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CardinalConsulting.org

# CARDINAL THOUGHTS
## Cardinal Consulting, Inc. (CCI)

3rd Quarter 2004 Volume 1, Number 3

*"The measure of success is not whether you have a tough problem to deal with, but whether it's the same problem you had last year."*

***John Foster Dulles 1888-1959 US Senator & Sec of State, Time Man of the Year 1954***

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# What does it take to be an outsourcing hero?

**By Michael J. McGill, Ph.D.**

**Principal, Cardinal Consulting, Inc.**

Providing adequate information technology is a huge expenditure for health care organizations. Most spend about two percent of gross revenue on IT operations. A hospital with gross revenues of $500 million can be expected to spend about $10 million on IT operations. While two percent is low compared to the 8 to 12 percent spent in the banking industry, $10 million often represents the difference between financial success and difficulty for a health care organization. Moreover, the two percent often does not include capital expenditures for hardware or software.

**Health care organizations spend about 2% of gross revenue on IT.**

Despite the difficult financial situation of the industry, health care organizations face considerable pressure to increase IT expenditures. For example, the influential Leapfrog Group recommends that all health care institutions install a computerized physician order entry system to help reduce medication errors. A large hospital may spend $20-$50 million for the complete implementation of a CPOE. Another source of budgetary pressure is the desire for technology that will increase the health care organization's revenue through better insurance verification/validation and enhanced charge capture.



**CHALLENGES TO HEALTH CARE EXECUTIVES**

Increasingly, executives are recognizing the difficulties a health care organization faces with providing satisfactory IT solutions. These include a shortage of skilled staff, high turnover, rapidly changing technology, and the need to respond to HIPAA requirements, among others.

The result is a situation in which health care increasingly relies on IT for access to information and support for process changes. The traditional model has been to have IT staff do whatever is necessary to ensure that caregivers' needs are met. Unfortunately, as technology changes and becomes more complex, as the need for integrated systems grows, and as the demand for immediate implementation and support increases, the ability of the IT staff to accomplish its goals diminishes. Also, it is increasingly difficult to find and retain qualified IT staff.

**IS OUTSOURCING THE ANSWER?**

Yes, in many instances. However, it is important to specify the extent of outsourcing, which can range from very selective (limited outsourcing) to all-encompassing (complete outsourcing). A limited form is to employ a contractor for a specific project. Complete outsourcing happens when a third

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*Achieving ERP ROI can take years*

***Frank Cavanaugh***

***Everett Hines***

***Sam Schultz II Ph.D.***

***Tony Duminski***

***Jean Joslyn***

***Richard Dick, Ph.D.***

***Fred Mills***

party takes over all of the IT activities from one or more organizations. This may even include outsourcing the role of the CIO.

**DECIDING TO OUTSOURCE**

The decision to outsource must include not only measurable factors but also qualitative and emotional ones. Outsourcing is meant to achieve a desired goal by using resources outside the institution. Achievement of the goal may mean faster or less costly service, increased quality or flexibility, or all of the above.

Outsourcing can increase access to newer technology and reduce the risk of becoming technologically dated. It can also help provide a more stable basis for IT costs and better access to skilled personnel.

**RISKS OF OUTSOURCING**

However, the risks are significant. One perceived risk is the loss of direct control over the outsourced activity. The fear is that the organization will become dependent on the outsourcer. If the contractor does not fully understand the health care industry or the health care organization, then risk increases and fears multiply. If the outsourcer does not perform well there may be a risk to the organization's reputation, performance, or patient safety.

These risks are often addressed in the contract, which should represent the beginning of a mutually beneficial relationship between the health care organization and outsourcing vendor. The contract covers expectations of the relationship and specifies what will happen if the relationship does not work as expected.

**STRUCTURING THE CONTRACT**

Paul R. Katz, an attorney specializing in outsourcing contracts, recommends that contracts reduce risks by including a process for dispute resolution, as well as a process for breaches of contract and other damages. In addition, Katz recommends that changes in control that might come from a merger or acquisition be addressed in the contract. The transfer of software licenses and warranties should also be addressed. The organization should have a process in place to examine each license and work with the software vendor before the beginning of an outsourcing arrangement. Most important, the contract must provide flexibility and regular review processes.

Management of outsourced functions becomes an activity for the hospital, health system or managed care organization. A match between the outsourcer's organizational structure and the goals and organizational structure of the health care organization increases communication and reduces contract management requirements.

Periodic contract reviews and intense activity and goal measurements are key to the success of an outsourcing arrangement. In addition, clear measures must be used in assessing the success of the outsourcing arrangement. These measures must focus on the goals of the outsourcing arrangement and provide both organizations with a basis for understanding the success or failure of the relationship. The assessment within the health care organization prior to outsourcing is helpful but not essential. It is not unusual for the health care organization to conclude that the goals of outsourcing are different than what is being measured. If so, establishing new measures with an agreed-upon process for changing the measures is appropriate. Affected parties must agree on basic measures and that regular performance measurements will be made. It is also important for the health care organization and outsourcer to agree on

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the expected improvements — and how the measurements will be allowed to change as the outsourcing relationship evolves.

**DETROIT MEDICAL CENTER'S EXPERIENCE**

Outsourcing is a fact of life for health care IT. Today's most common type is to employ contract-programming staff for a specific task. A more extensive example is Detroit Medical Center (DMC), which outsourced all IT activities except the CIO. DMC's goals were to save money, overcome a lack of resources, focus on the core business, and gain a competitive advantage. The most significant benefit achieved has been improvement in the availability of IT professionals at the right time and place. The discipline that came with the new processes instituted by the outsourcer has been an additional advantage.

A large outsourcing project is likely to be a wrenching experience because it impacts employees and processes. However, if the outsourcing arrangement is carefully constructed, organized, and managed, everyone can realize significant benefits.

Dr. McGill is a 30-year veteran of the IT industry and has extensive experience in all facets of health care IT. He currently is principal at Cardinal Consulting, Inc. (CCI). Prior to joining CCI, Dr. McGill was system vice president and CIO at Henry Ford Health System in Detroit, where he was responsible for system-wide operations, development, and vision for the integrated delivery system's information services. He was promoted to corporate vice president in 1999 and until February 2002 was part of an outsourcing arrangement of Henry Ford's IT department.

# Cardinal Consulting, Inc. grows by 75 percent in past 12 months

Chicago, IL, June 22, 2004 – Cardinal Consulting, Inc. (CCI) announced recently that with the addition of nine new Principals during the past twelve months, it has grown its organization by seventy-five percent. Joining as Principals in San Francisco are Leo van der Reis, M.D., and Connie Berg, R.N., M.B.A. The Chicago area has expanded from two to five Principals with the addition of Dan Kinsella, Mike Cook, MHA, and Mike Cohen, MBA. Joining in Indianapolis, a new location for CCI, is Walter Zerrenner. On the east coast, Steve Henkind, M.D., Ph.D., Alton Brantley, M.D., Ph.D., and Steve Roth, MBA, have joined as Principals. Cardinal Consulting, Inc. now has a total of twenty-one Principals. Resumes for each of the new Principals are available on the Cardinal Consulting, Inc. web site.

Principals at CCI average more than thirty years experience. Many have worked as partners and managers in big-five consulting firms or have served as CIOs or CEOs in hospital groups and academic medical centers.

Other CCI consultants include: Frank Cavanaugh, Everett Hines, Samuel Schultz II, Ph.D., Anthony Duminski, Jean Joslyn, Richard Dick, Ph.D., Fred Mills, FACHE, William MacFarlane, James Cusick, Mike McGill, Ph.D., Dennis Belter, and Gary Johnson as Principals.

When appropriate, CCI also utilizes affiliates who have their own firms and provide unique skills for CCI clients.

Even though CCI is a very experienced firm, it is small, privately held, and very client-focused. Therefore, client-billing rates are competitive, especially compared to the large consulting firms.

Connie Berg, R.N., M.B.A.

Dan Kinsella

Mike Cook

Mike Cohen

Steve Henkind, M.D., Ph.D.

Alton Brantley, M.D., Ph.D.

Steven Roth

Cardinal Consulting, Inc. has consultants based in or near Ann Arbor, Atlanta, Boca Raton, Chicago, Columbia (MO), Columbus, Indianapolis, New York City, Salt Lake City, San Antonio and San Francisco.

Visit our web site at www.cardinalconsulting.org for information about CCI's knowledgeable staff and consulting services, or call Frank Cavanaugh at (708) 645-1235.

# GE Healthcare largest HIT vendor

The 11th annual *Healthcare Informatics 100* survey found **GE Healthcare, Philips Medical Systems,** and **EDS** to have the largest health care IT revenues (roughly $2 billion each) in 2003. The fastest growing company was found to be **Spheris**, which provides medical transcription services.

Source: The Buck starts here. *Healthcare Informatics*, June 2004.
Full text free here: http://www.healthcare-informatics.com/issues/2004/06_04/100_reg.htm

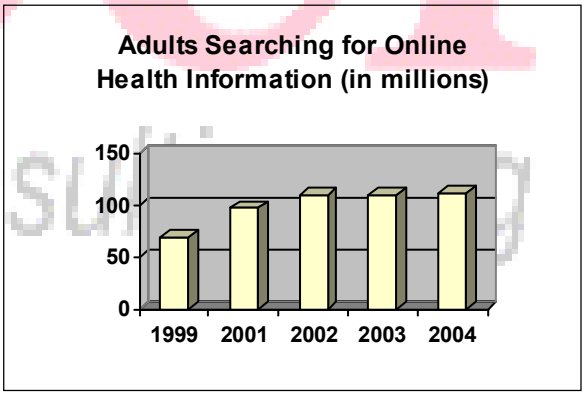
# New digital heart hospital underway

The **Pepin Heart Hospital & Research Institute** is under construction on the campus of **University Community Hospital** (Tampa, FL). The $40 million, 120,000-sf facility will be a model digital hospital -- filmless, wireless, and virtually paperless. GE Medical Systems will provide the technology for the showcase hospital.

Sources: University Community Health: University Community Health and GE Medical Systems unveil plans for the southeast's first digital, research-focused heart hospital. *Press Release*, January 7, 2004. Full text free here: http://www.uch.org/press.asp?rls_id=29&
Pepin Heart Hospital & Research Institute website, accessed June 20, 2004.
Full text free here: http://www.pepinheart.org/index.asp

# 111 million look up health info

Growth in the number of adults who have ever searched for health information on the web has tapered off, probably due to the overall slowing of the Internet penetration rate, according to a **Harris Interactive** poll taken in February 2004. About one-third of the 111 million adults who said that they've done Internet searching for health information did so within the previous month. Most respondents prefer using a search engine or portal instead of a website dedicated to health-related topics.




Source: No significant change in the number of "cyberchondriacs" – those who go online for health care information. *Health Care News [Harris Interactive]*, April 12, 2004;4(7):pp 1-4.
Full text free here:
http://www.harrisinteractive.com/news/newsletters/healthnews/HI_HealthCareNews2004Vol4_Iss07.pdf

# 'Snowbird' hospital implements EMR

**NCH Healthcare** (Naples, FL, 518-bed system) has a big seasonal swing in utilization and boosts staffing with traveling nurses in the winter. This transitory workforce was part of the impetus to implement a $10-million **Cerner** electronic medical record. Use of the new system is credited with shaving 15 minutes from the each admission assessment and is helping decrease overall length of stay.

**Walt Zerrenner**

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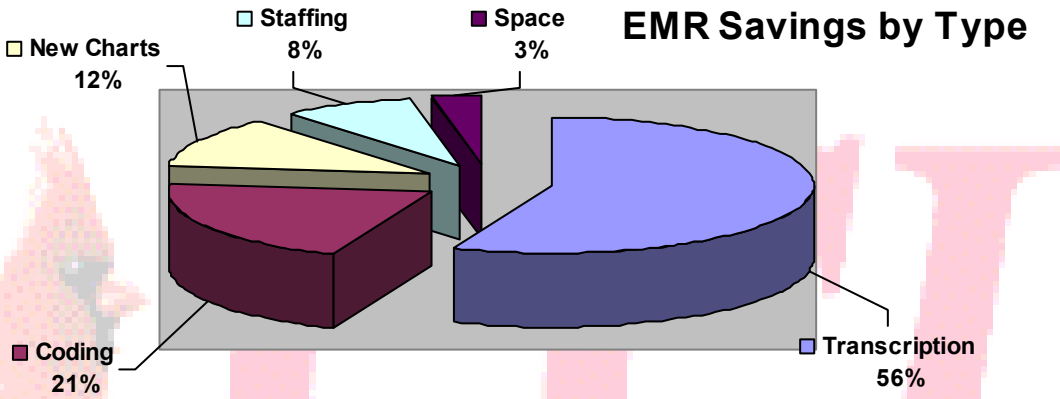
Source: Cronin P: Automation optimizes nursing workflow. *Healthcare Informatics*, May 2004.
Full text free here: http://www.healthcare-informatics.com/issues/2004/05_04/case_cronin.htm
http://www.harrisinteractive.com/news/newsletters/healthnews/HI_HealthCareNews2004Vol4_Iss07.pdf

# Clinic saves $8.2M in 5 years

**Central Utah Multi-Specialty Clinic** (59 physicians), a fast-growing group practice in Utah, identified the savings associated with implementation of an electronic medical record beginning in April 2002. The major savings were associated with a reduction in transcription expenses, which dropped by 35 percent in the first year, and in more accurate coding. The pie chart illustrates the categories of savings associated with this EMR project.




Source: Barlow S, et al.: The Economic effect of implementing an EMR in an outpatient clinical setting. *Journal of Healthcare Information Management*, Winter 2004;18(1):pp 46-51.
Full text free here: http://www.himss.org/content/files/jhim/18-1/contribution_economic.pdf

# Small rural hospital cuts days in A/R

**Henry County Health Center** (Mount Pleasant, IA, 99 beds), which was named one of the top hospitals in the nation in the mid-1990s, was bogged down with a slow billing process. With 4 clerks sharing one workstation, days in accounts receivable were about 80 in 2002, compared to the state average of 60. Purchase of **SSI's ClickON** billing and claims transmission software and access to a clearinghouse have dropped days in A/R to about 65. Additionally, the new system helped prepared for HIPAA transactions compliance.

Source: Blair R: Mission accomplished. *Health Management Technology*, June 2004.
Full text free here: http://www.healthmgttech.com/archives/0604/0604mission_accomplished.htm

# Single-supplier solution at Somerset

When vendor support for a legacy materials management system was phased out in 2000, **Somerset Medical Center** (Somerville, NJ, 355 beds) decided to invest in a **Lawson Software** solution that fully integrated all of the hospital's core business functions. Implementation of the new system has enabled this teaching hospital to close the books earlier each month and eliminate a sizeable discrepancy between the legacy materials management system and the general ledger. But the most significant benefit is the new analytics that speed up the availability of key financial reports.

Source: Dyer D: Forging core strength. *Health Management Technology*, June 2004.
Full text free here: http://www.healthmgttech.com/archives/0604/0604forging_strength.htm

# HIPAA inspires AMC IT investment

The **University of Michigan Health System**, made up of various providers and the Mcare health plan, has over ten years experience in transmitting electronic claims information. Changing to electronic transaction processing resulted in significant efficiencies at this academic medical center that generates 8,000 to 12,000 claims per day. How UMHS adapted its existing system to the demands of the HIPAA Transactions and Code Sets standards is discussed in this lengthy article by a UMHS business analyst.

Source: Ebel C: How the University of Michigan Health System finds opportunity in HIPAA. *Journal of Healthcare Information Management*, Spring 2004;18(2):pp 27-33.
Full text free here: http://www.himss.org/content/files/jhim/18-2/michigan.pdf

# Due diligence in installing wireless

Considerations in choosing to install wireless networking in a health care facility are discussed in light of HIPAA privacy standards in this practice brief from the **American Health Information Management Association (AHIMA)**. Vulnerabilities of wireless local area networks and security standards are covered.

Source: Securing wireless technology for healthcare (AHIMA practice brief). *Journal of AHIMA*, May 2004. Full text free here: http://tinyurl.com/24exj

# Residents slow to use free PDAs

In 2001, **Ohio State University Medical Center** gave free wireless PDAs to medical students and residents. Interestingly, the use of the devices to download patient data is growing, but still rather low – at an estimated 10 to 20 percent. A more popular use is to check pharmaceutical information and curriculum-related information. Among the problems encountered have been lack of departmental buy-in, technological issues, and difficulty in getting residents to change their workflow patterns.

Source: Goedert J: Getting generosity to pay off. *Health Data Management*, May 2004.
Full text free here: http://tinyurl.com/3bmu5

# Achieving ERP ROI can take years

Due to the complexity of enterprise resource planning systems, and the fact that providers sometimes do not install a full suite of applications, achieving hard returns on investment can take several years. The experiences of **Oregon Health & Sciences University** (Portland, 2 hospitals), **HealthFirst** (Rockledge, FL, 3 hospitals), and **Memorial Healthcare** (Hollywood, FL, 4 hospitals) are compared. A financial analysis at **OHSU** found that implementing ERP resulted in savings of $2 million/year attributable in large part to the ability to participate in volume purchase ordering. Health care organizations that implement ERP now should have an easier time than first adopters, however.

Source: Schuerenberg BK: ERP ROI not PDQ but A-OK. *Health Data Management*, June 2004.
Full text free here: http://tinyurl.com/2wpcw