



Technology's Impact on the **EVOLUTION OF OUTSOURCING IN HEALTHCARE**

Everybody outsources! Individuals may outsource mundane jobs like lawn care, painting, or housecleaning. You are more likely to outsource, without much thought, jobs that you don't have the expertise to perform. It could include tax preparation, legal work, or medical care. Just like individuals, many companies struggle with the decision to outsource functions that require specialized knowledge because they believe they should be able to handle everything internally. Sophisticated technology development is beginning to change this type of thinking.

While many industries began utilizing outsourcing as a concept in the 1980's, healthcare did not immediately embrace it. The decision to outsource is generally made in order to lower a company's

operating cost. Today, more than 75% of companies subcontract a process or function to a third party. When businesses began to embrace outsourcing, they did so by identifying and evaluating their core competencies to determine which non-core functions should/could be outsourced. Even when companies could identify cost savings

opportunities via outsourcing, many still could not get over the emotional

hurdle of letting individuals outside the company perform important and confidential

functions. They would dismiss the opportunity to outsource core functions

without giving it a fair evaluation. But as outsourcing has evolved, those fears are fading away.



Real World Instances

Campbell Soup Company, for example, recently decided to outsource its back office financial services functions such as billing, credit, and collections services. Is there anything more critical or sensitive to a public company? "We did enter into an agreement with Accenture for our back office financial services," Anthony Sanzio, a spokesperson for the company, said. "Every decision that impacts employees is carefully weighed and we always look at ways to be more efficient. Accenture can deliver these services more efficiently and at a lower cost than we can on our own." According to Sanzio, the company is following the trend of other companies in the industry, such as Sara Lee Corporation and The Colgate-Palmolive Company by outsourcing its financial services. "Many of our peer companies have already made transitions over the last two years," he said. Another example is IBM. As incredible as it may seem, IBM reportedly is working towards outsourcing almost every "non-customer facing" function for the entire company. It now employs more workers in India than in the US, according to a leaked IBM document reviewed by The New York Post. Even Procter & Gamble, which has one of the world's strongest consumer products portfolios, utilizes outsourced marketing services to help realize new growth and efficiencies.

Knowledge Process Outsourcing

Outsourcing began small, focused on finding cheaper manpower for labor and time intensive jobs such as telemarketing and data entry at the beginning of the millennium. However, that paradigm is changing. Leading business organizations, including those in the healthcare industry, are outsourcing even their "core competencies" to gain a competitive edge utilizing an evolved form of outsourcing called Knowledge Process Outsourcing (KPO).

Knowledge Process Outsourcing (KPO) is a term used to describe the outsourcing of *core processes* that require specialized skills to perform, and are a critical part of

a company's value proposition. Now, companies are not sending out proprietary knowledge, but in fact they are bringing knowledge into the organization. These processes are generally information related business activities that organizations will consider an outsourcing strategy because:

- It requires specialized knowledge and expertise that the organization does not have
- It brings additional value added services to the organization
- There is a potential for cost reduction
- A shortage of labor exists with the specialized expertise
- It provides agility and speed for service expansion and growth

Business Process Outsourcing

Business process outsourcing (BPO), the predecessor to KPO, has been used by many larger corporations for the past decade. Now all businesses have been gradually utilizing both KPO and BPO, because of the ability to interact with employees or companies anywhere in the world. Initially, businesses were hesitant to outsource because of the headaches that come with managing employees even in one office. The idea of managing a work force not under their control was a concept that was completely foreign. However, as contracting for more complex services have improved and become more refined, outsourcing is now much simpler. Instead of worrying about each individual contractor, companies simply work with a business that specializes in outsourcing that particular talent pool, and their provider hires and manages the workers. This strategy frees managers from many of the details of employing these individuals and allows them to focus simply on the deliverables. Talent is vetted and managed by the contractor -- all business owners have to be concerned with is the product or service.

The Healthcare Industry: Last to Join the Party

Healthcare is the largest industry in our economy, yet it is one of the last to embrace new processes or technologies that are common in other industries. Healthcare has been last to the party largely due to the incredible amount of fragmentation within the industry. For the most part, healthcare is a local business built on the philosophy of “high touch” over “high tech”. Recently the explosion of EHR’s (Electronic Health Records) in healthcare has led to a significant shift in technology acceptance throughout the industry.

Traditionally, health systems and other healthcare organizations have outsourced support functions, such as housekeeping, laundry services, and food services and even supply chain management — areas that do not fall under many organizations’ core competencies. “Healthcare is becoming such a cost-driven initiative,” says John Boland, director of healthcare at Navigant. “Everyone is focused on costs and driving them down and getting quality results for less money.”

Non-traditional Outsourcing Functions

With outsourcing on the rise, however, functions that have traditionally not been candidates for outsourcing are now getting a second look, including information technology, medical management and clinical services. The U.S. healthcare IT outsourcing market is expected to grow by 42.8 percent in the next five years, according to a report by MarketsandMarkets. As an example, many are outsourcing IT services to vendors for help with ICD-10 preparation. Another reason outsourcing in this industry is on the rise is because of the new emphasis on data collection and analysis.¹

“So much of what’s going on now requires effective data collection and analytics of the data,” says Barry H. Ostrowsky, president and CEO of Barnabas Health

in West Orange, N.J. When functions are outsourced, systems have access, through the vendors, to the most up-to-date technology for data collection and analysis without investing capital. There has also been growth outsourcing clinical or patient care services.

Many outsourced activities provide not only cost savings but increased compliance, so essential in the current regulatory environment. Audits are intensive in the healthcare industry and HIPAA compliance is



non-negotiable. Healthcare providers cannot afford to maintain inaccurate or outdated records, billing or coding systems any longer. These are core functions that are being outsourced and will remain so because it is a solution that works, and is critical to a healthcare organizations existence.

According to a study by Gartner, KPO for the healthcare industry has reached the “plateau of productivity” and will see increasing adoption in the next few years. Modern Healthcare’s annual Outsourcing Survey found that the top 20 outsourcing firms, based on the number of national healthcare clients, reported 13.1% growth between 2010 and 2011. As a group, the top 20 contractors served a total of 16,463 healthcare clients in 2011, up from 14,556 the previous year.

¹Heather Punke, *Outsourcing is Exploding in Healthcare — Will the Trend Last?* (Becker’s Hospital Review:2013) <http://www.beckershospitalreview.com/workforce-labor-management/outsourcing-is-exploding-in-healthcare-will-the-trend-last.html>

Outsourcing in the Insurance Industry

Insurance companies have traditionally been among the slowest adopters of outsourcing. However, shrinking margins, higher claims disbursement, and increasing competition have forced insurance companies to look at outsourcing to improve efficiencies and focus resources towards the core functions of product development and innovation. Accenture research shows that more than half of the top US health payers are already outsourcing or are beginning to outsource portions of their health management operations.

Some of the jobs being outsourced and sent abroad include so-called pre-service nursing, where nurses at insurance companies help assess patient needs and determine treatment methods. Outsourcing such tasks goes beyond earlier steps by health care companies to contract out the reading of X-rays and other diagnostic tests to health professionals overseas. Those previous efforts were often done out of necessity, to meet overnight demands, for instance. But the latest outsourcing, which has contributed to the loss of hundreds of domestic health jobs, is done for financial reasons. And the outsourcing of nursing functions, in particular, may be the most novel — and possibly the most risky — of the jobs being shifted. At the forefront of the trend is WellPoint Inc., one of the nation's largest health insurers and owner of Anthem Blue Cross, California's biggest for-profit medical insurer.

“Sourcing strategies have enabled us to make our services more effective, accessible and affordable to our customers, while allowing us to expand our programs and maintain our service levels.”

- Kristin Binns, Wellpoint

In 2010, WellPoint formed a separate business unit, Radiant Services, aimed at advancing outsourcing and other cost-saving strategies. WellPoint has eliminated

hundreds of jobs in the U.S. over the last 18 months as it has moved jobs overseas, a company spokeswoman acknowledged. The spokeswoman, Kristin Binns, said WellPoint's shifting of clinical jobs overseas was a small part of the outsourcing being done through Radiant because it has the technical expertise and can ensure compliance with laws. WellPoint's "sourcing strategies have enabled us to make our services more effective, accessible and affordable to our customers, while allowing us to expand our programs and maintain our service levels," she said.

While outsourcing jobs out of the country is a hot political and social issue, outsourcing for the expertise and compliance benefits cannot be ignored.

Benefits of KPO for healthcare include:

- Opportunity to work beyond the confines of the company. Technology allows work assignments to be transferred/shared seamlessly and provide notifications across groups, partners, and customers.
- Managers can view real-time process performance and proactively manage bottlenecks.
- Ensure that the process documented is the process executed. Provides consistency, adherence and audit trails to ensure compliance with regulations.
- Drive strategic goals. Faster response to change. Revise processes to respond to organization or regulatory changes — in days, if necessary.
- Potential for cloud computing. The cloud uses a common, one-to-many platform to automate highly standardized processes.
- Reduction/Elimination of any technology risk

Currently, there has been a tremendous increase in KPO activities as a result of two major changes to healthcare: The explosion of Electronic Health Records (EHR) and Accountable Care Organizations (ACO) in healthcare is putting enormous pressure on companies to become compliant and competitive in a very short time period. Today's EHR systems make the discrete capture of large amounts of patient data



possible. By applying the appropriate analytical tools to this discrete data, organizations can measure and monitor the costs and outcomes that directly impact compensation within the ACO. The opportunity exists for a Revenue Cycle Management partner to leverage a higher degree of analytics to ensure seamless coordination among healthcare providers. Likewise, when fully integrated with a practice or enterprise management system, organizations can pinpoint and predict how much it costs to treat certain patient populations and how resources should be utilized. It is this broad, population-based analysis that is necessary to put organizations in a better position to evaluate ACO opportunities and performance. It is much more efficient and effective for organizations to buy rather than build this type of expertise.

“When you have people’s medical, billing and other records kept electronically, then it opens it up to establishing a call center virtually anywhere,” said Steve Trossman, a Los Angeles spokesman for the Service Employees International Union, which represents hospital workers. “There is no longer a reason for it to be physically in the same place as the paper records.”

In conclusion, over the next two to five years, technology deployment will continue to allow for more and more utilization of Knowledge Process Outsourcing and will be widely adopted in the healthcare industry. Innovative payers and providers are looking to expand healthcare outsourcing into health management services; and those who are not, cannot afford to overlook the advantages and benefits of this growing trend.

References:

1. *Accenture, Achieving High Performance in BPO Research Report* http://www.accenture.com/SiteCollectionDocuments/Microsites/high-perfbpo/High_Performance_BPO_Full_Report_290212.pdf
2. *Accenture, Why Health Organizations Should Break the Health Management Outsourcing Taboo* <http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture-Why-Health-Organizations-Should-Break-the-Health-Management-Outsourcing-Taboo.pdf>
3. *California Healthline, Outsourcing May Grow as Health System Evolves* <http://www.californiahealthline.org/insight/2012/outsourcing-may-grow-as-health-system-evolves>
4. *GeBBS Healthcare Solutions, Advantages of Knowledge Process Outsourcing for Healthcare* <http://info.gebbs.com/healthcareRCM-blog/bid/248478/Advantages-of-the-Knowledge-Process-Outsourcing-for-Healthcare>
5. *Ivey Business Journal, The Benefits and Risks of Knowledge Process Outsourcing* <http://iveybusinessjournal.com/topics/strategy/the-benefits-and-risks-of-knowledge-process-outsourcing#.VD5tUvldUt4>
6. *Los Angeles Times, Worries grow as health jobs go offshore* <http://articles.latimes.com/2012/jul/25/business/la-fi-healthcare-off-shore-20120725/2>
7. *NJ.com, Campbell's Soup Company outsources office positions* <http://www.nj.com/gloucester-county/index.ssf/2012/06/campbells-soup-company-outsour.html>
8. *OSF Global Services, IT Outsourcing Benefits for Healthcare Companies* http://www.osf-global.com/assets/uploaded_files/en/outsourcing-benefits-healthcare-OSF-white-paper.pdf

ProgenyHealth is a leading provider of neonatal care coordination services. Focusing on the unique health care needs of infants in intensive care nurseries, ProgenyHealth neonatologists, pediatricians, and NICU nurses partner with the infant’s neonatologists and primary care providers to deliver care management services from birth through the first year of life. Case managers are available around the clock to support and educate families. Families become active participants in the health care decision making process by working closely with the ProgenyHealth clinical team. ProgenyHealth delivers consistent, measurable, and substantial ROIs for each of its health plan clients.