Outsourcing the Information Systems Department

By:

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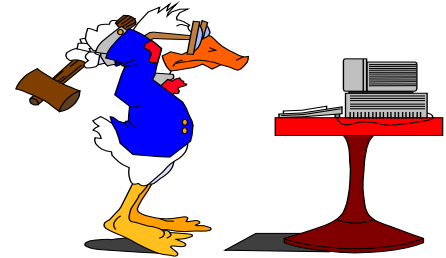
Trinity Health

&

Margaret Marchak

Raymond & Prokop, P.C.

OUTSOURCING

- As enterprises become more comfortable contracting more of their finance and accounting duties, the worldwide finance and accounting outsourcing market is projected to grow from $12 billion in 1999 to $37.7 billion by 2004, according to Dataquest Inc., a unit of Gartner Group Inc. (NYSE:IT and ITB).

January 8, 2002
Gartner Predicts Outsourcing IT Growth

- Citing research from analyst firm Gartner Inc. which predicts that the North American IT outsourcing market will grow from $101 billion last year to nearly $160 billion by 2005, the Sunnyville, Calif.-based managed services provider (MSP), says that its customers will save close to $70 million during the life of their contracts.

OUTSOURCING

Gartner Outsourcing Summit
23-25 June 2003 Los Angeles, CA
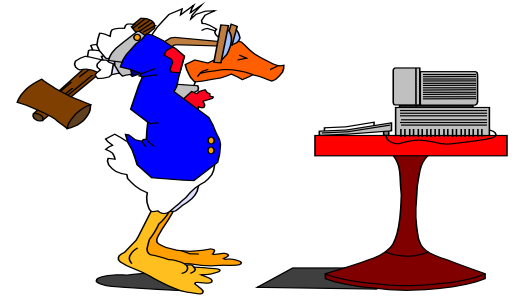
Outsourcing has moved from a niche technology management tool to a mainstream, strategic weapon for many firms. As the move to a multisourced environment accelerates, outsourcing has become the next new business-critical process - requiring that everyone who buys, sells or manages IT services be "reskilled" in this new methodology.

Outsourcing Expenditures

- According to market research firms, the US healthcare industry spent close to $40 billion on IT during 2003, a jump of seven percent over the previous year's figures.

- According to National Association of Software and Services Companies (NASSCOM), by year 2005, Indian BPO companies will be able to grab business worth 800 million dollars from US healthcare companies alone.

- "The US healthcare market alone will touch $800 million for Indian BPO companies by 2005" Nasscom Report

Offshore OUTSOURCING

It's big, and there's no turning back. Everybody is either doing it, planning to do it, or should be doing it. In fact, at the Gartner Outsourcing Summit 2003, analysts predicted that shipping work offshore will be discussed in more than eight of every 10 U.S. executive boardrooms by next year, and more than 40% of U.S. firms will be sourcing IT services through a global delivery model within that same time frame.

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Offshore Outsourcing
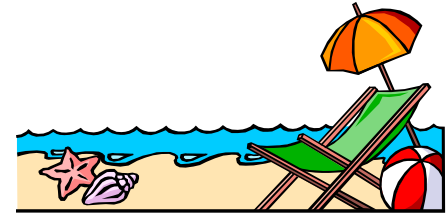
- The U.S. is the largest, but by no means the only, receiver of offshore outsourcing services, and India is the largest provider, Debashish Sinha, a principal analyst at Dataquest said.

- Aware of the rising popularity of offshore outsourcing among CIOs, IT services vendors are beefing up their offshore services portfolios by partnering with, and sometimes acquiring, offshore services providers.

- A survey of 36 outsourcing vendors conducted by Dataquest in November 2002 showed that they consider offshore application management their biggest growth opportunity in 2003. "All the major services providers have, over the past two years, understood the value of the offshore sourcing model," Sinha said.

Stepped Approach to Outsourcing

- Strategic planning
- Due diligence/assessment/RFP
- Human resources strategy
- Technology strategy
- Selection of service provider
- Negotiating the Agreement
- Compliance issues (HIPAA, fraud/abuse)
- Business process management
- Service level agreements
- Management of the Agreement
- Resolving Disputes
- Exit Strategy

Identify Operational Cost Savings

- Contract Management System Example
- Reduce Contract Renewal Late Fees
- Reduce Contract Obligations (automatic renewal on unfavorable terms)
- Reduce Paper Chasing Time
- Reduce Report Writing Time
- Prepare for Board and Board Committee Reviews and Approvals

Cost Savings

☐ • Eliminate Manual Tracking

☐ • Eliminate Data Redundancy

☐ • Facilitate Due Diligence Activities

☐ • Reduce Duplication of Work

☐ • Track Notices and Payment Due Dates

☐ • Early Warning of Contract Expiration

Cost Savings

☐ • Reduction in Contract Drafting and Negotiating Costs

☐ • Facilitate Risk Assessment of Unfavorable Contract Terms

☐ • Simplify Amendment and Modification Process

DUE DILIGENCE

Internal Assessment/Baseline Analysis

- current level of service; inventory
- service (location, delivery), uptime (peak and off-peak, normal operations vs. plans for expansion), user satisfaction, performance, tools, staff development and training, response time for online transactions, standard transactions, security and expected business and technological change

Functionality

- Will work on your network
- Expandable; Scalable
- Interoperable
- Reasonable cost
- User reviews/references
- Timeliness of operation
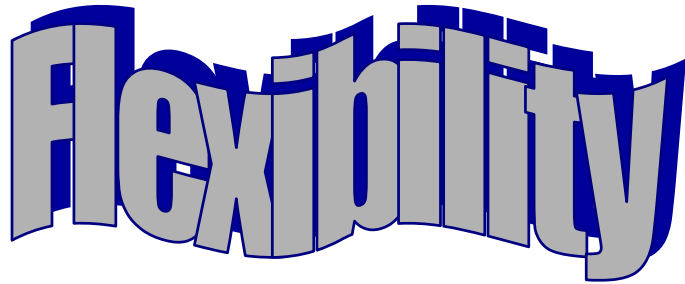
Features

- Archive feature
- Useable by multiple users with levels of use (create, read only, update)
- Accommodates amendments
- Accommodates multiple contract parties
- Software can be customized
- Print capability

Transactional Team - Outsourcing
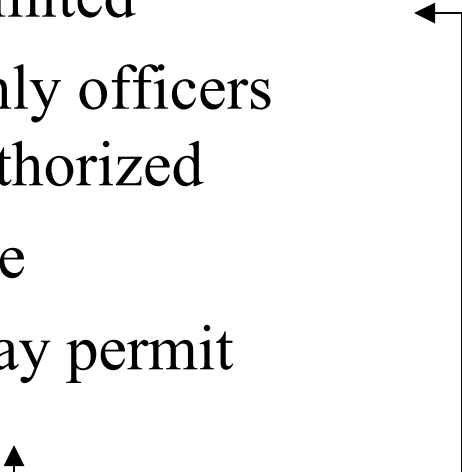
- Legal
- IS Department
- Key User Groups
- Human Resources
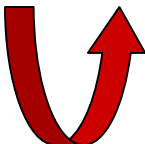- Finance
- Procurement/Purchasing
- External Consultants

RFP Process

- introduction to the outsourcing
- background on the client
- nature of the services outsourced
- strategic objectives
- Service levels sought
- pricing requirements
- employment issues
- contract terms and conditions
- confidentiality agreement (covenant not to sue)
- selection timeframes
- appendices

Confidentiality and Waivers

- Should apply whether or not transaction is completed

- Prospective vendor review is key
  - Solicit waivers
  - Use only for outsourcing negotiations

- More recent IS contracts contemplate outsourcing
  - Limited
  - Only officers authorized
  - Fee
  - May permit

HR: Transfer Personnel

- Pros   Cons

- Contract for retained benefits of employed personnel

- Pass-Through Personnel Costs Will Be Higher

Contract Negotiations

Structure Options

Consulting   Contracted Services   Complete Sale

Hybrids

- application maintenance

- business process outsourcing

- offshore outsourcing and support; and partnership" outsourcing arrangements.

Assignment/3rd Party Consents

- Check confidentiality, disclosure and "outsourcing"
- Beware of "own use" provisions
- Agents may be beyond scope

- Vendors may assume assignment
- Identify potential conflicts with existing contracts and key vendors—seek consent and boundaries in advance
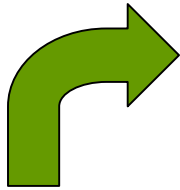
Transfer IS Assets

- Pros

- Cons

- Legal Issues

Culture Fit

- Health System Employees

- Prepare for Personnel Loss

- Beware of covenants

- Benefits transition

- Compliance

- Collective Bargaining Agreements
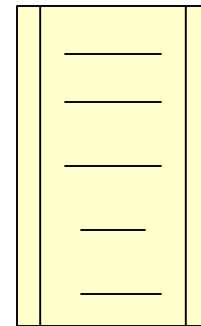
Beware of Vendor Standard Contract 🚫

- Stated Deliverables

- Breadth/Dearth of Warranties

- Limitation of Liability

- Ownership of New Technology

- Term

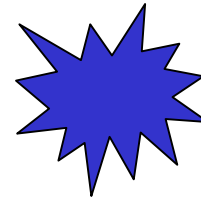- Early Termination Fees For Convenience

Pricing

- Toughest Issue $$$$$$$$$$$$$$
  - Determine vendor flexibility
  - Price guarantees or discounts
  - Pass-through only?
- Determine Health System Wants/Needs
  Certainty; Cost control; Best in class service vs. stabilize ops; Lowest feasible cost; New or refreshed technology
- Cost Benefit Analysis
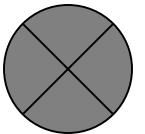- Vendor Risk Increases with Vendor Acceptance of Responsibility

Fees

- Time and Materials vs. Fixed or Variable
  - Control consumption
  - Incentives
  - Purpose for Variable Fees
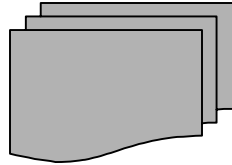 - ROI
  - Volume discount
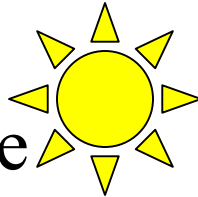- Beware of Hidden and Pass-Through Costs
- Projects Outside the Scope of the Contract

Incentives/Penalties

- Budgets

- When Should Vendor Profit?

- Recognition of Performance in Excess of Expectations
  - Bonus/incentive
  - Gainsharing (sharing savings)
  - Tax issues

Equipment and Software Costs

- Return on Investment $$$$
  - Research & Development Costs
  - Donated Funds
- IS Resources with no ROI
- Exempt Bond Law/Covenant Restrictions
  - Board members
  - Private Use
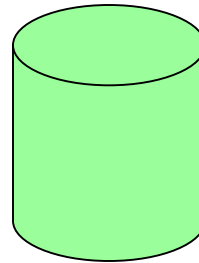 - Purchase with bond proceeds

Service Levels Performance Standards

- Levels

- Data

- Measurement System

- Increased or Higher Standards
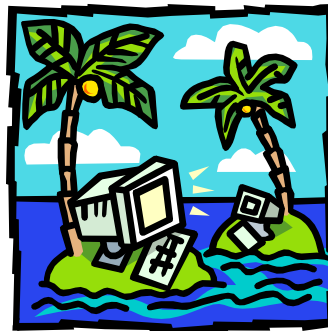
- How many?

- Reports

Security and Backup

- Cost and responsibility

- Cooperation and coordination

- Data Warehouse

- Data Requests

Technology Enhancements

- Upgrades to Equipment & Software

- Currency Levels of Software

- Benchmarks
  - That utilized by a large metropolitan integrated health care delivery systems
  - Best practices vs. industry standard

User Satisfaction

- Goal: Increase in user satisfaction?

- Performance incentive?

- Baseline user satisfaction survey

- Conducted by an independent third party?

- Subsequent comparison gaps

Management Team of Vendor

- Vendor executive(s)
- Vendor key employees
- Reassignment/replacement
- Full-time basis

Dispute Resolution

- Informal
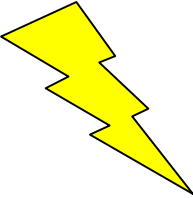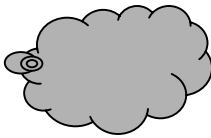
- Formal

- Escalation

- Executive Intervention

Issues with "Offshoring"

When the foreign transcriber threatens to post personal medical records on the Internet unless paid more money

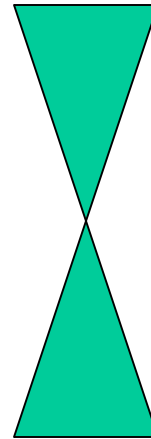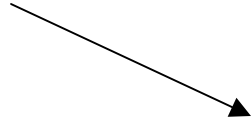- State issues

- Federal issues

- Public relations issues

Unique Health System Issues

- Exclusivity

- Minority Business

- Provider Panels

- Ethical Standards and Conflicts of Interest
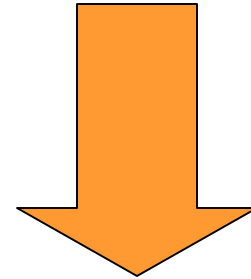
Health Care Provider Considerations

- Delegation
- HIPPA Standards
  - Transmission
  - Tracking
  - Retention and Access
- Confidentiality
- Physician/External User Resources

Termination/Expiration and Wind Down

- Employees
- Notice and Service
- Fees-license, Maintenance, Equipment
- Assignability of contracts
- Return/Destruction of Data
- Transition period
- Withhold or limit any of the services on the basis of an alleged breach of Agreement by the client, other than failure by the client to pay the amounts due for services satisfactorily rendered during the transition period

Management Post Outsourcing

- Transition-In Period

- Contract Management

- Committees

- CIO

Management Post Outsourcing

continued

- Staff

- Risk Management and Internal Audit

- Billing $$$$ ⟶

- Contract Negotiation and Management

- Insurance