

## ► The HIT Report from KLAS

reporting the performance of HIT vendors

# Successes and Challenges with Full IT Outsourcing

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### INTRODUCTION

Today's healthcare is complex from both a business and an IT perspective. Decisions regarding care provided and the technology behind it are paramount to business survival and appear core to a facility's ability to remain competitive. Additionally, automation in healthcare is viewed as an integral component to many quality and patient safety initiatives. To support this activity, many clinical and financial systems are in need of being updated or replaced, and there is much to be considered. Given today's complex environment, sense of urgency and corresponding resource requirements, some providers are looking to outsource all or a significant portion of their IT operations.

KLAS Enterprises recently conducted a comprehensive study on full IT outsourcing that focused on IT outsourcing in hospitals in the US and Canada, to help providers better understand the associated successes and challenges, and to learn how major outsourcing firms are performing in the healthcare industry.

For this study, KLAS interviewed participants from healthcare provider organizations that are or were (discontinuing) full IT outsourcing. Full IT outsourcing was defined as an engagement in which the provider had outsourced the majority of their IT staff to a third-party organization. Most provider organizations included in this study outsourced, at a minimum, their IT operations and application support. Many also outsourced IT strategy, which included outsourcing the CIO and key IT leadership.

This study was conducted between January and June of 2005. All survey participants were senior provider

executives, with very few exceptions. Those who were not senior executives were either referred by a senior executive or were director level employees who worked directly with the outsourcing firms.

This article will highlight some findings from this research and will specifically provide insights regarding the following:

- Hospital full IT outsourcing market size/share
- Why hospitals outsource IT
- Benefits of IT outsourcing
- Challenges of IT outsourcing
- Why providers discontinue IT outsourcing
- What providers would change if starting over
- Outsourcing IT leadership

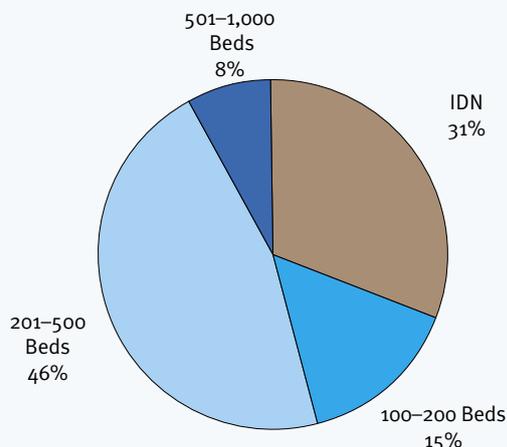
### HOSPITAL FULL IT OUTSOURCING MARKET SIZE/SHARE

As of June 2005 there were 100 healthcare provider organizations (non-federal, non-prison) in North America that had fully outsourced IT. In the US, this represented a total of 315 hospitals and 80,642 beds. Based on data from the AHA, this means that 6% of hospitals and 10% of beds in the US are fully IT outsourced.

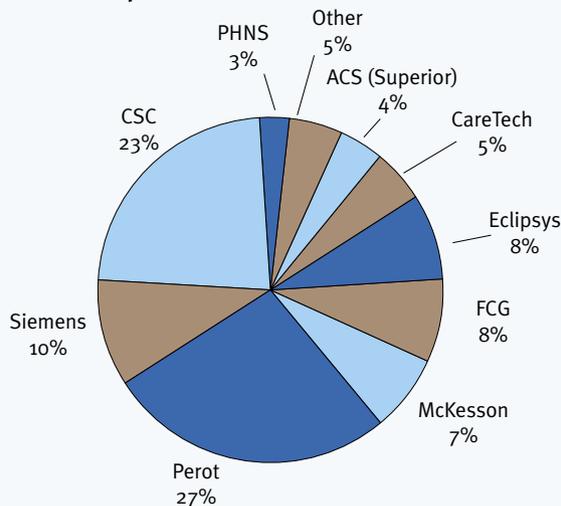
While healthcare organizations of all sizes outsource IT, those with beds between 201 and 500 seem to be the sweet spot for full IT outsourcing. Forty-six percent of the outsourced healthcare providers KLAS interviewed were in this bed size range (see Figure 1).

Several types of firms provide IT outsourcing services to the healthcare industry, including systems integrators, HIT software vendors, consulting firms and hospital

**Figure 1: Bed sizes of full IT outsourced interviewed organizations**



**Figure 2: Vendor full IT outsourcing market share by number of hospitals**



owned firms. Perot Systems has the largest piece of the full IT outsourcing market based on the number of hospitals outsourced, followed by CSC and Siemens. The “other” category includes ACS (non-Superior), Capgemini, InfoHealth Management, Phoenix Health Systems and SAIC (see Figure 2).

**WHY HOSPITALS OUTSOURCE IT**

The top reason cited by participants that chose to outsource IT was to improve the talent level of their internal IT staff and retain top performing people. A

CFO from a smaller hospital located in a rural Northeast area indicated that “the main reason we chose to outsource our IT operations was because we were unable to find competent IT resources on our own. We had a limited management team, and IT was taking up more and more of our time. We just did not have the necessary expertise to manage it ourselves.”

The number two and three key drivers mentioned by participants for IT outsourcing were to improve services/operations of their systems and to reduce costs/capital outlay. A CFO from a large IDN indicated that “our biggest driver was financial. We were in a turnaround situation and we needed to trim our IT operations by 15 percent quickly...Outsourcing for us was 10–15% less than the cost of getting our own resources.”

Another key driver for IT outsourcing, mentioned by 25% of participants, was to ensure the successful implementation of major systems. Providers wanted to protect their investments and ensure a successful outcome.

**BENEFITS OF IT OUTSOURCING**

Providers have experienced a number of benefits as a result of outsourcing IT. The most frequently mentioned benefit by participants (40%) was improved services/service levels. Also, when asked if the level of service had improved, stayed the same, or declined, 80% of the outsourced providers indicated that service had improved. A CIO from an IDN in the Midwest said, “Today we are much more organized and our own internal satisfaction scores with IT have increased significantly. Our IT operations are run much more smoothly than before.”

Depth of resources was the second most popular benefit response, with 33% of the participant votes. Providers liked being able to leverage resources and knowledge outside of their hospital domain to assist with an implementation, solve a technical issue, etc. A CIO for a provider organization on the West Coast said this about his/her outsourcing firm: “The breadth and depth of their IT skills and knowledge around healthcare have exceeded our expectations. Obviously, they have a large client base of healthcare organizations, and they have the mechanism and the structure to reach deep, wide and broad for skills that are necessary for our organization at any given time. If we are not in the project and we recognize that we need a skill that we do not have for a particular project, they can reach back, find that skill, bring that skill here and then that skill goes away when we do not need it.”

Lower costs/capital outlay was the third most

mentioned benefit, with 30% of the participants mentioning it. A CFO from a sub-300 bed facility in the East indicated that “we got all of the capital costs off of the balance sheet. This enabled us to do a number of major purchases and installations.”

Several participants also mentioned having a more professional IT organization and stronger staff/leadership as benefits of outsourcing.

### CHALLENGES OF IT OUTSOURCING

All is not perfect with outsourcing. The challenge most frequently mentioned by participants was resource-staffing issues, which was mentioned 23% of the time. This is in direct contrast with the main reason provider organizations decided to outsource in the first place, being to attract/retain better people. A director from a mid-size hospital on the West Coast indicated that the “Application support is okay, but the application leadership is not. Application development is also having trouble. Everyday I want to shoot somebody because they did not do something an application leader would do. They do not go to the organization and optimize the use of the system. They wait for the organization to ask.”

The initial transition from hospital run IT to outsource run IT and internal cultural changes/issues are also challenges. A CEO from a 300–400 bed hospital indicated that “our biggest surprise was with how resistant our employees were initially to transition from being hospital employees to outsourced employees...They had a struggle with the transition initially.”

Problems/issues with the agreement between the hospital and outsourcer were also mentioned as challenges. A CIO from a large IDN in the East said “Managing the agreement has been difficult because we did not spend time to spell out the details in the agreement (i.e., service levels, etc.). Due to this, the project

was out of scope in a very short time and had to be restructured.”

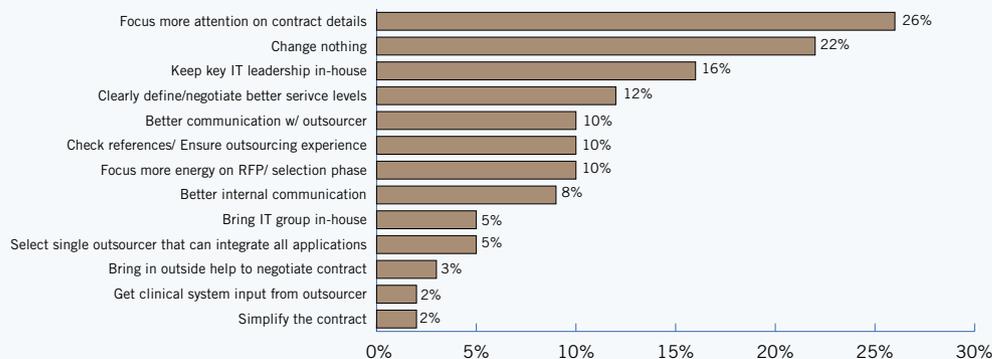
### WHY PROVIDERS DISCONTINUE OUTSOURCING

For the study, KLAS also interviewed 14 provider organizations that were fully outsourced and have since discontinued or materially changed their outsourcing program. When asked why they decided to discontinue outsourcing, 64% indicated that the outsourcing firm did not deliver as expected. A senior executive from a mid-sized IDN indicated that the primary reason for discontinuing was the performance of the outsourced IT team, which ranked 37th and 38th of 40 departments in their organization’s performance rankings.

Twenty-nine percent of the participants indicated that they discontinued outsourcing due to costs. Also, when outsourced providers were asked if they were spending more, the same or less on IT since outsourcing, 44% indicated that they were spending more. A CIO from a small hospital in the East indicated that “the idea that it would be less expensive over the long-term proved to be inaccurate. It was effective getting us organized and operating like a professional IT organization, but after a couple of years it was obvious that the costs would now go up significantly.”

Lack of control, objectives not aligned and poor cultural fit were each mentioned by 21% of the participants as reasons for discontinuing outsourcing. A director from a mid-sized hospital on the West Coast indicated that “there is a clash: a not-for-profit organization and a publicly held for-profit corporation. They [the outsourcer] must make their numbers each quarter and try to grow revenues from their existing client base. They cannot give things away for free and make their objectives and the not-for-profit (healthcare) organization cannot deal with budget increases in that way.”

**Figure 3: Things to change if starting over**



### WHAT PROVIDERS WOULD CHANGE IF STARTING OVER

Participants from provider organizations that are currently outsourced were asked what they would change if they were to do it over again. The most common responses were regarding the service agreement. Several respondents indicated that they would focus more attention on contract details to negotiate better service levels; some also indicated that they would bring in a third party to help negotiate contracts. A hospital in the Midwest indicated that “we would have spent more time on a very detailed agreement with legal counsel. The details of the agreement would have spelled out the ‘Service Levels’. The agreement should have also taken into account any reduced costs and ensured that those costs were passed over to us. We lost control of IT Management and IT Budgets.”

The second most common response was to change nothing, which provides additional insight into the satisfaction level of a number of the providers.

The third most common response was to keep key IT leadership in-house. A COO from a 200–300 bed facility indicated that “we would keep the CIO and the project managers as hospital employees from the very beginning. The message is clear. We have to have someone at the hospital who is an expert and is overseeing and setting the direction for the hospital’s IT area. If we were to leave it up to someone we are outsourcing to, it becomes their vision as to where IT needs to go, which is going to be towards their company.”

Figure 3 provides additional details regarding responses received from outsourced providers.

### OUTSOURCING IT LEADERSHIP

IT leadership and staff play a critical role in the success of a hospital IT operations. Forty-five percent of outsourced provider organizations have also outsourced their CIO. Smaller organizations are more likely to outsource their IT leadership than larger organizations. In some instances, especially for hospitals in rural areas, outsourcing the CIO enables them to get better talent at the senior IT position. Thirteen percent of those interviewed indicated that lack of IT leadership was a key driver that led to outsourcing and 21% indicated that a key benefit of IT outsourcing was a stronger IT staff/leadership.

Conversely, many organizations that outsourced their CIO questioned the CIO’s ability to “serve two masters.” They often found the CIO placed in a situation where he/she needed to be profitable and generate revenue for his/her for-profit organization while meeting the needs of a not-for-profit organization. As mentioned earlier, 16% of the outsourced providers interviewed indicated that if they were to do it over again they would keep key IT leadership in-house. Also, 14% of the providers interviewed that discontinued outsourcing mentioned IT leadership issues as a key reason for discontinuing outsourcing.

### SUMMARY

In summary, a number of healthcare organizations, both large and small, have and are outsourcing their IT operations. The key reasons provider organizations outsource are to attract and retain better people, improve services/operations, reduce costs/capital outlay and ensure successful implementations and utilization of major applications.

Many outsourced provider organizations have been happy with their overall experience. Some of the key benefits outsourced providers experience are improved services/service levels, greater access to resources, lower costs and a more professional IT organization.

However, IT outsourcing is not without its challenges. Outsourced providers expressed challenges with IT staffing, the initial transition from hospital to outsourcer employees, the outsourcing agreement and dealing with an organization whose objectives might not be aligned with their objectives.

Provider organizations that discontinued outsourcing echoed some of the challenges mentioned by outsourced organizations. These provider organizations indicated that they discontinued outsourcing because the outsourcer didn’t deliver as expected, costs, lack of control and objectives not aligned.

Provider organizations considering full IT outsourcing should pay close attention to the items that outsourced providers indicated they would change if they were to do it over again. Some key areas included focusing more attention on contract details/negotiate better service levels, keeping key IT leadership in-house, checking references/ensuring outsourcing experience and focusing more attention/energy on the selection process. They should also be aware of the pluses and minuses of outsourcing IT leadership.

### OFFER TO CANADIAN HEALTHCARE FACILITIES

Many Canadian healthcare facilities and organizations use vendors who supply solutions unique to Canada. KLAS – the organization rating IT vendors in this and subsequent issues of *ElectronicHealthcare.com* – is willing to gather confidential and candid data from Canadian healthcare executives and provide access to the results to the all data contributors. The vehicle that will be used is the web-based KLAS vendor evaluation form found at [www.healthcomputing.com](http://www.healthcomputing.com) under “rate your vendor” button. If you have comments, suggestions or questions about this vendor-rating feature please send an email to [editors@longwoods.com](mailto:editors@longwoods.com).

### ABOUT KLAS

Who We Are: KLAS, founded in 1996, is the only research and consulting firm specializing in monitoring and reporting the performance of healthcare’s information technology (HIT) vendors and products. Our

senior management staff and advisory board average 25 years of healthcare information technology experience.

**How We Serve the Healthcare Industry:** KLAS, in concert with thousands of healthcare executives, CIOs, directors, managers and clinicians, has created a dynamic database of information about the performance of (HIT) vendors. The KLAS database represents the opinions of healthcare executives, managers and clinicians from over 4,500 hospitals and 2,500 clinics on more than 500 different products. The information is continually refreshed with new performance evaluations and interviews daily. The KLAS database is dynamically and effectively used by:

- Healthcare organizations, to align expectations with a vendor's actual performance, to assist in strategic planning and contract negotiations, and to validate decision processes;
- Vendors, to monitor their performance in comparison with competitors;
- Consultants, for current performance information on a specific company or product;
- Healthcare investment firms, to evaluate publicly traded HIT company performance and trends or the competition for a new entrant.

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