

# Big Business for Not-So-Big Hospitals



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## Pondering the Outsourcing Option

Your long-time revenue cycle director is retiring soon, and there's no one with the expertise or experience to take her place. Could outsourcing be the solution? That depends. Because there are so many independent variables, an outsourcing arrangement that will benefit one hospital may not work for another. Below are a few basic questions to think about when considering outsourcing—whether for a clinical area, such as the emergency department, or a support function, such as self-pay accounts.

### How Do You Compare?

Benchmark the department's performance to assess how it stacks up against the industry. Maria Seman, manager of the health and life sciences division of Chicago-based Accenture, suggests looking at operating and financial metrics, along with staffing levels (that is, the number and skill sets of department employees).

"You want to look at where you rank in the industry," says Seman, adding that there is now a benchmark metric for every large hospital department. "Then the next

questions to ask yourself would be: What are our plans for the future? Where do we want to be in the marketplace? What is our strategic positioning? How does our organization respond to change?"

If the department's performance proves to be substandard, then hospital leaders may want to look internally to see if the organization has the resources to improve the metrics. If not, then outsourcing may be a way to bring the department's performance more in line with industry standards.

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### COMING IN OCTOBER

**A Special Issue on IT Investments**

## What Are Our True Internal Costs?

Get an understanding of what the true costs are for the hospital to provide the service. There are direct costs, such as for labor and materials, and there is overhead, such as the cost for recruiting and the cost of executive time that goes into managing the department, says Bryan Smith, a senior consultant in the Austin, Texas office of Phase 2 Consulting, Salt Lake City.

After the costs are added up, it may become clear that an outside vendor, which can handle higher volumes, can provide the service at a lower cost. “There are professionals who only handle billing for self-pay accounts, for example,” says Herb Winters, regional

associate vice president, QHR Consulting, Brentwood, Tenn. “And, it’s possible to negotiate a fee of 10 percent, let’s say, of the cash collections. So, if the outsourcing agent collects \$200, you pay him \$20. That’s pretty cheap. If the agent doesn’t collect a dime, then you don’t give him a dime.”

## Are You Getting Optimal Results?

Employees can’t always produce the best results. Outside agents may be able to do a better job.

“I may be able to hire an employee and pay him \$20,000, for example, to bill self-pay patients. Let’s say he only collects \$200,000 for the whole year,” says Winters. “But I can get an outsourcing vendor that collects \$400,000, and I pay them \$40,000. My costs are twice as much, but look what I’ve got in my pocket—an additional \$180,000 in cash flow—and that’s what’s important.”

Inadequate technology can also limit the productivity of the service and create inefficiencies in other areas of the hospital. For example, if hospital leaders have not upgraded medical transcription services, then the current systems could be slowing up physician productivity and slowing up the billing and collection process, says Smith.

## How Will Physicians React?

Physician input should be sought whether the department being considered for outsourcing is a clinical or administrative area. Physicians may resist outsourcing a clinical area, such as radiology, if they feel quality is at risk. Smith offers the example of an administrator of a rural hospital who couldn’t outsource overnight radiology coverage. The hospital’s physicians believed outside physicians wouldn’t know enough about the patient population or hospital protocols to do a good job.

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“There’s always the potential, and sometimes it’s just perceived, of a diminishment in quality if the hospital doesn’t control a function internally,” he says.

Likewise, physicians should also be consulted when the department being considered is non-clinical, such as bad debt collection, a common outsourcing area for small hospitals. Patients who have questions or complaints about how they are being billed will ask the person they see the most—their physicians. So the medical staff has a large stake in the results of outsourcing this service.

“The doctors like to be in the know when an area like this is outsourced so they can help educate their patients about the hospital’s process and reason for implementing the process,” says Winters. “And, it’s best to get their buy-in on the front end before you make those decisions to outsource.”

## How Will the Community React?

The goal here is to avoid a backlash by community members who may lose their jobs as a result of outsourcing (for example, people who work in your billing department). “When you outsource a service, you are outsourcing the job of somebody who lives in the community.

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**Big Business for Not-So-Big Hospitals** is published six times a year by the Healthcare Financial Management Association, Two Westbrook Corporate Center, Suite 700, Westchester, IL 60154.

Presorted standard postage paid in Chicago, IL 60607.  
©2007 HFMA.

Volume 2, No 4

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ISSN #1933-3943

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Given the close-knit bonds of a small community, it matters when somebody loses a job,” says Smith.

According to Smith, it can be especially hard to gain community acceptance if the outsourced function is going to be handled offshore, which can be the case with radiology and other clinical functions. The thought of someone in another country handling their health care can be disturbing for some people. Gauging how the community will react can sometimes be a function of how the physicians and hospital board will react, says Smith.

“If the medical staff trusts in the outsourced service and feels good about referring patients to it, then hopefully, it’s much less of a problem. Governing board members have to live in that community, and they don’t want their neighbors complaining to them,” says Smith. “So, talking with the medical staff

and with the governing board will usually give you a good flavor of the community reaction.”

However, rather than forego an outsourcing opportunity if there’s resistance, take the time to explain why outsourcing may be a good option to all the various stakeholders, says Smith. “Building a case to the physicians and the board can help them understand why the move to outsource is needed so they can respond to any questions from the community,” he says.

**A Starting Point**

Outsourcing is not always the best solution. Each hospital operates under a unique set of conditions that will dictate the appropriate direction to take. But this list can offer a good starting point to a solution that can offer lower costs or better quality—or simply pave the way to a better understanding of the options. ☞

**Quality at Smaller Hospitals Harder to Rank**

Hospital size may affect the ability to accurately identify high-quality care in pay-for-performance programs, according to a policy brief by the Upper Midwest Rural Health Research Center. Key findings of the report include the following:

- > As compared with larger hospitals, smaller hospitals experience much greater variability in performance scores as a result of statistical sampling characteristics. For instance, for the three conditions examined in a study conducted by the UMRHC, the smallest hospitals in the data set would likely experience five to seven times more uncertainty than the largest hospitals concerning their “true” ranks. A hospital with 20 or fewer pneumonia patients, for example, would have a rank that spans 64 percentile points, while a hospital with 1,100 pneumonia patients would have a rank that spans only 10 percentile points.
- > Pay-for-performance methods that identify relative quality from single-year ranks based on composite scores are especially problematic for small hospitals. These hospitals are more likely to not receive a financial reward when their true rank is actually in the highest quality category. In contrast, small hospitals are more likely to receive a financial reward when their true rank is not in the highest quality category.
- > Pay-for-performance programs should assess the likely impact of uncertainty associated with hospital size and related statistical limitations and minimize this impact to accurately rank the performance of small hospitals.

The report, *Hospital Size, Uncertainty and Pay-for-Performance*, is available at [www.uppermidwestrhrc.org](http://www.uppermidwestrhrc.org).

**Audit Uncovers Additional Funds for Rural Georgia Hospitals**

More than 30 rural hospitals in Georgia received an additional \$1.6 million from the federal government as a result of an audit of the hospitals’ Medicare payments, according to *The Blade Plus* newspaper. The auditors reviewed salary and wage data for 21 hospitals.

