



Global Strategies for Outsourcing Support Services



POSITION PAPER: IMPACTING COST, QUALITY, AND ACCESS

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IMPACTING COST, QUALITY, AND ACCESS:

Global Strategies for Outsourcing Support Services

OBJECTIVE

This position paper examines the changing operational and economic pressures on health-care providers, their subsequent effect on the delivery of quality services, and the potential value to outsourcing support services to professional companies operating within the health-care sector. The shift from tactical to strategic outsourcing is examined, along with the benefits of establishing systemic long-term, multi-service outsourcing relationships with a single service provider.

Current Healthcare Environment

The expanded use of outsourcing clinical support services in the healthcare industry reflects the competitive and environmental pressures currently faced by service providers around the globe.

Many countries are undertaking efforts to assess, compare and improve quality. Most experts agree that even though healthcare systems vary widely across the globe, there are three things that are common to all: cost, quality, and access—and they're all inextricably linked to one another. These three areas, for the purposes of this paper, can be defined in these simple terms:

- **Cost:** Forced choices by healthcare providers to balance the delivery of quality services and fiscal responsibility are at the heart of the dialogue.
- **Access:** Availability of the healthcare system to those who need it within reasonable periods of time required for appropriate medical procedures.
- **Quality:** Ensuring that patients are safe, receiving appropriate medical care, and avoiding undue complications.

In the wake of worldwide recession and aging populations, hospitals are sorting out what changes are necessary to their operations. For instance, as the U.S. grapples with healthcare reform and access for nearly 40 million uninsured, China is going through its own version of healthcare reform known as the Healthy China 2020 plan that provides access to 90% of the Chinese population with basic medical insurance.

The knowledge exchange across the globe for solutions that extend far beyond national boundaries is driving innovative relationships and setting off a wave of international dialogue.

Multiple factors have increased the focus on hospital quality. Rising costs have led governments, health insurers and others to question whether the care they are paying for is as good as it could be. Increased consumer consciousness has encouraged patients to demand high quality care. The internet has made quality more transparent, and with social networking gaining in popularity, isolated instances of dissatisfaction can instantly tap into networks of discontent.

Factors such as low patient satisfaction or hospital-acquired infections will result in an absolute reduction of payment in the U.S., not to mention extended lengths of stay that negatively impact the numbers of patients that can be treated.

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Declining lengths of stay are a major indicator of how hospitals across the globe are identifying ways to improve access by maximizing patient throughput, particularly for bed utilization, in those countries where patients often have to wait for non-critical treatment. In those instances, improvements in length of stay, as well as logistics and patient scheduling, could be the difference in satisfaction with the hospital and/or the government that funds the hospitals.

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OUTSOURCING—BACKGROUND AND THEORY

To help hospitals reach their goals, many turn to outside partnerships for specific expertise.

Why do organizations outsource certain functions? Historically, outsourcing has most often been a tactical response to the need for problem resolution or cost containment. Specifically, if hiring an outside contractor was more cost-effective than performing the same function in-house, the outsourcing option became a straightforward business decision.

With the rapid growth of enterprise-wide, network-based solutions over the past decade, the need for specific technical expertise not always available in-house has emerged as another strong reason for outsourcing.

According to the Outsourcing Institute, the top reasons companies outsource are:

Top Ten Reasons Companies Outsource

The Outsourcing Institute

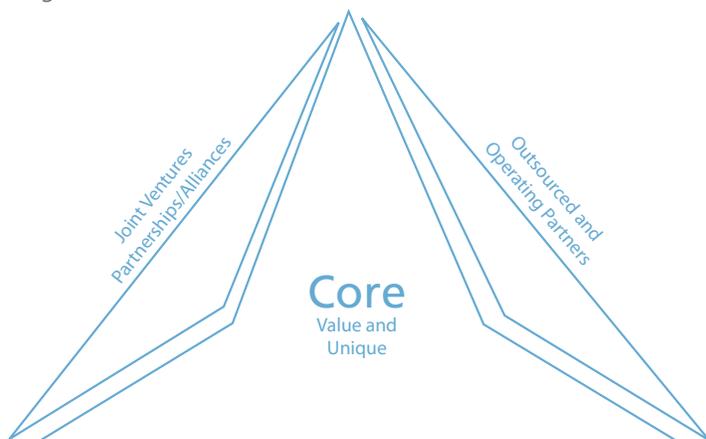
1. Reduce and control operating costs
2. Improve company focus
3. Gain access to world-class capabilities
4. Free internal resources for other purposes
5. Resources are not available internally
6. Accelerate reengineering benefits
7. Function difficult to manage or out of control
8. Make capital funds available
9. Share risks
10. Cash infusion



Jeff Connor, Chief Growth Officer at ARAMARK Corporation, collects data from across the enterprise for why organizations decide to outsource to ARAMARK. "Our research tells us that clients choose us for two basic reasons—speed and consistency of outcomes. They trust that ARAMARK provides them with access to three essential elements that help them achieve outcomes more quickly than they would on their own: a highly trained, skilled workforce and leadership that is passionate about what they do; innovation and new ways of thinking for service delivery, efficiency and execution; and the transfer of best practices from across the globe."

Today, outsourcing has become an integral part of the strategic planning process for many organizations. In his book, *Leadership by Design*, Albert A. Vicere, provides a model of organizational development that incorporates outsourcing as a valuable vehicle for helping to achieve the overall mission of an organization. Dr. Vicere shows how the traditional organizational pyramid has evolved into a "flatter, leaner, more focused" pyramid representing only those capabilities in which the organization can claim a leadership position. Everything else is handled through relationships with other organizations. This new approach enables an organization to focus more on core functions and expanded market opportunities through partnerships.

Here is a graphic representation from *Leadership by Design* of how shadow pyramids differ from traditional organizations:



Shadow Pyramid Organization

Viscere, Albert®

The nature of the outsourcing relationship has changed dramatically over the years, moving from a supplier mentality to a partner mentality. Rather than hire a contractor for a single, specific project, organizations are increasingly seeking partners to provide a broad range of services on a continuing basis.

A 2010 survey of 100,000 International Association of Outsourcing member organizations, conducted with support from Accenture, found:

- **Outsourcing Becomes More Strategic:** Strategic issues are playing an important role in outsourcing decisions at most companies. In January, about 50 percent of respondents indicated that greater business flexibility and preparing the company for future growth have become more important reasons for them to use outsourcing.
- **C-Suite Driving Decisions:** Outsourcing decisions are being made at higher senior executive levels, the results show. Two-thirds of respondents indicated in January 2010 that senior executives were increasingly involved in outsourcing versus only 13 percent who said that senior executives were less involved.



Outsourcing frees an organization's leaders to focus on more strategic issues and, thereby, engage in long-term planning and innovation more fully.

- **Smarter, Skilled Profession:** Knowledge-based outsourcing is becoming more important to companies and the industry is filling this demand. In both the fall of 2009 and January 2010, 40-plus percent of respondents indicated that the outsourcing at their organizations was increasingly focused on knowledge-based activities compared to less than 30 percent who said they were increasing the outsourcing of lower-skill level positions.
- **Bundling Services:** In January, 2010, 45 percent of survey participants stated that their company was more focused on bundling services with fewer outsourcing services providers versus 18 percent who indicated that they were doing more multi-sourcing.

Today's hospital outsourcing relationships in the U.S. tend to be strategic partnerships rather than the tactical, single-purpose intersection of temporary colleagues typical of traditional outsourcing. In addition to witnessing the gradual disappearance of the restrictions on the type of activities to be outsourced, we are today seeing a shift away from the traditional view of one outsourced function per service provider. As organizations come to recognize the importance of long-term relationships based on mutual benefit and trust in achieving outsourcing success, they begin to appreciate as well the superior logic, from an organizational perspective, of trying to build that kind of relationship with one company rather than with many. In the healthcare industry, a growing number of service providers are discovering that the once strange-sounding concept of enterprise-wide outsourcing—"one-stop shopping"—can, under the right circumstances, make perfect business sense.

INDUSTRY CONCERNS

In some cases, resistance to long-term, strategic outsourcing is a matter of business philosophy and the desire to retain control over the profile and processes of an organization. In other cases, it is a matter of historical perspective and the belief that outside service providers are used exclusively for short-term, tactical purposes.

Specific concerns that may affect the outsourcing decision include:

- *Fit*, or the assumption that any service provider who is not part of your organization will have little or no interest in your long-term strategic considerations. Whereas an outside vendor hired for a single project is indeed likely to take a more tactical approach aimed at maximizing business in the short term, a long-term partner will quickly see the benefits from, and the necessity of, getting on board with an organization's strategic mission.
- *Loss of control*, which is a genuine concern any time responsibility at the client level is turned over to an outside entity for the first time. Once again, a structured, long-term relationship, built on mutual trust and offering benefits for both parties, can significantly reduce the likelihood of any control issues arising. Organizations can further ensure retention of control by actively managing the outsourcing relationship, including conducting regular reviews with an eye toward improving service quality.
- *Sacrificing long-term value and innovation*, a concern that arises from the notion that organizations don't outsource for innovation, but for performance of existing service-delivery capabilities. In fact, a more likely result of outsourcing tactical activities is that an organization's employees are freed up to focus on more strategic issues and, thereby, engage the need for long-term planning and innovation more fully.



- *Performance issues*, which often boil down to the fear that no outside vendor can know your business and your clients as well as you do. How can anyone provide services with the same skill that your organization does? How can anyone care as much as your own people do about the client relationship? Questions such as these underscore the benefits of emphasizing long-term relationships with a select group of outside service providers. In effect, the service providers are themselves being placed in long-term relationships with your clients, to whom they will naturally be more attentive.
- *Organizational development*, developing change and implementing change in a complex healthcare environment, while addressing the concerns and issues above, requires a unique approach for each institution. A common set of characteristics may be applicable from institution to institution. However, to meet each organization's outcomes requires the use of sophisticated change initiatives and processes specifically designed for those outcomes.

A differentiated approach, pioneered and developed by ARAMARK Healthcare, to assist with these comprehensive engagements and issues includes the utilization of organizational development professionals to advise, design, and implement the strategies. These individuals are not corporate resources; they are assigned directly to the institution as a part of the on-site team. This investment and commitment to the long-term success of the partnership raises dramatically both the effectiveness and efficiency of the initiatives of the partnership, while keeping the core mission and values intact on the road to success.

Many of these Organizational Effectiveness Coordinators (OECs) are former nursing and healthcare professionals who returned for advance degrees and training. Specifically, their job is to facilitate the joint strategy development, build the environment of collaboration, and engage the constituencies, as well as building training and reinforcement programs for the institution.

A differentiated approach to assist with these comprehensive engagements and issues includes the utilization of organizational development professionals to advise, design, and implement strategies to help organizations facilitate and even promote change in behaviors required by new global economies.

Particularly in areas that involve non-routine events requiring specific expertise (such as planning and coordinating a large conference or dinner), many hospitals have come to realize the benefits of maintaining a relationship with a multi-service vendor specializing in those types of services. The other alternatives—handling everything in-house or seeking out a qualified vendor each time the need arises—are likely to be far less feasible from a capabilities and budgetary standpoint.

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“The value that ARAMARK Healthcare brings is that they are very much part of our team and part of our organization. In our effort to change our organizational culture, we never viewed ARAMARK Healthcare as an outside, contracted service provider. We have embraced them as part of what and who we are.”

Cary Fox
Chief Administrative Officer
CHRISTUS Santa Rosa
San Antonio, TX

ENGAGED, SKILLED WORKFORCE

Contrary to the image of outsourcing as a cost “fix,” more attention is being given to the advantages of scale provided by some of the partnering organizations. An organization that focuses only on support services, for example, provides a career path for those individuals whose skills and interests fall into that category. Providing a career path for a food service or housekeeping or cleaning services manager is not an available option for the average healthcare institution.

When support service employees transition to an outsourcing partner, they are not only well trained at a time when many hospitals are reducing their training budgets, but they are also focused on operating standards and procedures that drive consistency and more predictable outcomes. Employees benefit from this clarity. They not only know what is expected of them daily, but also receive added technical and service training that demonstrates how they impact the hospital mission and core metrics against patient, nurse and physician satisfaction and operational efficiency.

This approach has a direct impact on employee satisfaction and turnover. At ARAMARK Healthcare, for example, over the past four years, hourly turnover for support service workers at its hospital locations has declined by 38 percent.

This means more productivity and avoided turnover costs. The Society for Human Resource Management (SHRM) in the U.S, for instance, calculates the average cost of turning over each \$8 an hour employee to be approximately \$3,500 (US), and those avoided costs mean better bottom line results. Employee satisfaction also has a direct and measurable impact on the patients’ experience and satisfaction with their hospital stay.

Employee retention and satisfaction have significant impact on a hospital’s ability to achieve important quality and service outcomes. In particular, industry research has shown that employee satisfaction and patient satisfaction are linked—more satisfied employees lead to more satisfied patients. The most important research finding shows that hospitals with lower turnover have better length of stay and mortality results. In essence, lower turnover equals improved clinical outcomes.

For ARAMARK Healthcare, the introduction of I Impact as a performance management system started in 2006 to engage its employees. I Impact clearly communicates to employees their value and connection as part of the care delivery system.

Uniquely, ARAMARK Healthcare goes beyond employee satisfaction to measure Employee Engagement Surveys in partnership with the Gallup Organization. Engagement goes beyond measuring rational indicators to also include emotional drivers. According to the Corporate Leadership Council, an engaged work force is:

- 27% less prone to absenteeism
- 12% better at engaging customers
- 51% less likely to be a source of employee theft
- 62% less likely to be involved in job accidents

For hospitals to improve length of stay, logistics and bed utilization to accommodate increasing patient populations, a consistent, stable workforce is imperative. Regardless of where a hospital is on the globe, the human equation for staffing, training, and development are the foundation of healthcare.



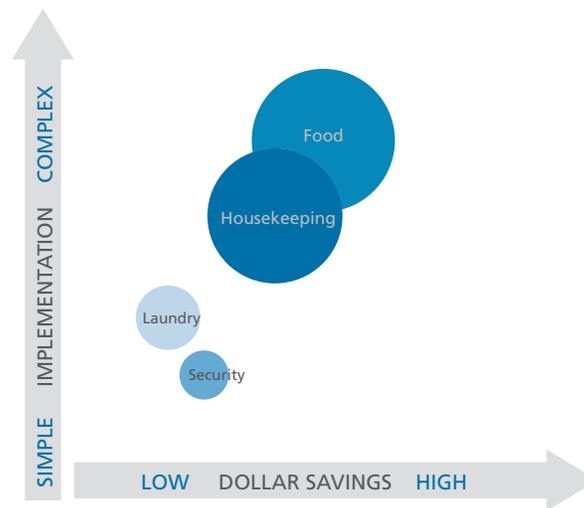
Globalization

In the global environment, hospitals are also taking advantage of the many opportunities that exist for outsourcing services through effective partnerships to deliver their primary objectives in today's cost-conscious environment.

An interesting outsourcing exercise was conducted by Vancouver Coastal Health (VCH), a regional health authority and one of six publicly funded **healthcare** regions in the **Canadian province of British Columbia**. VCH initiated a support services redesign plan. As part of the plan, the health authority conducted a study of support services areas with a scope of outsourcing the services. The analyses were based on cost savings and change complexities. The areas that demonstrated the highest potential for success were identified for the first phase of the project.

"After our initial review, we decided to seek outside partners for food, housekeeping, security and laundry services," said David Handley, Executive Director of Business Initiatives & Support Services, Vancouver Coastal Health, Fraser Health, Provincial Health Services Authority and Providence Health Care. "We are continuing to explore opportunities to expand these types of relationships to more facilities."

Opportunities Assessment



VCH Health System Redesign Plan

- A study of support services areas with scope for change in service delivery
- Analysis completed of savings sensitivities, change complexities
- Areas with highest potential for success identified for first phase of outsourcing



An outsourcing globalization trend is underway being led in part by medical tourism, the resulting worldwide focus on quality initiatives, and the need to manage large supply chain volumes. In America alone, an estimated 750,000 people went overseas for medical treatment in 2007, and an estimated 1.6 million could travel for their healthcare by 2012. Among hospitals accredited by the Joint Commission International (JCI), a division of the Joint Commission, medical attention meets or exceeds the international standard.

Moreover, the emergence of organizations such as the Joint Commission International and the expansion of DRG related quality initiatives across the globe are creating the opportunity for worldwide outsourcing organizations to help hospitals meet their goals by sharing best practices and delivering consistent services and experiences as the world gets flatter.

John Babiarz, President and Chief Operating Officer for ARAMARK Healthcare, as well as a member of the Joint Commission Resources Board of Directors, advises hospitals to consider international partnerships wherever possible in this changing environment. "Partners can quickly provide hospitals with operating expertise beyond clinical care to include standards, protocols and procedures that meet quality of care standards. Operating companies also have training and development programs to insure a consistent workforce of highly trained, skilled workers that can help make the difference in moving patients through the hospital system as efficiently as possible."

THE VALUE PROMISE

If these relationships operate at a more comprehensive and strategic level, what are the metrics for assessing the value to the organization of the increased commitment? Here are the key tests to use in making that determination:

Economic Value

Will we be better able to achieve cost savings or obtain capital through the other party's more efficient delivery of services? Can we avoid costs and have more money available for investment by moving responsibility for these functions outside the organization?

Patient Satisfaction Impact

Is the quality of service being delivered to patients by an outside provider as good as, or better than, the quality that could be delivered by in-house personnel? Will the use of outside service providers enable hospital staff to be more attentive to core functions? Or perhaps even more basic, will outsourced companies have more access to skilled labor and providing ongoing training to make sure that critical tasks are performed each day.

Risk Sharing/Shifting

Will the outsourced service provider have any "skin in the game"? Is there sufficient incentive for the service provider to deliver the same high quality of service to which the hospital is committed?

"Partners can quickly provide hospitals with operating expertise beyond clinical care to include standards, protocols and procedures that meet quality of care standards."

John Babiarz
President and COO
ARAMARK Healthcare



Outsourcing enables an organization to achieve significant strategic gains:

- Increased patient satisfaction
- Better employee retention
- Greater access to resources
- Improved cost savings and cost avoidance
- Risk sharing
- Access to capital improvement dollars.

Resource Allocation

Will the outsourced service provider be contributing adequate human resources, expertise, technology, and capital to deliver the required scope and quality of services? Does the proposed allocation of resources represent an appropriate and mutually satisfactory division based on the agreed objectives of the relationship? Will outsourcing make this organization better able to meet the challenges of the public sector? Will the use of outsourced services make prospects and existing clients more likely to enter into new or additional service arrangements?

Conclusion

The healthcare environment is changing across the globe, and hospitals need to change along with it. The benefits of outsourcing support services represents a viable strategy for meeting the challenges raised by higher costs and lower profits, reduced levels of skilled labor in competitive job markets, and growing patient expectations. If performed and managed proactively, outsourcing enables an organization to achieve significant strategic gains through enhanced competition, increased patient satisfaction, better employee retention, greater access to resources, improved cost savings and cost avoidance, risk sharing, and access to capital improvement dollars.

Outsourcing may also provide a healthcare organization with an introduction to market opportunities outside its core competencies. The traditional outsourcing model based on short-term, tactical responses in narrowly defined areas is being replaced by a new model built on long-term, strategic partnerships. In this new service model, the emphasis has shifted from many single-purpose, ad hoc outsourcing relationships to more comprehensive arrangements with a smaller number of outside service providers.

Notes:

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International Association of Outsourcing survey, 2010

Corporate Leadership Council, employee engagement survey

Deloitte Center for Health Solutions, 2009



About ARAMARK Healthcare

ARAMARK Healthcare is a leader in providing best-in-class support services that are essential to healthcare delivery. Understanding that clinical excellence and the environment are interdependent, ARAMARK Healthcare directly impacts the entire healthcare continuum—patient, employee, nurse and physician satisfaction, operational efficiency and service excellence. Through its facility, food and clinical technology services, ARAMARK Healthcare helps more than **1,000 U.S. hospitals and senior living facilities, as well as 2,500 global healthcare organizations, deliver the optimal experience for patients and residents,** their families, and the physicians, nurses and staff who care for them. For more information, visit <http://www.aramarkhealthcare.com>.

About ARAMARK

ARAMARK is a leader in professional services, providing award-winning food services, facilities management, and uniform and career apparel to health care institutions, universities and school districts, stadiums and arenas, and businesses around the world. The company is recognized as the industry leader in FORTUNE magazine's "World's Most Admired Companies," and as one of America's Largest Private Companies by both FORTUNE and *Forbes* magazines.

ARAMARK seeks to responsibly address issues that matter to its clients, customers, employees and communities by focusing on employee advocacy, environmental stewardship, health and wellness, and community involvement. Headquartered in Philadelphia, ARAMARK has approximately 255,000 employees serving clients in 22 countries. Learn more at the company's Web site, www.aramark.com, or www.twitter.com/aramarknews.



