



# Outsourcing in Hospitals

Tilak Shankar

Management Solutions

Chennai

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*Companies that view outsourcing merely as an easy way to offload commodity work are missing important benefits to be gained by working closely with service providers*

*Robert S. Huckman*

*Harvard Business School Professor*

# Outsourcing

- Outsourcing – Current Scenario
- Strategic Approach to Outsourcing
- Monitoring Performance
- Global outsourcing
- Conclusion



## Why Outsourcing

### Typical reasons

- Traditionally outsourced
- Cost-effective
- High investment/obsolescence
- Difficulty in recruiting/retaining
- Space constraints
- Disproportionate management time
- Specialist skills

# What can be outsourced?



## Traditional Processes

- Security
- Laundry
- House keeping
- Food services
- Maintenance- civil, electrical and mechanical
- Pharmacy
- Transportation – ambulance, other

## Emerging Areas

- Laboratory services
- Radiology
- Nursing
- Biomedical engineering
- Blood bank
- Physiotherapy
- Homecare services
- Outreach services (e.g. camps)
- IT Services
- Billing
- Insurance Claims Processing
- Revenue Cycle Management
- Payroll processing
- Marketing
- HR Processes

# Current Approach to Outsourcing

- Not much thought given
- Only routine services such as security, parking, canteen etc.
- Expenses on outsourcing can be from 7% to 25% of expenses
- Need for strategic approach
- Explore new areas for patient service optimization

# Payment For Services

- Pre-agreed payment per month per staff (e.g. security)
- Per meal or per kilogram of clothes (canteen, laundry)
- Revenue/profit-sharing (e.g. laboratory, pharmacy, radiology)
- One-time payment
- Usage of services – transaction based (e.g. PACS)
- Number of lines (e.g. medical transcription)

# Cost Benefit Analysis

- In-house vs. outsourcing
- Capital expenditure
  - Space
  - Equipment
  - Transport
- Operating costs
  - Manpower
  - Utilities (power, water, fuel)
  - Repair and maintenance
  - Rental costs (actual or notional)
  - Depreciation
  - Inflation/cost increase
- ROI
- Non-monetary benefits

## Cost Measurement

Are the present and expected performance levels taken into account?



# Outsourcing Models

- Services provided with full-time staff at the hospital
  - Security
  - House keeping
- Outsourcing with external facility
  - Laundry
  - Canteen
  - Radiology
- Services provided using hospital facility or other facility
  - Canteen
  - Laundry
  - IT services
  - Radiology
- Part-time services



# Outsourcing Costs

## Housekeeping

- Costs range from Rs 100 to Rs 300 per bed per day
- Depends on the range of work, frequency and extent of modernization and space (and land area), cleaning material
- Minimum Wages Act

## Food services

- Compulsory diet for all IP patients
- Rs 100 to Rs 250 per day per patient
- Cooking at site or delivered
- Plates (disposable), washing, cleaning
- Nutritionist/Dietitian services
- Food warmers, trolleys
- Health check for service staff
- Diet kitchen

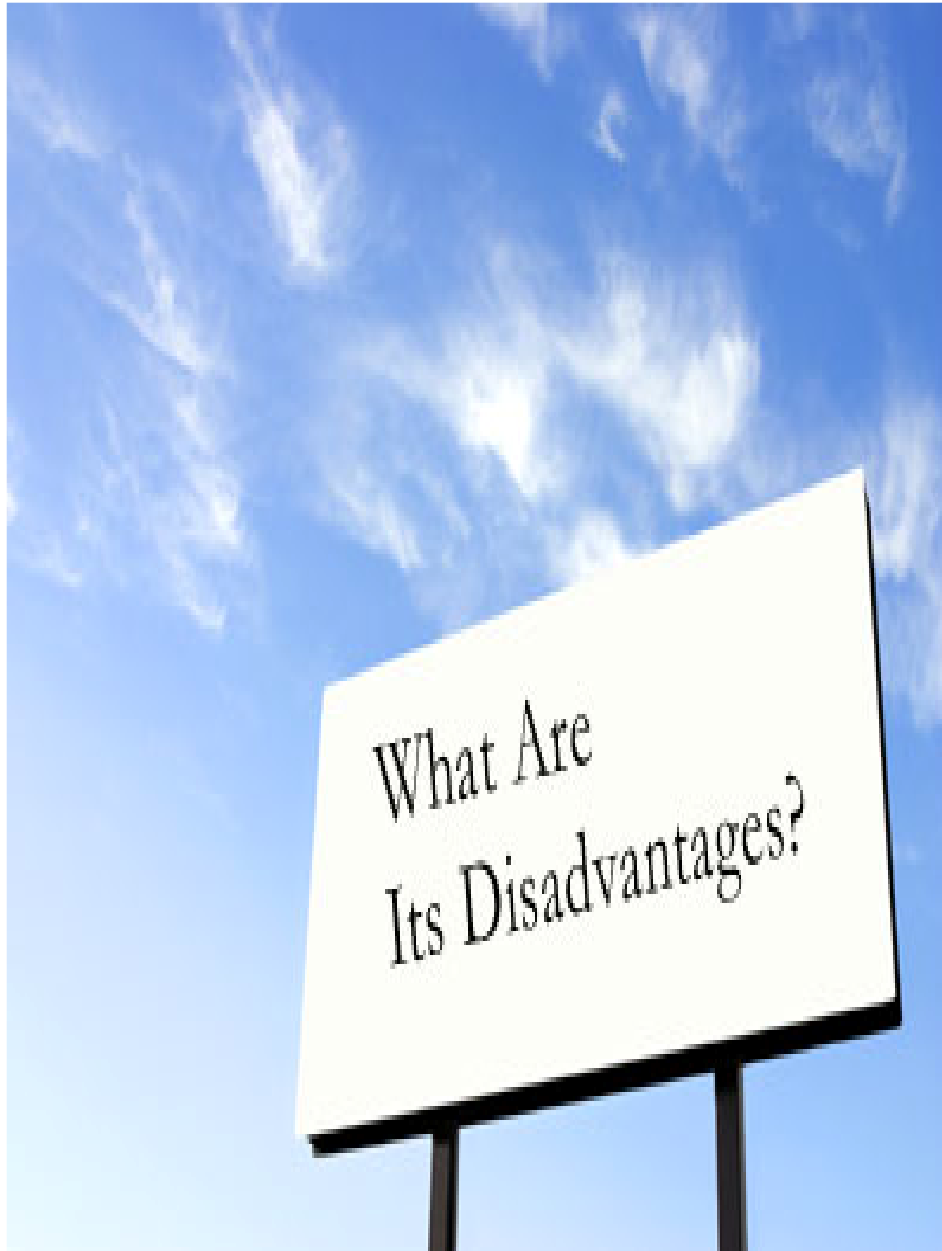


## Security

- Rs 100 to Rs 200 per bed per day
- Specific training for hospitals required

## Laundry

- Cost Per washing Linen
- Overall cost per Bed



- Dependency
- Lack of Control
- Outsourced staff – lack of continuity
- Limited commitment to client organization
- In the absence of defined criteria, quality slips over time
- In some cases more expensive than in-house
- Long term, no in-house skills (e.g. IT)
- Turnaround time longer than in-house (e.g. Lab)
- Lack of Patient and Staff Acceptance

# Common Pitfalls in Outsourcing

- Outsourcing services that should stay within the organization
- Selecting the incorrect outsourcing vendor for the job
- Writing a poor statement of work for the outsourcing service
- Disregarding employee concerns about outsourcing
- Permitting the outsourced service get out of control
- Neglecting to realize the full costs of outsourcing
- Failing to strategize an exit procedure before terminating the outsourcing contract

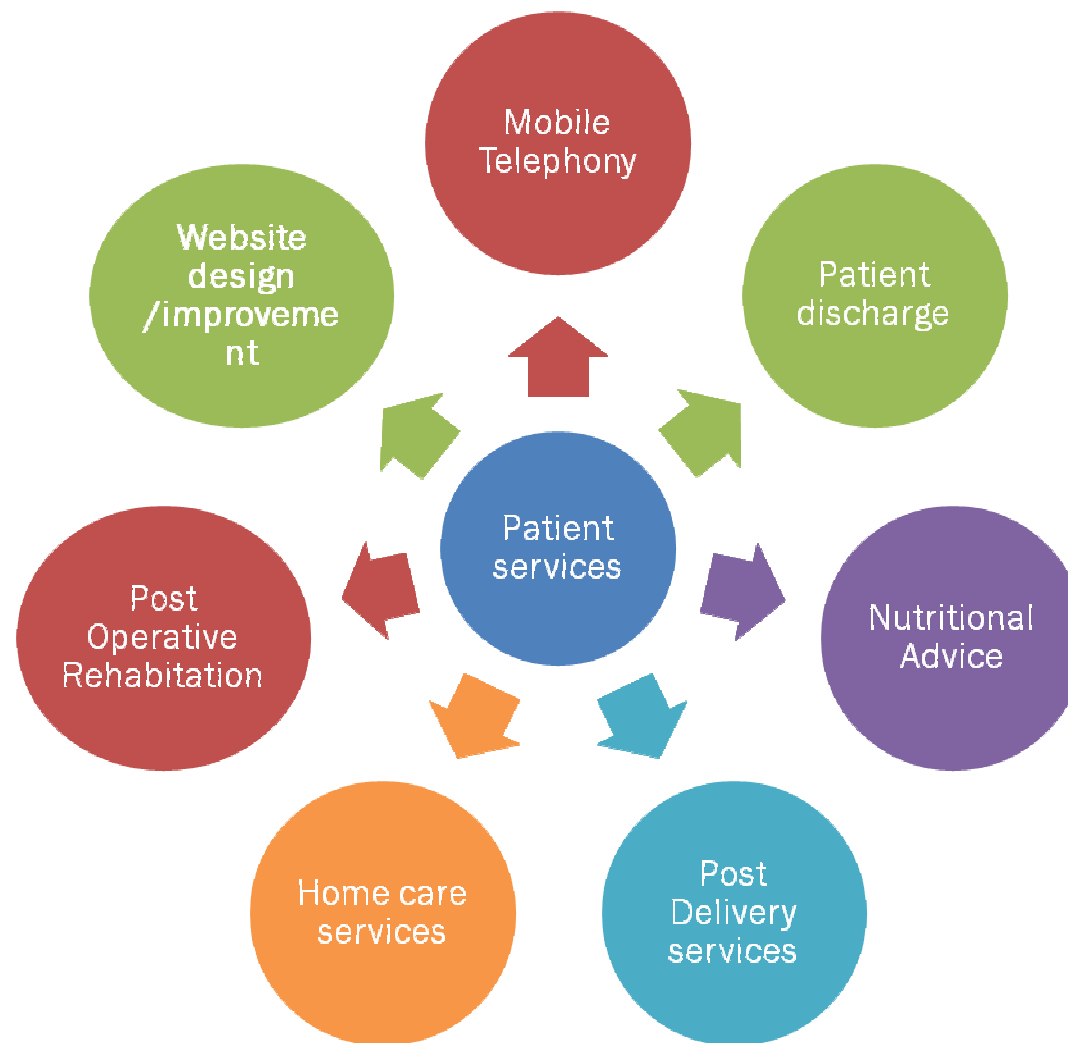


Strategic  
Approach to  
Outsourcing

# Outsourcing Landscape



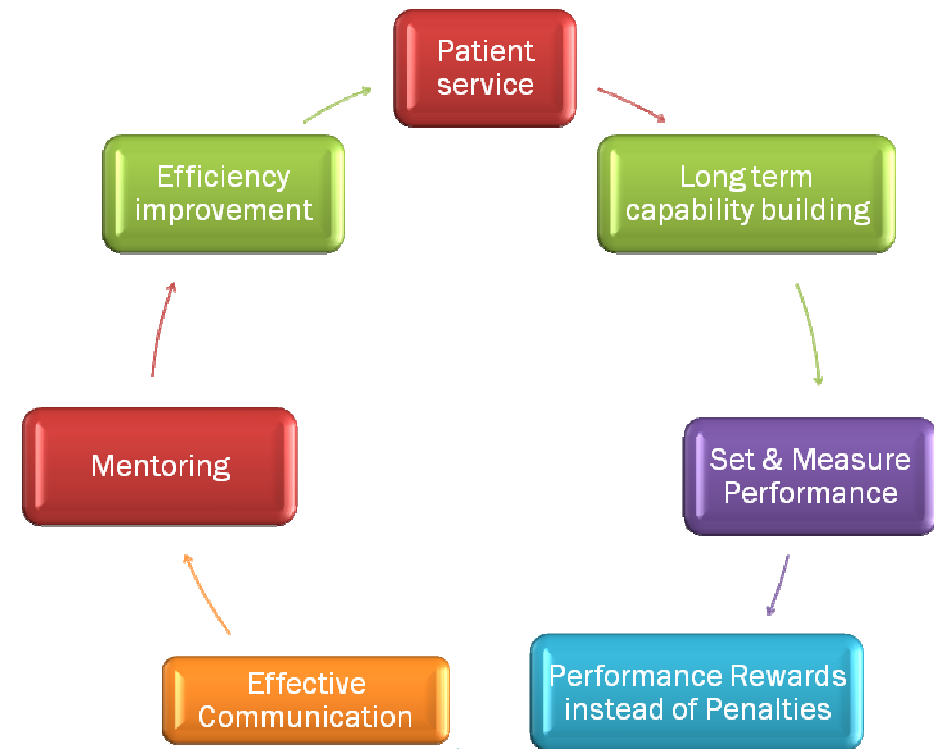
# Patient Care is the Key



The central focus of the hospital is the patient using outsourced services

# STRATEGIC APPROACH

- Choose a partner carefully- integrated partner?
- Co-create and collaborate
- Appoint a mentor
- Insist on continuity
- Think long-term
- Expect to benefit from standardization
- Expect big cost improvements
- Look beyond cost
- Expect more accountability – not less
  - SLA/KPI/Performance Guarantees



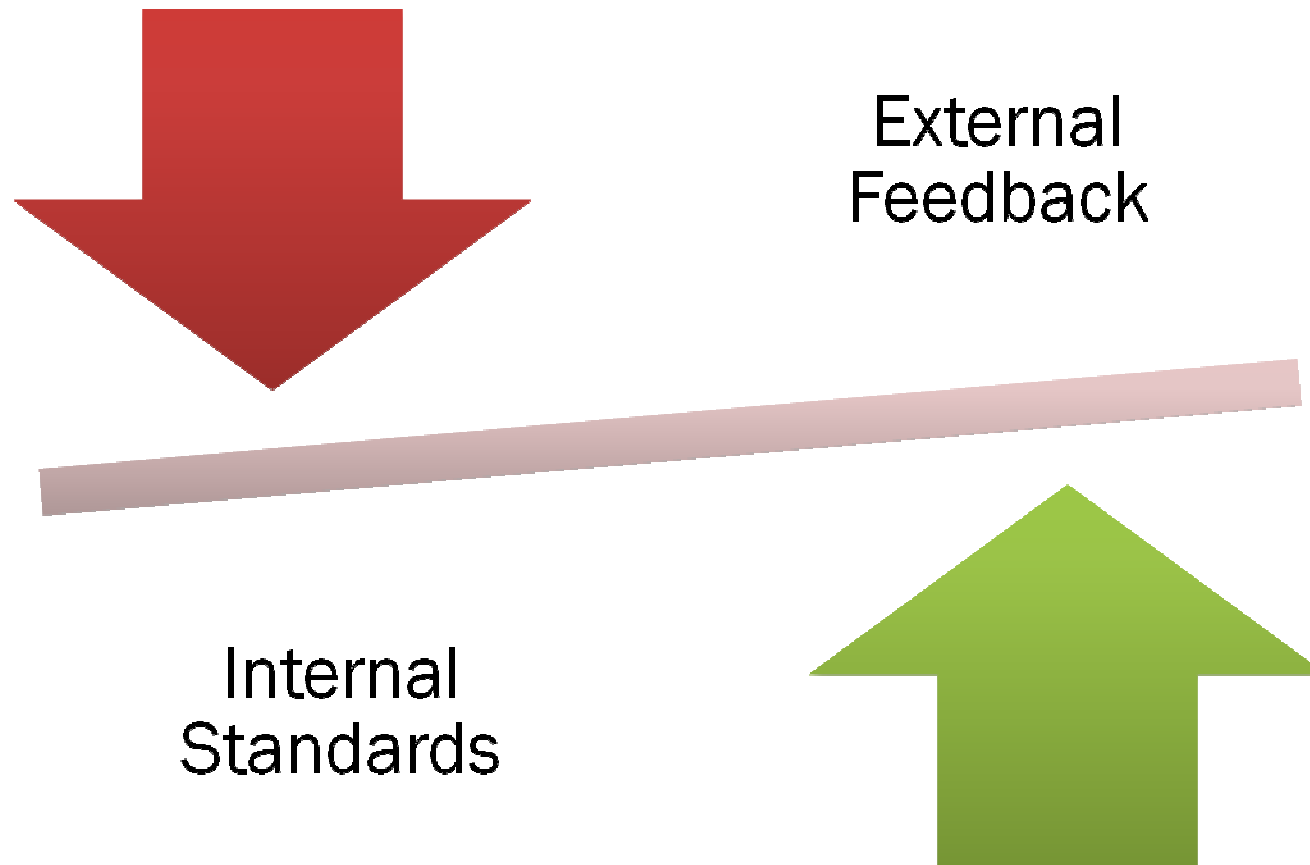


# Monitoring Performance

- Set a baseline and metrics
- Measure Future Performance against baseline
- Create mutually agreeable key performance indicators (KPIs), along with performance guarantees or shared savings arrangements as appropriate.
- Tie up KPIs and service level agreements (SLAs) directly to critical organization goals



# Performance Metrics



# Develop Relevant Performance Metrics

Alignment with clinical outcomes

Evidence Based

Clear, Consistent and Collectable  
Data

Embedded in Quality Standards

# Performance Metrics (Illustrative)

## Laundry

- Turnaround Time
- No. of Patient/staff Complaints
- Microbial Count/Culture Sensitivity Analysis
- Frequency of Linen Damage
- Reduction in Linen Loss

## Laboratory

- Total Blood Culture Contamination Rate (%)
- Specimen Rejection Rate (%)
- Outpatient Order Entry Error Rate (%)
- Screening/Interpretation Sensitivity (%)
- % of Corrected Results
- Turnaround Time

## Nutrition

- Creation of patient-friendly schedules for specialized **nutrition support delivery**
- Tight glycemic control
- No. of Patient Complaints
- No. of Options provided to Patients

## Nursing

- Level of Compassion shown to patients
- Patients Experience Indicator
- Accuracy of nursing records
- Leave Taken
- Environment Cleanliness Score

# NABH – Criteria For Outsourced Processes

- Quality Assurance in outsourced services
- Laboratory- AAC 7.1
- Imaging – AAC 10.g.
- Hospital infection Control- HIC 8. d
- Housekeeping
- Blood banks
- Other services
- MOU between parties



# FACILITY MANAGEMENT

## CLEANING SERVICES

1

- Daily Cleaning
- Periodical Cleaning
- Special Cleaning
- Segment Cleaning

## SUPPORT SERVICES

2

- Front Office
- Back Office
- Welfare Facilities
- Labour Supply

## PROPERTY SERVICES

3

- Building Maintenance
- Grounds Maintenance
- Environment Management
- Energy
- Damage Control

## CATERING SERVICES

4

- Contract Catering
- Vending Services
- Events Catering
- Confectionery Services

## SECURITY SERVICES

5

- Physical Security
- Surveillance
- Technical Installations
- Workplace Emergency Mgmt
- Consulting Services

# Outsourcing Facility Management

- Integrated Partner
- Major providers will be able to bring best practices
  - emergency power systems,
  - controlling sophisticated laboratory and surgical environments, and
  - applying optimized preventative maintenance methods
- To avoid dealing with number of service providers
- Easy monitoring of performance and better accountability

# Outsourcing – As an entrepreneurial Venture

- Services, manufacturing and supporting clinics
- Low investment (Rs 25 lakhs upwards) and attractive returns
- Entry barriers low
- Professional with entrepreneurial skills can start
- Innovation and high service levels – key differentiators
- Long term commitment



# Global Outsourcing Trends

- Cost arbitrage/time difference
- Medical transcription
- Insurance claims processing
- Tele-radiology
- Lower cost elective surgeries (medical tourism)
- Drug discovery/medical devices
- Hospital consumables, prostheses, diabetic footwear
- Data Analytics



## Summary & Conclusion

- the main purpose of outsourcing is for the hospital to focus on patient care
- outsourcing has to go beyond low skills, manpower intensive activities
- Strategic Approach to Outsourcing is vital to maximise the benefits
- outsourcing should be effectively managed, with Measurable Performance Metrics, SLAs and rigorous reviews
- Outsourcing Relevant for of all - Corporate, Not-for-profit, nursing home
- **Outsource – Only if it helps improving the Patient Care**

