

# A Market-Driven Approach to Healthcare Information Technology

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Tackling Healthcare's IT Challenges Through Outsourcing

An Executive White Paper Written by:  
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In Association with:  
Eclipsys Corporation  
*The Outcomes Company*<sup>®</sup>



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# Executive Summary

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“Outsourcing is one of the greatest organizational and industry structure shifts of the century.”

**James Brian Quinn**

*Buchanan Professor of Management, Emeritus  
The Amos Tuck School, Dartmouth College*

This is quite a statement. It wasn't all that long ago that most organizations were, by design, vertically integrated and self sufficient. They owned, managed and controlled most, if not all of their factors of production. Today's world is quite different. We live in an age that produces one to two billion gigabytes of new information every year. In this world, no organization can go it alone and the resulting interconnectivity between organizations is what Prof. Quinn so simply and powerfully points out.

Within healthcare, the leading edge of information management has shifted just as profoundly. The Internet has ushered tens of thousands of physicians into the information age. They now expect easy access to clinical information and seamless communication with colleagues. Similarly, their financial associates expect to know specific costs in real time so they can negotiate effectively with HMOs and encode the minutiae of contract details to ensure timely payment.

While these interrelated forces build toward inevitable change, the historical silos of healthcare information systems have prevented a quick response to the information requirements of healthcare in the 21st century. Simultaneously, mandates for quality and cost containment gain momentum every day and will continue to do so until medical errors, patient safety and soaring insurance premiums are reigned in.

So, how can CIOs bridge this gap between their vision of an interconnected community and their internal capabilities to get there? One important way is through outsourcing — leveraging the capabilities of specialized commercial partners with an open, market-driven approach to meeting their hospital's IT needs. Seen this way, outsourcing becomes a powerful force for change.

Most CIOs in healthcare have not really examined the facts about outsourcing. Outsourcing is nothing more and nothing less than a management tool, a way of achieving the CIO's goals. Greater use of outsourcing will:

- Enable CIOs to better tackle the issue of expanding demands in the face of tight budgets.
- Help healthcare organizations (HCOs) deliver better patient care while eliminating wasteful IT spending.
- Move the CIO up the value chain, allowing him or her to become a more valuable part of the HCO's executive team.

This is not speculation. Information technology outsourcing has been around for more than a decade and is today widely accepted by most commercial organizations. On average, commercial organizations outsource 40 percent of their IT budgets. For HCOs, the number is only 13 percent. In other words, HCOs have a great deal of unexplored potential to improve their performance while simultaneously reducing cost.

For CIOs to overcome the challenges they face, they must embrace the best management practices available — and outsourcing is one of them. Outsourcing is not a trailblazing, high-risk idea. It's a proven management technique, offering clear, measurable benefits for CIOs, their departments and their institutions.

This paper is written for hospital CIOs and their executive colleagues. It examines the forces shaping their work and their HCOs' information technology systems. It looks at the gap between how HCOs and commercial organizations are using outsourcing. It provides case studies of HCOs that have successfully made outsourcing a bigger part of their management system. Most importantly, it provides an initial roadmap for healthcare CIOs to follow in making outsourcing a more effective tool.

# A Turning Point for Healthcare Organizations and Their CIOs

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As healthcare enters a new millennium, the soaring costs that abated in the 1990s are returning and the challenges of quality service delivery have intensified to levels never before seen.

Healthcare spending is consuming an ever-larger portion of our country's GDP. According to the most recent data from the Centers for Medicare and Medicaid Services (CMS), by 2011, healthcare spending in the U.S. may reach nearly \$3 trillion — 17 percent of the U.S. GDP, up from 13.2 percent in 2000.

While the soaring costs of healthcare have certainly seen several inflationary cycles over the past 30 years, never have we seen quality scrutinized as it is today. Recent Institute of Medicine reports have identified medical errors as a leading cause of death in the U.S. As a result, initiatives from The Leapfrog Group, a coalition of more than 130 public and private organizations, are focusing on three initial approaches for improving patient safety: computerized physician order entry (CPOE), evidence-based hospital referral and ICU physician staffing.

Information technology is integral to many of these solutions and is increasingly being looked to for its potential to fundamentally change the way healthcare is delivered. While IT can play a pivotal role in addressing medical errors, the required expertise, knowledge and execution are lagging far behind the needs.

## Elusive Goals: Efficiency *and* Quality

The primary drivers in modern healthcare IT are efficiency, quality and regulatory compliance.

Efficiency remains elusive because the demand for integration continues to increase in healthcare delivery systems. Patients traverse a myriad of services (primary care physicians, specialist physicians, hospital and home care) in a typical episode of care. Current information systems are not capable of coordinating this continuum of care, so waste and inefficiencies continue.

Quality also remains elusive. In fact, the risk of medical errors increases in multi-component delivery systems. Drug interactions, clinical mistakes and duplicate tests are common problems that healthcare CIOs are expected to deploy systems to help solve. And now they are also faced with HIPAA and its requirements for security and privacy.

Unfortunately, hospitals are notoriously tightfisted when it comes to information technology spending. According to *InformationWeek*, hospitals spend only 3 percent of their revenue on IT. In other information-intensive industries, IT spending is many multiples higher: insurance spends 6 percent; banking spends 8 percent, and; financial services spends 14 percent. According to the most recent HIMSS survey of hospital CIOs<sup>1</sup>, inadequate financial support for information technology is the most significant barrier to successfully implementing IT in healthcare organizations.

Capital budgets are getting just as tight, with competing demands from every HCO department. Local issues, such as California's seismic renovation requirements, cut even further into the availability of capital funds for information technology.

<sup>1</sup>13th Annual HIMSS Leadership Survey sponsored by Superior Consulting Company.

On the administrative side of the business, enterprise resource planning (ERP) systems are in greater demand. According to the same HIMSS study, the importance of ERP systems is on the rise and is cited as a top application requirement by 58 percent of healthcare technology executives. Similar results were reported in the 2002 PricewaterhouseCoopers, Zinn Enterprises survey of healthcare CIOs: 51 percent said that improving productivity and reducing costs was their top priority — and that ERP systems are their primary way to address these issues.

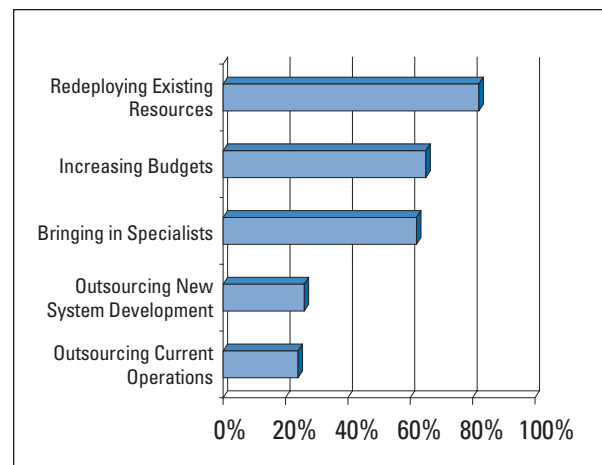
## How Healthcare CIOs Are Responding

In researching this paper, information was gathered from more than 30 healthcare CIOs. Ninety-seven percent of these CIOs are evaluating, designing and deploying new systems in response to one or more of these demands. Clearly there are lots of worthy projects that require CIOs to take action. The question becomes, which actions can CIOs take when they can't do everything but can't afford to defer anything?

What most CIOs are doing is redirecting their existing resources to the highest priority projects and simultaneously asking for more money (see Figure 1). They are also bringing in specialists to help with discrete projects where they don't have in-house expertise.

Some, and it's an increasing number, are also turning to outsourcing. They are bringing in specialized partners under long-term, strategic contracts to take on responsibility for new systems development and some aspects of their current operations.

## How Healthcare CIOs Are Responding to Today's Mounting Demands



Source: Eclipsys Corporation and Michael F. Corbett & Associates, Ltd.

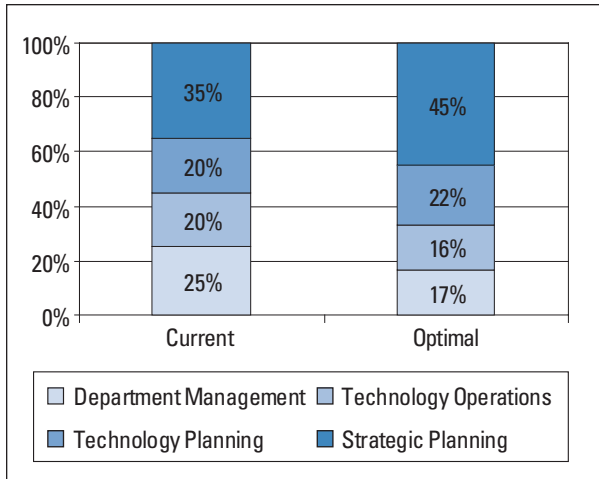
Figure 1.

Healthcare CIOs also see a need to adjust their own roles. Eighty-two percent of these CIOs say that their jobs need to change, that they are being asked to take on an ever-more important strategic role.

Today's healthcare CIO is increasingly expected to be a partner to the CEO and to the clinical, support service and business office department heads. They are looked to as the lead executive for connecting the demands placed on the HCO to the potential for new solutions available through information technology.

Unfortunately, it's a job for which few CIOs can free the time. In our interviews, we found that healthcare CIOs spend only about half of their time on these strategic and technology-planning activities. This is significantly less than the two-thirds of their time that they believe they need to be spending (see Figure 2). The problem: too much of these CIOs' time is consumed managing their departments and overseeing the day-to-day operations of current systems. Healthcare CIOs want to work strategically but are too often forced to focus on operational issues.

## How Healthcare CIOs Are — and Would Like to Be — Spending Their Time



Source: Eclipsys Corporation and Michael F. Corbett & Associates, Ltd.

Figure 2.

Tight IT budgets are also a universal problem. According to Forrester Research, IT spending across all industries grew by only 2.3 percent in 2002. So, how are commercial CIOs coping and what can healthcare CIOs learn from them?

Commercial CIOs are adopting a market-driven approach to meeting their IT needs. They are using outsourcing as a way to solve this dilemma and achieve consistently higher levels of performance, faster system deployment and lower costs. Within commercial organizations, the understanding of how to apply outsourcing successfully now widely exists. The time has come for more healthcare CIOs to learn how to apply this management practice to their organizations as well.

## Time for New Thinking

What all this suggests is that the traditional approach to creating and deploying information technology at HCOs needs to change. The traditional approach is not fully meeting the needs of the HCOs or of their technology executives. Repeating the same behaviors while expecting different outcomes rarely works.

While healthcare information technology is unique in many ways, the challenges these CIOs face are amazingly similar to what commercial organizations and their CIOs have been dealing with for years. Delivery of mission-critical IT at the lowest possible cost is a universal challenge. So is the constant demand for new systems, especially the Web-based systems needed to move the business toward becoming a real-time, customer-intimate enterprise.

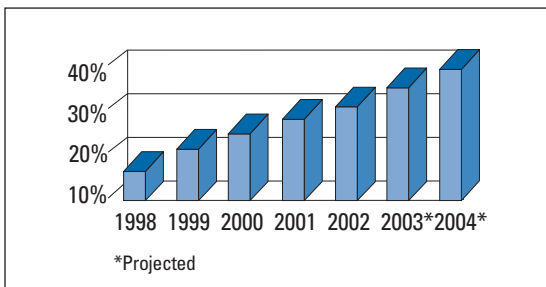
# Making Healthcare Information Technology Market-Driven

In the 1990s, healthcare's vertical integration strategy created larger Integrated Delivery Networks (IDNs) that could treat patients throughout all stages of care. In this environment, the requirements for IT solutions are staggering, complexity is growing exponentially and meeting service levels is more difficult than ever before.

Yet, most healthcare IT departments approach the problem with the same tools they used ten years ago. Ten years ago, executives would have tackled these types of challenges by making an even larger investment in their internal operations. Today you find a very different business structure in most industries — except healthcare.

The 2002 Strategic Outsourcing Study, conducted annually by Michael F. Corbett & Associates, Ltd., found that in response to today's challenges, the typical executive now outsources about one third of his or her budget.

## Outsourcing Spending as a Percentage of Budget



Source: The 2002 Strategic Outsourcing Study  
Michael F. Corbett & Associates, Ltd.

Figure 3.

In many areas of organizations, in fact, outsourcing has become a routine way to improve operations and better allocate resources. For example:

- Food and cafeteria services are outsourced by 77 percent of commercial organizations
- Facilities engineering and maintenance by 75 percent
- Records management by 69 percent
- Legal services by 66 percent
- Manufacturing, warehousing, distribution and delivery by 62 percent

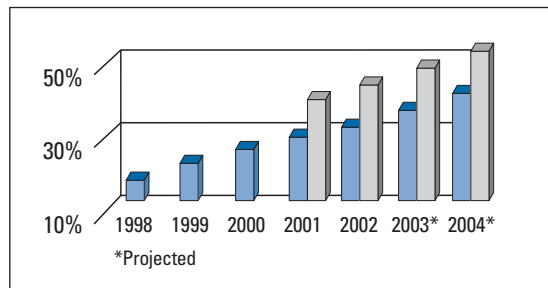
Although HCOs lag behind other industries in their use of outsourcing as a whole, it has become well accepted in some selected areas of healthcare. For example, according to the VHA's most recent member survey, support services are frequently outsourced by hospitals, with 61 percent outsourcing waste disposal, 60 percent outsourcing laundry and linen services, 40 percent outsourcing construction management and 29 percent outsourcing food services.

## IT Services as a 'Jump Ball'

Commercial IT shops have become virtual enterprises, as well. As John McKinley, Merrill Lynch's CIO recently put it; today's commercial IT departments are a web of internal and outsourced relationships. In Merrill's case, its IT department outsources domestic wide-area networks to AT&T, its Web hosting to Cable & Wireless, its back-office systems to the Bank of New York, its debt-trading systems to Bloomberg and its U.S. desktops to IBM — just to list a few. At Merrill, every IT service is essentially a 'jump ball' — subject to competitive testing against the very best commercial providers.

This is the prevailing view at most commercial organizations. In fact, information technology is among the most outsourced of all business areas at most large companies (see Figure 4). Large-company CIOs will outsource about half of their operations by the end of 2004 and midsize organizations are quickly catching up, expecting to outsource 40 percent of their IT budgets in that same time. Healthcare CIOs lag way behind, with less than 20 percent of their budgets projected to be outsourced by the end of 2004.

## Outsourcing Spending as a Percentage of Budgets — All Executives Compared to Large-Company CIOs



Source: The 2002 Strategic Outsourcing Study  
Michael F. Corbett & Associates, Ltd. **Figure 4.**

A number of factors are changing how healthcare IT is sourced and deployed.

### First is the **emergence of world-class service providers.**

Often, these companies got their start responding to the needs of just one or two customers. But as the outsourcing marketplace has become more competitive, and hospitals have to compete against these specialty providers, it becomes increasingly difficult for any HCO to justify insourcing.

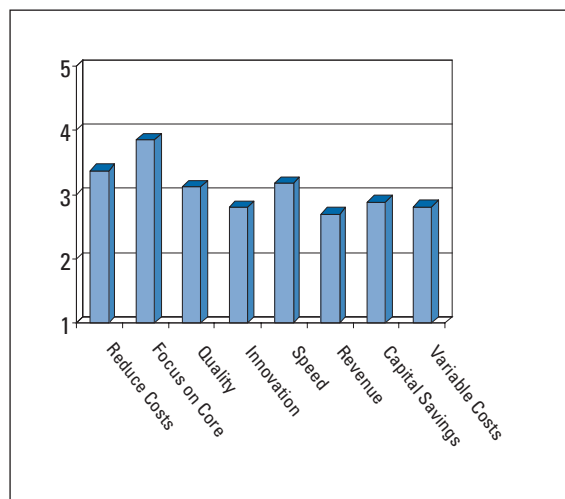
The second factor is **technology** itself. Technology has made much of the work of the modern organization “placeless.” It no longer matters where information is processed, where accounting is done or where an 800-number call is answered. Technology may be a leading area for outsourcing, but it is just as importantly a leading *enabler* of outsourcing. Once it’s possible to do the work anywhere in the world, it becomes easier to consider having the work done *by* anyone in the world.

The third factor is **competition**. As competition intensifies, HCOs must simultaneously get more efficient *and* more effective. The idea that any organization in the face of exploding competition and accelerating change can go it alone is simply naive. Microsoft, one of the most successful companies of the past twenty-five years, considers itself clumsy in any area outside its core competencies of software design, development and marketing. As a result, even Microsoft outsources desktop operations at its corporate campus.

But, outsourcing would not continue to grow in acceptance if, in the end, it didn’t work. And, it does.

Executives across the board give outsourcing high marks for improving their focus on their core businesses, reducing costs, increasing the speed of change and improving quality (see Figure 5). These benefits are the essence of outsourcing’s value equation.

## Benefits Realized through Outsourcing (5-Point Scale)



Source: The 2002 Strategic Outsourcing Study  
Michael F. Corbett & Associates, Ltd. **Figure 5.**

When healthcare CIOs follow suit, they create a dynamic in which:

- Specialized IT providers compete for the HCO's business
- Contractual structures with service-level agreements and enforceable terms replace the 'best effort' approach that is the hallmark of most internal operations
- Capital dollars are preserved (and can be redirected elsewhere) while operating costs become more variable — both keys to survival in today's healthcare environment
- HCOs tap a larger, commercially organized and funded skill pool
- The CIO (and the HCO) become customers of these services, not the providers of technology services in which they will never be the true experts
- Providers, with deeper resources to draw from, become partners in achieving the HCO's outcomes — both today and in the future

Outsourcing also enables the CIO to become more strategic, further accelerating the hospital's ability to leverage IT and addressing one of the top challenges these professionals face — how to reallocate their time from day-to-day operations to strategic leadership.

## Transformational, Operational or Both?

In thinking about outsourcing within information technology, it's helpful to break the IT function into two spheres: transformational and operational.

Transformational IT deals with the introduction of new systems and new capabilities. It's the leading edge that enables information technology to take on and solve some of the HCO's most pressing issues. Transformation activities include the design, development and deployment of new systems and new capabilities.

Operational IT deals with the day-to-day delivery of existing information technology services. It's supporting the end users, monitoring system performance, resolving problems and maintaining high levels of availability.

Customers work with outsourcing firms to both drive transformational projects and to take over day-to-day operations of the resulting systems.

Figure 6 depicts this graphically and Figure 7 compares the level of outsourcing between commercial organizations and HCOs within many of these areas.

## The Two Spheres of Information Technology

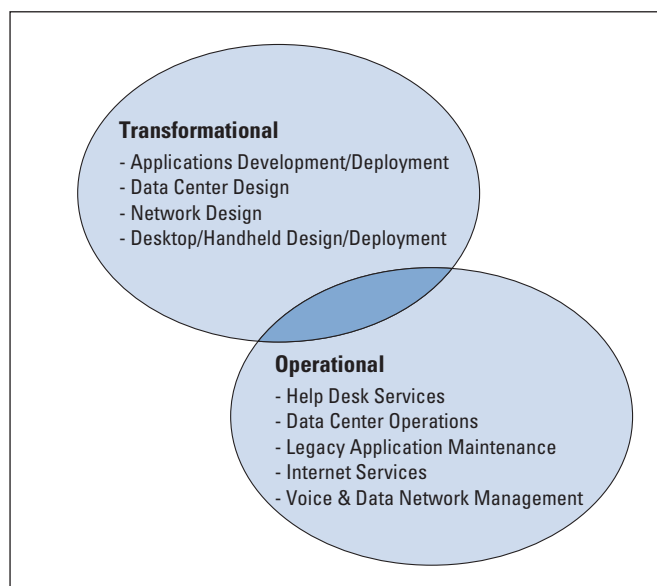


Figure 6.

## A Comparison of Commercial Versus Healthcare IT Outsourcing, by Percent

	Commercial IT Departments	Healthcare IT Departments
Internet Services (including Web hosting)	52%	34%
Application Development and Maintenance	46%	22%
Data Center Design and Management	45%	14%
Help Desk Services	42%	20%
Data Network Design and Management	36%	14%
Desktop/Mobile System Design and Management	36%	14%

Source: The 2002 Strategic Outsourcing Study  
Michael F. Corbett & Associates, Ltd.

Figure 7.

The critical lesson is that outsourcing can help hospital CIOs better meet their needs in both the transformational and the operational spheres. On the transformational side, the additional resources, experience gained at other hospitals, greater access to capital and technology can all accelerate the CIO's ability to deploy new systems and solutions. The right partner can help CIOs realize their vision of an interconnected environment, and do so faster.

On the operational side, in addition to reducing costs and improving quality through economies of scale and operational discipline, outsourcing can also free resources, including the CIO's time, to direct and accelerate the transformational changes needed.

Outsourcing can be directed toward one or both of these spheres and in many cases there can be a multiplying effect in terms of its ultimate impact.

## The Healthcare CIO — Customer or Provider?

When it comes to running the hospital's day-to-day IT operations, the question has to be, "Who wants to be spending all their time on the things that the CEO takes for granted?" The need for healthcare CIOs to become more strategic may be the single most compelling argument for them to increase their use of outsourcing because they still need to know the day-to-day details are taken care of.

There are essentially two ways that CIOs can free the time they need for more strategic activities. They can either make the investment internally to improve and streamline their existing operation (either on their own or by hiring an additional management layer), or they can bring in an outside company to run the day-to-day, non-strategic parts of their departments. That is, they can outsource.

One is the traditional, vertically-integrated, self-sufficient approach; the other, outsourcing, is the business tool of choice for the 21st century.

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The problem with the traditional approach is that as long as CIOs manage their own internal operations they are forced to take on not one, but two jobs: both that of customer and of supplier.

As a customer, CIOs must define their business requirements, prioritize them, maintain all the needed interfaces with the rest of the business, communicate, monitor and, of course, pay for the services. As a supplier, CIOs are also responsible for the delivery of that service. They are unavoidably drawn into the day-to-day problems that arise. The CIO must deal with acquiring and retaining the needed people and skills, and must constantly invest in efforts to redesign and enhance the underlying technologies and processes. Instead of using their technology expertise to move the HCO forward strategically, they find themselves spending their time operationally — dealing with today's problems.

The internal investment approach also assumes that, as the operation improves, the CIO's 'supplier role' will require less time, but that's seldom what happens. The CIO is more likely to find that new requirements, expectations of continuous improvement, ever-changing techniques and technologies and other factors make it impossible to ever finish the job. In the end, when CIOs choose the internal investment route, they may gain marginal improvement in the time required to oversee their operations, but they don't reduce it dramatically.

CIOs should only pursue the internal investment path if the activity is truly the essential purpose of their HCO's business. Additionally, few HCOs have the practical leverage to come close to achieving industry best practices on their own.

Outsourcing provides another path that frees the CIO to focus strategically. For the CIO, outsourcing provides access to an organization whose business it is to manage people, processes and technologies toward a well-defined deliverable. The outsourcing service provider takes on the responsibilities and risks for meeting the CIO's requirements. CIOs typically find that managing contracts is much more efficient and effective than managing employees because contracts are performance-based. And, as healthcare IT has become more standards-based, it has become much easier to use off-the-shelf technologies and services, which means that the expertise an outsourcing vendor gains at one site can be applied at other healthcare organizations effectively.

The interdependent nature of this new outside relationship certainly presents its own unique challenges, but it clearly allows the CIO to move sharply upward, toward the desired strategic role and away from the tactical, day-to-day duties that so often dominate their time. It's the best way to transform the CIOs role from operational to strategic.

# Case Studies of Healthcare IT Outsourcing at Work

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As the following case studies demonstrate, outsourcing offers hospital CIOs a continuum of solutions.

He or she can bring in one or more specialized providers for narrow aspects of their current operations: help desk operations, equipment maintenance, development of selected applications and Web hosting. Or, they can bring in a single provider as a strategic partner to take on most of their day-to-day operations. The same or other providers can also become the CIO's partner for the major transformational challenges they face. Each approach works and can produce value tailored to the individual hospital's and CIO's needs.

The following case studies illustrate each approach.

## *Memorial Health Services*

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Long Beach, California

**Snapshot:** One of Los Angeles' and Orange County's leading healthcare providers with five integrated facilities and 1,430 beds

**Goal:** Compete more effectively in southern California's extremely cost-constrained healthcare environment

**Approach:** Outsource selected aspects of IT

**Outcomes:**

- \$1.8 million annual savings
- Seventy percent improvement mainframe processing speed
- Expanded use of wireless technologies

*"Since teaming with Eclipsys for outsourcing, I now can focus on strategic decisions and not worry about some of the things that previously kept me awake at night."*

**Scott Joslyn**  
Senior Vice President & CIO  
Memorial Health Services

## Memorial Health Services — Selective IT Outsourcing

Like many healthcare organizations, Memorial Health Services needed to hold the line on current IT budgets and produce direct cost savings that could be allocated to new mission-critical IT initiatives. This is particularly important in one of the most highly cost-competitive healthcare areas of the country.

An Eclipsys software customer for more than a decade, Memorial chose to outsource major components of its information technology operations to Eclipsys in July 2000. The services selected included remote hosting and management of Memorial's software at Eclipsys' Technology Solutions Center in Mountain Lakes, NJ; facilities management of its on-site, mid-range-system data center; on-site desktop maintenance services; and management of the health system's IT Help Desk.

Through its Technology Solutions Center, Eclipsys provides comprehensive remote hosting and management services for both Eclipsys and non-Eclipsys software and hardware. Services include remote processing, remote help desk, remote network management, remote desktop management, remote database management and disaster recovery.

Memorial has documented several benefits from the relationship, including a 29 percent reduction in outsourcing costs over its previous operations; consolidation of peripheral hardware support services under a single-vendor contract, resulting in additional cost savings; a higher level of on-site support; and improved budgeting of expenses as a result of a new flat-fee contract.

Memorial's CIO, Scott Joslyn, attributes substantial value to this selective use of outsourcing within his operation and is considering expanding its use into other areas of the organization's IT operations as well. "By outsourcing major IT functions and responsibilities, we are seeing dramatic savings, a 70 percent improved speed in mainframe processing, improved online performance and response time, and a substantial reduction in software fees," says Joslyn.

"Eclipsys has also brought extensive resources to the table," he adds. These range from: best practices to economies of scale, disaster-recovery capabilities, smoother implementation of new software and hardware technologies, and a depth of expertise in hard-to-find IT resources, such as senior application programmers, database administrators and software-development staff.

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## Springhill Memorial Hospital

Mobile, Alabama

**Snapshot:** 252-bed, comprehensive medical-surgical healthcare provider serving southwest Alabama

**Goal:** Improve and transform existing IT operations to support its mission to be “the best healthcare provider in Mobile”

**Approach:** Entire enterprise-wide IT operations outsourced with a single partner

**Outcomes:**

- System uptime increased 20 percent
- Account receivables days outstanding reduced by 26 percent
- Critical resources freed for new initiatives

*“The Eclipsys team is both respected and greatly appreciated by our personnel. They’ve made a big difference in people’s lives.”*

**Randy Sucher**

*Executive Vice President & COO  
Springhill Memorial Hospital*

## Springhill Memorial Hospital — Full IT Outsourcing

Springhill Memorial Hospital is a comprehensive 252-bed medical-surgical facility serving greater southwest Alabama. Its mission is “to be the best healthcare provider in Mobile, where Springhill’s patients, physicians and payers can rely on its outstanding staff to efficiently provide healthcare that is unmatched in quality, convenience and benefit of use in a courteous and family-oriented manner.”

To achieve that mission, Springhill’s top executives felt they needed to stabilize and improve their existing IT operations and then plan for a migration to the latest generation of healthcare information solutions. The challenge, however, was that the hospital’s IT operations were chronically understaffed and lacked the specialized knowledge needed to improve system reliability and performance — a problem shared by many HCOs.

The decision was made to bring in a partner to operate the hospital’s entire enterprise-wide IT environment and to help it transform its operations for the future. In the fall of 2000, Eclipsys became that partner.

Almost immediately, Randy Sucher, Springhill’s Executive Vice President and Chief Operating Officer began to see significant, measurable benefits. System uptime increased 20 percent. Billing practices were stabilized allowing account receivables days outstanding to be reduced by 13 percent over the first four months and by 26 percent within the first year. Eclipsys took on responsibility for improving the monitoring of all remote-hosted and remote-managed applications, as well as a comprehensive system of backup and recovery procedures. Eclipsys also implemented new technical support and training procedures and increased staffing on the on-site applications help desk.

By addressing these immediate needs and moving day-to-day operations to Eclipsys, outsourcing freed Springhill’s key technologists to begin evaluating IT alternatives for the hospital’s future needs. “Now our personnel can focus on providing better healthcare to our community, rather than spending their time worrying about resolving data problems,” says Sucher.

Springhill’s market-driven approach to sourcing its IT needs is enabling better patient care by leveraging the capabilities of a specialized commercial partner.

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## *El Camino Hospital*

Mountain View, CA

**Snapshot:** 426-bed locally owned and governed community hospital, known for quality nursing and cutting-edge use of information technology

**Goal:** Reap the benefits of improved information while reengineering processes to reduce IT and operating expenses

**Approach:** Enterprise-wide IT operations outsourced with a strategic partner

**Outcomes:**

- Total cost of IT ownership reduced
- Leading-edge medical records and CPOE systems in development
- Building the 'healthcare destination of Silicon Valley'

*"Our vision is to create the smart hospital of the future that employs a variety of technologies that we anticipate will lower costs, improve patient safety and enhance services."*

**Lee Domanico**  
Chief Executive Officer  
El Camino Hospital

## El Camino Hospital — Transformational Outsourcing

"At El Camino, we believe that being a leading institution is important. We want to be at the forefront of engaging physicians and participating in major changes in healthcare. We selected Eclipsys as our partner to help us achieve these goals," says Mark Zielazinski, Chief Information Officer, El Camino Hospital.

Through outsourcing, El Camino stays focused on these goals while gaining a partner who can share the risks and rewards of its forward-thinking approach to healthcare information technology.

The current outsourcing relationship covers all of the hospital's on-site IT management, as well as remote hosting and business-transformation services. The initial goal was cost savings. "Reevaluating our IT outsourcing was primarily a cost-reduction exercise," says El Camino's chief executive officer, Lee Domanico. "When we reviewed expenses in a number of areas and benchmarked against regional and market norms, we found our costs to be considerably higher than average. And while we'll likely spend more on technology than the average facility, because we want to be on the leading edge, we believe significant savings are achievable."

Working with Eclipsys as its outsourcing partner, El Camino has benchmarked its current performance and set goals to exceed industry-standard service levels. It has established standards of service for all facets of IT, including infrastructure management, disaster recovery, data center management and desktop management.

El Camino also sought a partner who could help it deploy technology across the enterprise to improve outcomes. Outsourcing with Eclipsys gives El Camino a partner who can help it achieve its desired prominence as a healthcare IT innovator. Working together, the companies are developing advancements in enterprise electronic medical records and computerized physician order-entry (CPOE) — both of which are the basis for next-generation healthcare information technology.

El Camino is tackling other opportunities that will enable it to meet the growing healthcare needs of its community. The hospital is also in the initial planning stages of rebuilding its main patient tower. Through its new IT and construction initiatives, El Camino is working towards its goal of building "the healthcare destination of Silicon Valley."

# The Three S's of Successful Outsourcing

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Although nothing as complex as a long-term relationship between two companies can ever be distilled down to mere sound bites, there are some overarching concepts that are common to successful decision making and execution. They form the “three S’s” of successful outsourcing.

## Strategy

The first “S” is strategy. Much as the Cheshire Cat advises Alice that which path she should follow “depends a good deal on where you want to get to,” outsourcing should not be seen as an end point, but as a means to an end. Successful organizations do not outsource to outsource; they outsource to create specific advantages for their business.

Successful outsourcing emanates from and stays in locked step with the hospital’s strategy. By thinking strategically and understanding how leveraging the unique capabilities and resources of specialized outside organizations can help, a hospital CIO will find himself or herself pursuing the right relationships for the right reasons.

## Selection

The second “S” is selection. This means selecting the right areas to outsource and, just as importantly, selecting the right organizations with which to partner.

When considering whether an area is non-core and, therefore, a good candidate for outsourcing, healthcare CIOs should ask themselves three questions.

*Question 1: If starting from scratch today, would you really do it yourself?*

This question gets at the heart of outsourcing. Much of what organizations do internally today, they do out of habit. Their internal capabilities were built up over time and during a different time — when highly capable outside providers did not exist.

But, what if you were starting over today? What parts of the CIO’s current internal operations might be considered for external sourcing? Which operations would you do internally only if you could not find a competent service provider?

*Question 2: Is the hospital so good at the activity that other organizations would hire you to do it for them?* Being market-driven means that other organizations would hire you to do the work for them. Any activity that

the hospital could not successfully deliver in a competitive market is a potential outsourcing candidate.

*Why?* Because there are commercial organizations out there meeting their customers’ needs. If your operations are not superior to theirs, then you should be hiring them as well and redirecting your resources toward higher value activities.

*Question 3: Will tomorrow’s leaders come from this area? Why is this important?* Peter Drucker explained it over a decade ago when he wrote in the *Wall Street Journal*, that “The productivity of support work is not likely to go up until it is possible to be promoted into senior management for doing a good job at it. And that will happen in support work only when such work is done by separate, free-standing enterprises.” Organizations make their greatest investment and provide their highest rewards in those areas most directly related their core mission.

If the answer is yes to all three questions above, then the activity is probably core and not a good candidate for outsourcing. If the answer is no to any of these questions, then outsourcing is an option that should be examined.

But then the CIO must select a vendor. The best providers are those companies:

- With deep competencies in the areas they service
- With strong organizational resources
- With a good cultural fit
- That put a solid proposal on the table
- Who have a proven track record of success with other organizations like yours

## System

The final “S” is for system. Once created, an outsourcing relationship becomes a strategic asset — just as valuable and just as critical to the organization’s success as any other. Therefore, there needs to be a management system in place for making sure that the relationship continues to generate the advantages sought and receives the necessary ongoing investment of time, attention and energy.

Outsourcing fails when executives equate it to an abdication of responsibility for an unimportant activity. Nothing could be further from the truth. Outsourcing is best used for mission-critical activities where the capabilities of a proven provider can deliver significant advantages for the hospital.

# Starting the Outsourcing Analysis

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Outside of healthcare, the debate is clearly over and outsourcing is an accepted management tool. As the case studies presented earlier demonstrate, IT outsourcing at hospitals can be just as effective as it has proven to be in commercial organizations.

However, no single business approach is right for every hospital or in every situation. So, how does an individual hospital CIO decide if outsourcing is the right decision for them? There are a number of considerations and the following questions offer a guide to making the right decision.

## What problems need to be solved?

Every IT outsourcing decision should be based on a clear understanding of the problems that need to be solved. Is the problem one of cost, speed, capital, risk or skills? What is the relative impact of each of these problems?

The healthcare CIO needs to understand, up front, how information technology fits with the HCO's overall business goals, and how outsourcing can contribute to achieving them. This understanding is key to every subsequent decision made. What activities to outsource, to what provider or providers, under what terms, conditions and pricing are all driven by what the CIO is trying to accomplish. If the goal is to speed the roll-out of new systems by gaining access to more skilled resources, that will lead to one set of decisions. If the goal is to reduce the cost of current operations and free dollars for investment in new technologies and new systems, that will lead to a different set of decisions.

## Should I reengineer what I have, or outsource?

Once the CIO understands the problems to be solved, the question becomes, should I fix these problems myself by reengineering what I have, or by outsourcing?

Generally, reengineering works best if: 1) proven suppliers are not available; 2) continued internal operations protect a clear competitive advantage; 3) the financials of the outsourcing proposals simply don't work, or; 4) there is a lack of senior executive support for outsourcing.

On the other hand, outsourcing works best when: 1) there is an active competitive marketplace of high-quality suppliers; 2) the suppliers' skills and resources can be used to gain a clear competitive advantage; 3) the current internal skills and resources can be better used elsewhere in the department or become more valuable as part of the supplier's organization; and 4) the outside relationship will reduce the hospital's risks in a changing environment.

Although these factors vary from organization to organization, generally speaking the conditions that help make outsourcing successful are in place in most hospital IT departments today:

- 1) There is an active, robust marketplace of high-quality competitors offering world-class IT outsourcing services for HCOs.
- 2) Overall, these suppliers offer skills and resources that can be leveraged by HCOs for competitive advantage in their markets.
- 3) For most hospital IT departments, their internal skills and resources are already stretched.
- 4) Finally, outsourcing partners are well versed in creating contracts by which they assume much of the technological and operational risks that the HCO currently bears on its own.

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## Can I overcome the internal resistance to outsourcing?

Once convinced that outsourcing is the right decision, most CIOs are faced with the task of overcoming the hospital's natural resistance to change.

In order to talk about outsourcing, CIOs must first introduce the need for change. Resistance to change starts because the people, both higher and lower in the organization, can't see a compelling need for it. For this reason, communication is key. Before talking about outsourcing, talk about the need for change, the pressures the HCO is under, the problems it faces, and the costs to patients and to the HCO if the problems are not solved. Outsourcing must come to be seen as the best management tool for solving a well understood set of problems.

Other managers in the organization may resist the decision to outsource because of their fear of loss of organizational control over the process and resources. Here, the CIO needs to demonstrate that the organization will actually gain control through outsourcing. The HCO will have access to a larger, more flexible resource pool. Key performance criteria will be clearly established, tracked, reported and even tied to the compensation the service provider receives. Management control will be further enhanced through performance-data collection and reporting — something that often doesn't happen today. The result is a level of management control that is actually higher than what currently exists.

The individuals impacted by an outsourcing decision may resist out of fear of its impact on their jobs and careers. The reality is that for most hospital IT professionals, outsourcing will actually enhance their jobs and their careers. They will most likely move into positions that are more interesting, offer greater long-term opportunity and that give them the ability to learn new skills and take on new challenges.

Hospital employees are very loyal and some may choose to stay at their facility for the duration of the outsourcing contract. Others will have the opportunity to work at their facility and participate at other outsourcing sites or may choose to transfer to another position within the provider's organization. The best providers allow these decisions to rest with the employees while guiding and developing them through the process.

## Time for Action

As has been demonstrated throughout this paper, the debate is over and outsourcing has won. This doesn't mean that every organization, let alone every HCO, can or should outsource every aspect of its IT operations. But, what it does mean is that every healthcare CIO needs to be constantly evaluating every aspect of his or her operation, always looking for opportunities to bring in outside specialized partners to help them achieve their goals faster, at a lower cost and higher quality.

By their very nature, HCOs are collaborative organizations that bring the best practitioners together in one system to deliver the finest care in the world to their patients. Greater use of outsourcing is a continuation of this tradition, enabling the CIO to better meet their organization's needs and make a greater contribution to the quality of care by bringing the best IT practitioners available into the organization. As healthcare professionals know, it's amazing how much can be done when the best collaborate on a common goal — patient care and safety, enabled by efficient and focused delivery systems.

# Supporting Materials

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## About the author

Michael F. Corbett is an internationally recognized consultant, author and lecturer on outsourcing. He is CEO and President of Michael F. Corbett & Associates, Ltd.

Annually, his company produces and Mr. Corbett chairs The Outsourcing World Summit — the industry's premier gathering of leading practitioners and thinkers. Mr. Corbett founded and is Executive Director of The Outsourcing Research Council, a senior executive consortium for innovative thinking and knowledge sharing on the topic of outsourcing.

Firmbuilder.com, the company's online outsourcing information portal, was launched in May 2000 and quickly became the "go to" resource for outsourcing information. There are now more than 25,000 registered users of the site around the world.

Mr. Corbett has authored more than ten special reports on outsourcing for *Fortune Magazine*. He is routinely sought as a lecturer and speaker. Mr. Corbett has appeared as an expert witness on outsourcing at hearings called by the President of the United States and has testified before the Office of Management and Budget's Commercial Activities Panel, tasked with reshaping the Federal government's sourcing approach.

## About the research

In developing this white paper, data from more than 30 healthcare CIOs was collected and analyzed during the fall 2002 by the author. That data was then compared and contrasted to the 2002 Strategic Outsourcing Study, a global survey of more than 400 executives from around the world with a wide range of functional responsibilities across the full spectrum of commercial organization types. Additional data sources were used and their sources are cited within the body of the report.

## About Eclipsys Corporation

Eclipsys is *The Outcomes Company*®. We were founded with a simple mission: better healthcare through knowledge. Today, Eclipsys is a leading provider of knowledge-driven healthcare information solutions. More than 1,500 healthcare organizations use Eclipsys solutions to reduce errors, enhance workflow and improve their clinical, financial and satisfaction outcomes.

Eclipsys also provides a full range of outsourcing solutions that are custom-tailored to each customer's unique needs. These solutions ensure hospitals have the critical infrastructure in place to support and improve outcomes while significantly improving the return on their information-technology investment.

## Eclipsys Outsourcing Solutions include:

### Information Technology Outsourcing

- Transformational outsourcing
- Facilities management
- Remote services
  - Application hosting
  - Network & database administration
- Desktop & help desk services
- Voice, data & wireless network management
- Web hosting

### Business Process Outsourcing

- Revenue Cycle outsourcing
  - Access
  - Billing
  - Collections
  - Audit & denial management
- Health Information Management
- Decision Support Management
  - Financial & clinical