Hospitals that outsource patient care services are outsourcing more of them, and they’re increasingly seeing to it that their vendors share both the risks and rewards. These are the top findings from a survey of 285 hospital executives that explores their use of outsourcing for patient services and information technology (IT).

Some survey respondents, such as Nebraska Medical Center in Omaha and Presbyterian Intercommunity Hospital in Whittier, CA, are willing to outsource a variety of services other than direct patient care. Others, such as Palmetto Health Baptist in Easley, SC, use outsourcing to get expensive clinical services that they don’t need all the time.

But they and many others are happy to benefit from expertise that they can’t develop in-house.

“I think that healthcare institutions need to open their minds more,” says Glenn Fosdick, president of Nebraska Medical Center. “There’s a mentality that we’re going to do it our way. That’s great if you can, but objectively, we should do things more effectively as an industry, and sometimes that requires getting someone else to help you.”

Eighty percent of the survey respondents said they outsource at least one patient care service, up from 78% in 2006. Of those, 40% outsource only one or two services (down from 45% in 2006), and 60% outsource three or more services (up from 52% in 2006).

The most frequently outsourced service in this year’s survey was anesthesia, followed by dialysis. (Because the list of services in the 2006 survey was slightly different, the results are not directly comparable.)

In 2006, hospitals under 50 beds were slightly less likely than larger hospitals to outsource patient care services—only 68% did so, compared with 76%–86% for larger hospitals. But by 2008, that gap had closed, and almost 80% of the smallest hospitals were outsourcing at least one service.

**Expertise is key**

The expertise of the vendor, cited by 66% of respondents, was far and
away the most popular reason to outsource any patient care service in 2008 (up from 55% in 2006). Cost savings were a distant second, mentioned by 25%. Relatively few respondents—12%—expected to enhance their revenues through outsourcing.

Expertise was particularly important in outsourcing emergency department (ED) care (96%), wound care (75%), rehab services (81%), and dialysis services (78%).

**Risk-shifting more popular**

Hospitals are finding more ways to shift their risks to the providers of outsourced services. Contractual arrangements, in which the vendor assumes both the risks and rewards of providing a service, have outstripped both joint ventures (shared risks and rewards between the hospital and its partner) and straight vendor agreements, in which the hospital simply buys a service.

Contractual arrangements now make up 53% of patient care outsourcing, compared with 35% in 2006. Straight vendor agreements dropped from 42% of the total to 32%.

Joint ventures make up about 14% of the reported outsourcing arrangements for patient care services, down from 23% in 2006. “Joint ventures are hard to set up and complicated to run, and they require time and energy from both sides,” says Andy Norwood, an intellectual property attorney with Waller Lansden Dortch and Davis in Nashville. “In models where they work, they’re pretty successful. If you’re already successful at offering a service, it might be advantageous to set up a joint venture with someone who has the expertise to market it to friendly or far-flung competitors.”

According to the survey, outpatient surgery is the service most likely to be a joint venture; 96% of survey respondents who outsourced outpatient surgery did so as a joint venture. In contrast, EDs are most likely to be run on a contractual arrangement—89% of respondents who outsourced their ED care did so through such an agreement. The services most likely to be handled...

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**A NOTE ON THE SURVEY RESPONDENTS**

The survey was conducted this past summer on behalf of Waller Lansden Dortch and Davis, LLP and HealthLeaders Media by Catalyst Healthcare Research of Nashville. The survey was mailed to 3,805 executives at hospitals and multihospital systems, of whom 285 returned completed questionnaires, for an overall response rate of 7.5%. Of the respondents, 61% were CEOs and 32% were COOs. Tax-exempt or public facilities represented 86% of the respondents; 14% worked in investor-owned facilities. About 32% of respondents worked in stand-alone hospitals, while 46% were in a facility within a multihospital system, and 21% worked for a multihospital system at the corporate level. The respondents were almost evenly divided among urban, suburban, and rural settings. A similar survey was conducted in 2006; in cases when the questions were the same, our charts compare results for the two years.
through a straight vendor agreement were specialty medical equipment (67%), wound care, and rehab services (both 58%).

“Physician joint ventures have declined because of changes in federal law governing physician self-referral, most notably per-click and under-arrangement options with physicians,” says Norwood.

**Information technology outsourcing less popular**

Although 80% of hospitals outsource at least one patient care service, regardless of size or ownership type, outsourcing of IT services is less common. Just over one-third of survey respondents outsource any element of IT.

“Everybody's waiting to see what might be mandated for electronic health records,” says Norwood who works with hospitals on IT outsourcing contracts. “They don't want to do a five-year contract that includes offshoring in South Korea, only to find after 18 months that there's going to be a federal prohibition against sending medical records to other countries.”

As with patient care, hospitals are frequently looking for the superior expertise that an IT vendor can provide, and cost savings take a back seat.

Presbyterian Intercommunity Hospital in Whittier, CA, has been outsourcing its IT services since October 2003, says Peggy Chulack, chief administrative officer at Presbyterian. At that time, the 444-bed hospital wanted to get to an electronic medical record system (EMR) within five years. “We knew we didn’t have those competencies in-house, and it was going to be a real challenge to recruit those people ourselves,” Chulack says. “We were really looking for the expertise—we hadn’t been doing too much infrastructure build, and we knew we would end up paying a little more to get where we needed to be.”

At first, things were a bit rocky with the vendor. “The team in place didn't understand the commitment we wanted from them, and there was a lot of turnover at the top of the company, but our on-site account manager turned things around between their team and ours,” Chulack says. The original
agreement was for five years with three one-year renewals, but now Presbyterian is looking at an additional seven-year commitment. The system went live with computerized physician order entry in May, and the EMR is on track to be in place by 2010.

Presbyterian prefers not to outsource in patient care areas, Chulack says. “We talk about it from time to time, but we have the competencies in-house to handle those things.”

The hospital as data center
Hospitals aren’t always the clients in an IT outsourcing arrangement. Susquehanna Health, a 411-bed hospital in Williamsport, PA, contracts with three small rural facilities to provide clinical and financial information systems, acting as their data center, says Neil Armstrong, executive vice president and chief operating officer. Susquehanna gets financial benefits and operating efficiencies, as well as the chance to be a national showcase for its software vendor, and the smaller hospitals get access to sophisticated systems they couldn’t even have considered purchasing on their own.

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“It’s great to be able to offer a service that can give those hospitals clinical computing while keeping their costs down,” Armstrong says. Such an arrangement works best when all the organizations involved have a common set of values and are careful to set clear expectations, he adds.

Finding good help
Some hospitals outsource as a last resort in a tight labor market. Cen-
traState Healthcare System in Freehold, NJ, puts a priority on hiring top-flight managers for its departments, says Daniel Messina, senior vice president and chief operating officer. “If we can staff something in-house, we prefer to,” he says. The organization, which has about 900 beds spread over an acute-care hospital and a continuing care retirement community with several levels of care, has a joint venture with a radiology group that also handles staffing for the radiology department, and contracts its ED to a group of emergency physicians who work solely at CentraState. New Jersey healthcare workers have many choices for employment, so CentraState turns to outsourcing when it can’t find the right people. Employees of outsourcing companies “come from a model very focused on return on investment and other key metrics, and they’re held to a very high standard,” Messina says.

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Outsourcing has hit a plateau

While three-quarters of respondents report no plans to either increase or

Tenet Healthcare Corp.: A long marriage for partners in IT outsourcing

When Dallas-based Tenet Healthcare began outsourcing its information technology function in 1990 to Perot Systems in Dallas, it was the beginning of a business relationship that’s been more like a marriage. Both parties made a long-term commitment that they renegotiate as necessary to adapt to changing times and circumstances.

The for-profit system has fluctuated in size quite a bit over the years, at one point operating as many as 120 hospitals (currently, it operates 56). Tenet’s chief information officer, Stephen Brown, says the Tenet-Perot agreement began as a way to save money and reduce overhead. It has been overhauled several times, first in 1994 to accommodate a large merger, and again in 2001 to take into account the new technologies and applications made possible by the Internet. The current agreement, signed in 2006, runs for 10 years and has an estimated value of $550 million. The big change in the latest agreement is globalization: Perot can now provide services from India, Mexico, or any country that gives Tenet good value for its IT dollar.

While it’s a straight vendor agreement, with no sharing of either profit or risk, Brown says the two companies have taken advantage of their relationship to develop new products and services. “Perot may give us a better deal because we’re the first to use a product and get the bugs out,” he says. Some jointly developed products have yielded shared intellectual property; when Perot resells them, Tenet reaps a royalty stream.

“We view outsourcing as a long-term permanent relationship,” Brown says. “Perot truly is a business partner of Tenet.”
Because respondents currently say that expertise, not cost savings, is the most important reason to outsource, Bishop expects any outsourcing increases to be concentrated in the more sophisticated clinical services and in IT, where systems are getting more complex and fulfilling an increasing number of functions.
Maintaining responsibility

Although an infusion of expertise is welcome, outsourcing doesn’t mean handing over sole responsibility, warns Norwood. “I’ve seen situations where hospitals were overly optimistic about what an outsourcing agreement would do,” he says. “You can’t outsource IT, or security, and have no employees to keep an eye on it and deal with it. Depending on how big you are, you may need more than one person to oversee that relationship. When you build those costs back in, you may find that you’re not getting the savings you expected.”

Palmetto Health Baptist Easley: Can we do this the best?

Palmetto Health Baptist in Easley, SC, serves the best fried chicken in Pickens County, and 200 to 300 people head to the hospital cafeteria after church on Sunday for lunch. Hospital staff members do the cooking—and it will stay that way as long as they do a better job than outside suppliers, says administrator Roddey Gettys.

“We outsource things that we don’t have the skills to manage,” he says. “We ask, ‘Can we do this and can we do it the best, or is it worth paying more to get the expertise that we want for patient and employee safety?’”

Using those criteria, the 88-bed hospital outsources security, receivables services, and specialized medical services such as dialysis and physical therapy. “We don’t have a constant need for a speech therapist, but we need one often enough that we need someone close by,” Gettys says. “We have a big need for physical and occupational therapy, and we have a better relationship with the service if it provides all three. We’re probably paying them more for physical therapy, but we’re saving on occupational therapy and speech, so we know we’re getting good value compared with other hospitals.”

Palmetto also contracts with an emergency physician group to run its ED, and with a firm in Atlanta that employs its hospitalists. However, Gettys carefully screens hospitalist candidates to get the team he wants. He estimates that he’s interviewed 25 candidates over the past year and ended up keeping four. He’d like two more. “We hire the folks we would want to take care of us and our family,” he says. “If their recommendations aren’t glowing, and they can’t tell us their quality numbers where they’re working today, we’re not interested.”