed performance matrices, such that the hospital IT department can revert to the status quo ante before any damage is done.

As one interviewee noted, it is always "possible to make a fresh start, as long as it is still timely."

Issues to Double-Check

While it is fairly straightforward to identify the drivers of outsourcing and perceive its general countours, consultants and insiders point to some key issues:

Accountabi l i ty: This is one of the most important legal aspects of an outsourcing relationship. In Europe, in particular, outsourcing is still artisanal, a people-sided feel business, and a lack of clarity can jeopardise relationships at take-off and ramp-up stage, between the hospital and the outsourcing firm, and more crucially between staff on either side – especially those set to straddle the borders and boundaries. Like any contract, it is therefore important to identify and put in writing what an outsourcing partner is responsible for how success will be measured and what will be the consequences of failure to meet such measurements.

Benchmarking: As opposed to metrics (see below), benchmarking is a study by the hospital or third party to compare metrics and pricing – to best practices in comparable environments. This is not always the easiest of tasks – especially if it is an ongoing or regularly-repeated process. Firstly, it sometimes costs more in time (or fees to third parties) than can be achieved in savings – which would arise from forcing an outsourcing partner to perform more efficiently against the agreed benchmarks.

Secondly, if the atmosphere between a hospital and an outsourcing firm becomes confrontational due to benchmarking, it is always possible for the latter to cast doubt on a core criterion in benchmarking – the 'comparable' environment.

Instead, many experts believe that the one-on-one system of agreed metrics is far more useful and userfriendly, for both parties.

Evolution: Outsourcing is not static. Hospital IT management and CFOs must also upfront consider future requirements, above all plan to accommodate an increase in the scope of outsourced services, especially if these need to be coupled into wider modernisation programmes and/or the introduction of new equipment and systems.

The advantage of proactiveness in this respect is simple: a hospital's bargaining power is at its peak before an outsourcing agreement enters into force. It is, therefore, possible to exert some pressure on price – especially if this holds forth the prospect of more work volumes for an outsourcing partner.

Metrics: Service level metrics and performance indicators are vital to a successful outsourcing relationship, for both sides. Such metrics must of course, by definition, be measurable and quantifiable, but also realistic, useful and to some extent, flexible.

In practice, hospitals and outsourcing partners would firstly run through sample metrics, against a variety of facts and scenarios, and then settle on a mutually-agreed framework.

Pricing: Pricing is closely linked to service levels and metrics. They also are the basis for any accountability. Needless to say, in a service industry, pricing is one of the toughest areas given large capital commitments and not wholly certain returns from service fees over the duration of agreement. Solid pricing mechanisms are aligned with a hospital's core strategic goals, be this to reduce costs, build scale and staffing flexibility, or increase performance.

Many outsourcers, in an increasingly competitive environment, factor cost saving achievements into their pricing offer. Others propose to steadily reduce fees by virtue of confidence in preserving margins as the outsourced work grows in volume and the relationship matures.

Termination: All relationships come to an end – eventually, or at a point before what was planned. It is, therefore, usual for outsourcing relationships to incorporate an exit strategy. Crucial issues here include intellectual property developed over the duration of the contract; a shareout of joint assets, the rights and obligations towards employees, and any regulatory consents.

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