Outsourcing in Hospitals

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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 – Current Scenario

Strategic Approach to Outsourcing

Monitoring Performance

Global outsourcing

Conclusion
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
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
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

- External Feedback
- Internal Standards
Develop Relevant Performance Metrics

- Alignment with clinical outcomes
- Evidence Based
- Clear, Consistent and Collectable Data
- Embedded in Quality Standards

NHS Guidelines
<table>
<thead>
<tr>
<th>Laundry</th>
<th>Laboratory</th>
<th>Nutrition</th>
<th>Nursing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnaround Time</td>
<td>Total Blood Culture Contamination Rate (%)</td>
<td>Creation of patient-friendly schedules for</td>
<td>Level of Compassion shown to patients</td>
</tr>
<tr>
<td>No. of Patient/staff Complaints</td>
<td>Specimen Rejection Rate (%)</td>
<td>specialized nutrition support delivery</td>
<td>Patients</td>
</tr>
<tr>
<td>Microbial Count/Culture</td>
<td>Outpatient Order Entry Error Rate (%)</td>
<td>Tight glycemic control</td>
<td>Experience Indicator</td>
</tr>
<tr>
<td>Sensitivity Analysis</td>
<td>Screening/Interpretation Sensitivity (%)</td>
<td>No. of Patient Complaints</td>
<td>Accuracy of nursing records</td>
</tr>
<tr>
<td>Frequency of Linen Damage</td>
<td>% of Corrected Results</td>
<td>No. of Options provided to Patients</td>
<td>Leave Taken</td>
</tr>
<tr>
<td>Reduction in Linen Loss</td>
<td>Turnaround Time</td>
<td></td>
<td>Environment Cleanliness Score</td>
</tr>
</tbody>
</table>
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
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
• 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**