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Shared services for hospital systems

It's your turn

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Providers under pressure

Like many organizations, health care providers across the U.S. have been pursuing major cost-reduction efforts to survive the recession. But hospital systems — more so than organizations in many other industries — almost certainly will need to continue to prioritize cost control and efficiency improvement even after the economy turns around. The August 2009 pledge from U.S. hospital industry representatives to support the Obama administration's health care reform plan, which would reduce hospitals' Medicare and Medicaid payments by $155 billion over 10 years,[1] is only the most obvious source of pressure. The rising cost of care, a shrinking revenue base, increasing marketplace scrutiny of administrative and overhead costs, and intense competition among both for-profit and nonprofit providers adds even more urgency to the cost-control imperative. In such a challenging marketplace, cost containment and efficiency are likely to remain on providers' executive agendas long after the recession has passed.

Fortunately, today's environment brings new opportunities as well as challenges to hospital systems' battle against costs. One such opportunity is to adopt a shared services model for business support activities. Outside health care, shared services has been helping organizations reduce costs, increase efficiency, and improve service quality for years. We believe that now is the time for hospital systems to take advantage of shared services' proven potential for value. Done well, the use of shared services can greatly help hospital systems in their efforts to navigate a challenging economic landscape without forcing them to compromise the quality of patient care.

One system's journey: Pursuing integration

Several years ago, executives at Catholic Health Initiatives (CHI), one of the biggest health care systems in the U.S., took a hard look at the organization's highly decentralized business model and realized that it had to "unite." Through years of growth by acquisition and consolidation, CHI's 48 hospital systems and 78 locations had always done things in their own way with very little direction from the center. Though this had worked adequately for much of its history, the inefficiencies of decentralization were becoming insupportable in the face of present-day challenges.

To strengthen a unified strategy and improve efficiency, CHI's leaders launched a "One CHI" initiative aimed to reinvent CHI as an integrated operating company. One of the first and most important components of the effort was to implement shared services for several major support processes: HR, accounts payable, procurement, expenses, and payroll. Even though shared services was uncharted territory for CHI, as it was for most health care systems at the time, leaders knew that the model was sound and could vastly improve CHI's financial health – if they could make it work.

Done well, the use of shared services can greatly help hospital systems in their efforts to navigate a challenging economic landscape without forcing them to compromise the quality of patient care.

[1] John Geyman, "The Corporate 'Alliance' For Health Care Reform: III. The Hospital Industry," The Huffington Post, September 1, 2009. Accessed on September 8, 2009 at http://www.huffingtonpost.com/john-geyman/the-corporate-alliance-fo_b_273924.html.

A classic strategy for changing times

The shared services model is likely to be a familiar concept to anyone who has ever investigated strategies for reducing general and administrative costs. The basic idea is to establish a single service organization to perform a variety of business support activities on behalf of multiple operating units. These "shared" processes are moved, both administratively and (usually) physically, out of the operating units and into a separately managed shared services organization (SSO).

Like its conceptual predecessor, corporate centralization, an SSO can help an organization increase margins by:

- Reducing net headcount
- Decreasing duplication of effort
- Enabling greater economies of scale
- Increasing revenue realization
- Strategically managing major spend categories (e.g., supplies)
- Improving cash management
- Sustaining controls and compliance

However, unlike a centralized corporate function, which is typically managed by headquarters with little end-user input, an SSO works directly with the operating units — its "internal customers" — to set service standards, streamline end-to-end processes, and monitor and improve service quality. This customer-focused governance approach can help an SSO align service cost, scope, and quality with business needs far more closely than usually occurs with a traditional centralized model.

If shared services is such a good idea, why haven't more hospital systems already embraced it? The reason has less to do with the viability of the concept itself than with its historic less-than-perfect fit with most health care systems' size, organizational model, technology infrastructure, and culture. For one thing, many hospital systems have only recently acquired the technology to support the secure, reliable data exchange needed for effective off-site service delivery. Cultural factors have also militated against shared services at hospitals. Many health care providers understandably prioritize capital investments that improve

Table 1. Shared services for health care systems: Then and now

Then	Now
We're too small for shared services to yield significant economies of scale.	We've grown so much, mostly through acquisitions, that pursuing economies of scale can deliver substantial benefits.
We don't have the technology to support secure data exchange and effective off-site service delivery.	We've got an enterprise resource planning (ERP) system, or at least we're thinking of implementing one. These days, who doesn't?
We'd rather put our capital investments toward improving patient care than spend it on back-office administration.	Capital investments need to support the entire organization, not just the patient-facing side of it. Without effective back-office administration, we can't provide effective patient care.
We have too many hospitals all wanting control over their own operations — we'll never get buy-in for shared services across all our sites.	Like many other systems, we've been steadily trying to increase central coordination where it makes sense. Shared services could be a catalyst for the effort. Anyway, the local leaders know that we've got a burning platform to cut costs — they'll likely be more receptive to shared services than they might have been in the past.
It's unthinkable to lay off local staff and send their jobs somewhere else.	We're starting to think seriously about it. In this economy, the alternative could be to go out of business.
We can't afford to implement shared services.	Greater geographic and marketplace diversification has reduced our risk to lenders and given us better access to capital for large, expensive projects — and, given the urgent need to cut administrative costs, can we afford not to do it?

patient care over those focused on the "back office." Distributed leadership models have often made it difficult to build consensus and buy-in for system-wide initiatives. And the prospect of laying off local employees — distasteful for any organization, let alone for those with the mission that underlies health care — can be an especially strong deterrent to shared services at hospitals with strong community ties and an ethos of taking care of their own.

However, given the changes in the marketplace over the past decade or so, the view of shared services as impractical for hospital systems is becoming increasingly out of date. As summarized in Table 1, a confluence of factors both within and outside the health care industry has made now an excellent time for hospital systems to seek a competitive edge through shared services:

- Many health care systems, having grown through consolidation and acquisition, now comprise dozens of individual hospitals, making shared services much more attractive from an economies-of-scale perspective.
- A growing shift in operations and culture from local autonomy towards center-led coordination makes shared services more feasible from an organizational change standpoint.
- The greater geographic diversification of larger health care systems has improved their access to capital to fund major initiatives.
- A growing number of health care systems now possess or are planning to implement enterprise resource planning (ERP) systems that can enable system-wide data exchange, while many ERP vendors themselves have enhanced ERP's capabilities to the point where the same platform can ably support and integrate many medical applications.
- The urgent economic challenges facing providers today have created a burning platform that can help hospital leaders more easily garner internal buy-in for shared services — even from stakeholders who may have resisted it in more bountiful times.

One system's journey: Involving the stakeholders

The financial business case for shared services at CHI was hard to argue with. The numbers showed that standardizing and consolidating the in- processes would be significantly more efficient than the current decentralized service model. But CHI executives knew that the success of its shared services effort depended on strong leadership endorsement and system-wide buy-in. With the system's CEO and board in full support, the executive team committed capital to the shared services project and engaged solid professional service providers to help with the implementation.

The single most important factor in gaining stakeholder buy-in was the strategy of involving CHI's functional and local hospital leaders in the SSO's policy and process design. "For all of the functions we put in shared services," said Pete Katsampes, CHI's shared services leader, "we recruited one or more representatives from local systems to join the initial planning and design stage of the SS model." These functional representatives worked with CHI's national office and the shared services implementation team at a high level to develop business requirements, policies, documentation, and strategy for the processes to be placed in the SSO. "They went through the planning and documentation process well before the shared services model was built and implemented," said Katsampes. "When it came time for each local hospital system to start its shared services implementation, we would re-engage with the local functional teams so they could sign off on the business requirements before shared services for that location went live. That was probably the biggest single reason that we had as much buy-in as we did. Also, before we trained employees, we developed clear workflow process charts to map the old work processes to the way work would be done in the new model.

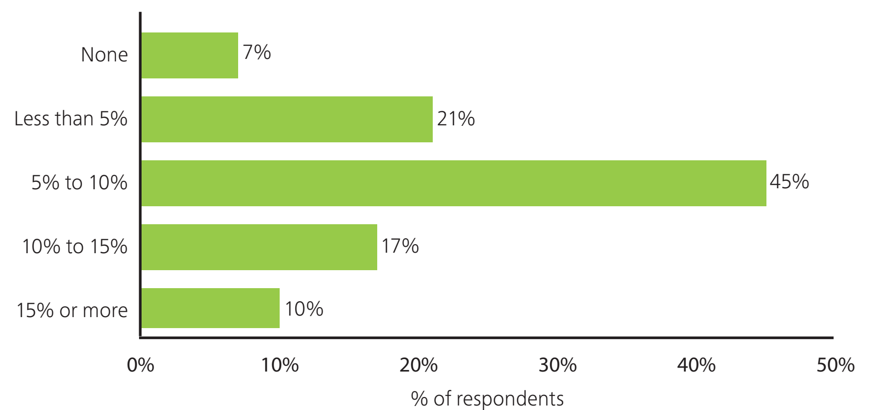
Now, says Katsampes, the functional and shared services teams maintain authority and accountability for the business process. "It is a collaborative environment that helps to meet the needs of our hospitals for all shared services processes."

A broad value proposition

When evaluating shared services' business case, decision-makers should beware of being misled by several wide-spread myths that may distort their perceptions of shared services' value. Perhaps the most common such myth is that almost all of shared services' potential savings come from one-time headcount reductions. In reality, while local staff cuts often do drive most of the near-term cost reductions, it's not the only way an SSO can help boost margins. Physically consolidating personnel and material assets into a single facility can yield significant ongoing operational efficiencies. Similar benefits can result from the IT rationalization and consolidation typically performed as part of a shared services effort. Additionally, an effective SSO's focus on process improvement can lead to substantial year-over-year increases in productivity: In Deloitte's 2009 global survey of shared services leaders, more than 70 percent of respondents consistently achieved at least a 5 percent annual productivity increase (Figure 1).

Another common misconception is that cost reduction is shared services' only contribution to the business. This, too, fails to capture the whole picture. Although cost reduction may be shared services' most important initial goal, respondents to Deloitte's 2009 global shared services survey reported that effective SSOs can also deliver significant improvements in efficiency, service levels, and business outcomes (Figure 2).[3]

Figure 1. Annual SSO productivity improvements after the first 12 months[2]



[2] "Shared services shines in challenging times: Insights from Deloitte's 2009 global shared services survey," Deloitte Development LLC, 2009, p. 4. Available online at http://www.deloitte.com/view/en_US/us/article/c9150b2253903210VgnVCM200000bb42f00aRCRD.htm.

[3] *Ibid*., pp. 5-6.

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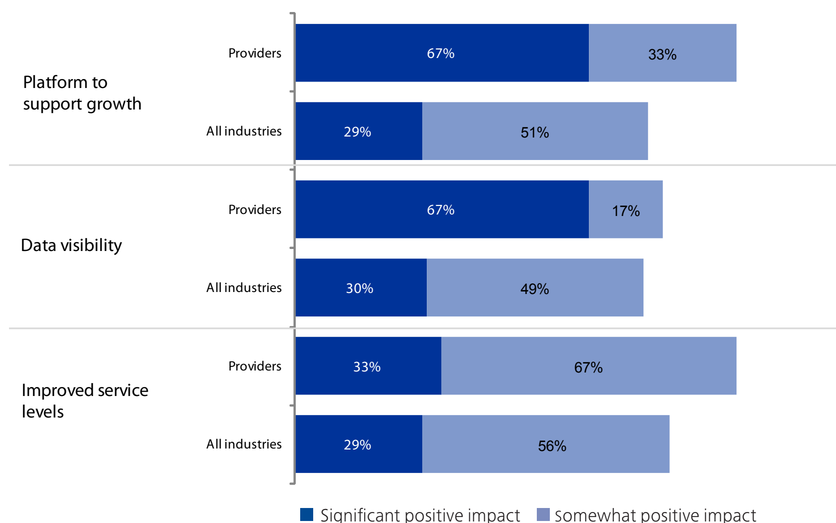
Figure 2. In what area has shared services made an impact on the business?[5]



To take these possible benefits into account, a realistic business case for shared services should consider the value an SSO can provide in areas such as:

- **Service quality.** An effective SSO's focus on process standardization and continuous improvement can yield ongoing improvements in service quality and efficiency. In fact, the relative ease of improving a single standardized process at one physical facility, as opposed to multiple variants of the process at multiple sites, is one of shared services' main long-term advantages over local service delivery.
- **Business intelligence.** To implement shared services, an organization must cleanse and consolidate data from across multiple sites for the SSO's use. For hospital systems, this data can include system-wide information on patient health care usage patterns, procurement spend, employee performance, and other important business information. This cleansed data can provide the raw material for advanced analytics that can guide strategic sourcing initiatives, targeted health care outreach programs, employee retention efforts, and other cost-saving and revenue-building activities.
- **Cash management:** Increased transparency into payment and collection information, as well as effective front- and back-end process redesign, can drive a variety of improvements that can help advance overall cash management. For example, the process improvements enabled by a well-run SSO can help reduce accounts receivable days outstanding, while an SSO's consolidated accounts payable data can help improve application of payment terms and inform strategic cash disbursement efforts.
- **Enterprise growth.** By consolidating support services into a single organization, an SSO can help provider systems more easily integrate new hospitals that may join the system in the future. Some organizations in other industries, in fact, view shared services' value in post-transaction integration as a key strategic benefit.[4]

Finally, the experience of many organizations across industries has soundly debunked the myth that shared services only "works" for transactional, rules-based processes such as payroll, accounts payable/receivable, and similar activities. Deloitte's 2009 shared services survey revealed that a growing number of organizations are using a shared model to deliver a variety of knowledge-based services such as business analytics, application enhancement and deployment, workforce analytics, and spend analysis, among others.[6]

[4] "Shared services shines," p. 6.

[5] *Ibid.*, unpublished data.

[6] *Ibid.*, p. 7.

The five usual suspects – with some unusual twists

Although an SSO can theoretically perform any process that can be consolidated across operating units, our experience suggests that the five process areas listed in Table 2 represent the bulk of shared services opportunity at most hospital systems. Some areas, notably revenue cycle and procure-to-pay, can yield an especially quick and substantial return on shared services investment. Additionally, each area can offer health care systems the opportunity to use a shared model to support knowledge-based services as well as to execute transactional processes.

Table 2. Common shared services process areas

Process area	Representative processes	
Revenue cycle/patient financial services	• Scheduling • Pre-registration • Financial clearance • Registration • Financial counseling • Health information management (e.g., transcription, chart analysis, coding and abstracting)	• Billing/collections • Denials and payment variance • Payment/contractual allowance posting • Customer service
Procure-to-pay (supply-chain and accounts payable)	• Sourcing and contracting • Purchase order processing and reconciliation • Distribution and receiving	• Accounts payable • Value analysis and strategic sourcing • Vendor relationship management
Finance and accounting	• General accounting (including intercompany transfers) • General ledger maintenance • Project accounting • Fixed assets • Foundational accounting • Real estate pooled investment fund • Performance reporting	• Financial planning (e.g., budgeting, business planning, long-range financial planning) • Reimbursement/cost reports • Cost accounting/decision support • Contract modeling and pricing • Insurance trust funds • Medical group financial support
HR and employee services	• HR administration (hiring, terms, demographic changes, salary changes, etc.) • Payroll • Benefits and retiree administration • Recruitment (online sourcing, resume collection, etc.) • Training and development • Performance management support	• Compliance tracking • Workforce analytics • Ad-hoc reporting • HR information system support • Vendor management • Quality and customer service tracking
Information technology	• Data center and server consolidation • Application management services • Application rationalization • Network services	• Project management • Telecommunication services and contracting • Help desk and desktop services

Revenue cycle

Revenue cycle processes often represent one of a hospital system's largest areas of shared services opportunity. Historically, hospitals have focused their shared services efforts in this area on billing, collections, denial management, contract underpayment monitoring, and customer service. For good reason: Besides the potential savings from process consolidation and headcount reduction, moving even these basic revenue cycle activities to an SSO can drive a number of benefits:

- **Increased cash flow.** A well-run SSO's focus on process improvement and efficiency can help provider organizations increase cash flow by reducing accounts receivable days outstanding and increasing net revenue realization.
- **Greater process effectiveness.** Placing revenue cycle activities under single management can make it easier to improve process quality through centrally administered "best-of-breed" training programs, job aids, performance metrics, and continuous improvement programs.
- **Greater visibility into denials.** Aggregated system-wide payor denial data can drive analytics that can yield insights into denial patterns and trends, allowing leaders to take appropriate countermeasures such as identifying payor-specific issues to discuss at regular payor meetings.
- **More effective continuous improvement.** Access to system-wide billing, collections, and denial data can help the organization better identify and prioritize revenue cycle process improvement activities so as to focus their efforts where they can yield the greatest return.

Recent advances in technology and an increasing focus on improving the patient experience have prompted some providers to also consider a shared model for patient-facing revenue cycle activities such as scheduling, pre-registration, and financial clearance. For example, hospital systems today have access to technology solutions that allow them to centrally collect and store key patient demographic and insurance information for system-wide use. By offering patients a "one-stop shop" for scheduling, pre-registration, and financial clearance, providers can save patients the time and hassle of providing the same information multiple times. At the same time, the technology can allow administrators to obtain advance verification and authorization for non-emergent patients, set up data linkages and feedback loops to help tie payor denials back to pre-registration and financial clearance, more effectively identify patients with financial liabilities, and offer financial counseling to appropriate patients.

Even more recently, the spread of electronic health record technology has made health information management (HIM) processes the new "hot button" in health care shared services. Thanks to today's advanced electronic data capture and storage capabilities, labor-intensive HIM functions such as coding, record deficiency management, transcription, and release of information can now be performed remotely by shared services staff instead of by local employees with physical access to a hospital's charts. The benefits of using an SSO for HIM can include:

- **Increased cash flow, greater efficiency, and lower costs.** Placing HIM in an SSO can help a hospital system standardize and streamline coding processes and guidelines, reduce or eliminate duplicative activities, realize labor-related economies of scale, and more effectively apply automation to reduce rework.
- **Greater health care documentation continuity.** Access to a centralized health record database can allow in-system caretakers to access a consistent set of patient medical and insurance information regardless of where or by whom a patient is seen.
- **Improved compliance.** Having a single shared organization perform HIM processes on behalf of the entire system can reduce variation in the organization's approach to coding, documentation, records management, chart completion, data collection, and regulatory monitoring efforts. The resulting increase in consistency can support improved compliance and also help increase the system's net revenue by improving clinical documentation, coding, and charge capture.

Supply chain (procure-to-pay)

Like revenue cycle, supply chain typically offers hospital systems a relatively fast and substantial return on shared services investment. We have found that shared supply-chain organizations often deliver greater value when structured according to an accountability model that owns the entire procure-to-pay process, including accounts payable (AP). This may sound surprising to people accustomed to thinking of AP as part of the finance function; however, it actually illustrates one key advantage of the "leading practice" of structuring an SSO along process lines rather than along traditional functional boundaries. Because AP is a central component of the procure-to-pay process, placing AP in the same organization as the sourcing activities it supports make it much easier to execute end-to-end process improvements than if AP were managed separately by the finance function or even placed in a separate finance SSO.

An effective procure-to-pay SSO can deliver value far beyond its "dial tone" potential for reducing service delivery costs. Possible additional benefits can include:

- **Increased purchasing power.** The process of establishing a single sourcing organization can give supply-chain leaders the opportunity to rationalize vendors and consolidate purchases across hospitals. This can help improve the system's bargaining position and allow it to negotiate more favorable terms with vendors.

- **Support for strategic sourcing.** In strategic sourcing, an organization seeks to control procurement costs by establishing enterprise-wide policies to regulate the operating units' choice of products, vendors, and purchase quantities. To develop effective policies, strategic sourcing relies heavily on analyses of enterprise-wide AP data to clarify spend patterns and identify potential cost-saving opportunities — data that a procure-to-pay SSO would collect and store as a matter of course. A procure-to-pay SSO could also help manage the system-wide standard purchasing process that a strategic sourcing program would require, as well as help maintain the enabling technology.

- **Enhanced vendor relationship management.** At many health care systems, each hospital maintains its own set of vendors for cafeteria, housekeeping, and other services. However, these relationships are usually managed by local staff who are unlikely to possess specialized contract management skills. By consolidating system-wide vendor relationship management in an SSO, a hospital system may be able to increase the volume of work to the point where it would be able to hire one or more contract management specialists who could better identify and pursue opportunities for improvement. Potentially, this effort could be combined with a strategic sourcing initiative to consolidate vendors across some or all hospitals.

- **Strategic cash disbursement.** Under a local service delivery model, each hospital in a system typically maintains a small staff of AP clerks who focus mainly on the mechanics of invoice processing. Placing system-wide AP in an SSO can create enough volume of work to make it economically feasible to hire one or more strategic cash disbursement specialists. At the same time, the SSO would also be able to give those specialists access to system-wide AP data to drive business analytics that can help them develop strategies to improve margins (for example, by taking fuller advantage of prompt pay discounts or by increasing float on non-prompt pay vendors).

One system's journey: Costs down, value up

What surprised even the sponsors of CHI's shared services project was the upside value gained by moving AP to the new shared environment. "A huge win for us was how we restructured our AP infrastructure to have dedicated teams supporting a particular group of hospital systems," recalled CHI's Katsampes. "Now that we have teams that only work on five or six systems, they're able to better learn the process: who the vendors are, who owns those invoices, the legal nuances for each system, the tax implications, freight and shipping, and many other things. It's helped people develop their expertise around their customer base so they can take a more sophisticated approach to managing our overall spend.

"As we go on," continued Katsampes, "the next step we'll take is around business intelligence. Now that we have all that AP data on a standard system, we can build out our analytical models and really put our collective knowledge to use."

Finance and accounting

Transactional finance and accounting (F&A) processes such as general and cost accounting, accounts receivable, travel and expense, and fixed assets are highly amenable to standardization, consolidation, and automation across operating units. But even though F&A processes are among those most commonly placed in shared services at organizations outside health care, the hospital industry has been relatively slow to consolidate them. Regional systems have gone the farthest in this direction, but many larger, geographically dispersed systems have yet to aggressively pursue shared services for F&A.

In our experience, the greatest barrier is often cultural. The perception that putting F&A in shared services would deprive local hospitals of their "financial stewards" can be a difficult hurdle to overcome. However, this negative view is beginning to give way to a more realistic appraisal of an organization's ability to maintain the desired level of on-site support while pursuing shared services for certain F&A activities.

An effective F&A SSO can deliver a host of business benefits by standardizing and improving processes, increasing fiscal reporting control, consolidating data, and enhancing the supporting technology. Removing duplication of effort, streamlining processes, and increasing automation can reduce operating costs as well as help shorten the closing cycle and speed the budgeting, planning, and forecasting process. Consolidating financial data and eliminating the use of off-system spreadsheets can help hospital systems create "a single version of the truth" with respect to financial information, enhancing reporting reliability and opening the door to the more effective use of analytics. And establishing a standard set of system-wide finance and accounting processes at a single facility can improve internal control efficiency and effectiveness by reducing process variation and eliminating the need to establish, maintain, and test controls at multiple sites.

In fact, a well-run finance and accounting SSO can handle transactional finance processes so effectively that some business leaders view finance shared services as a key step in repositioning the finance function as a strategic business advisor. “When transaction accounting was done [locally], the operations people used to say, ‘We can’t get any finance support because they’re all too busy paying vendors and doing transactional work,’” said one respondent to Deloitte’s 2009 global shared services survey. “As we pulled transactional work out of the [sites], they’ve redeployed those people to provide more value-added support at the [local] level.”[7]

In addition to transaction accounting, a substantial percentage of shared services users are also employing their SSOs to support selected knowledge-based financial processes, including decision support and cost accounting, financial planning, budgeting, forecasting, and financial reporting and analysis. In such cases, it is important to carefully consider what portions of these processes can be performed effectively by an off-site SSO and which, given individual hospitals’ needs and cultural expectations, should stay on-site. For example, an SSO may be able to cleanse and organize the data needed for financial analytics, and it may even employ specialists to do the actual number-crunching. However, the finance function may still need to keep financial staff at each hospital to work with local hospital leadership to interpret the results.

HR and employee services

HR shared services today can encompass much more than the transactional benefits administration and payroll activities traditionally placed in an SSO. (Often, payroll moves to shared services as part of a finance SSO implementation, even if HR is technically not in scope.) A shared HR organization can also deliver services to support strategic talent management activities, including recruiting, on-boarding, training and development, and workforce analytics. Using shared services for the more routine parts of these processes can help make them faster, cheaper, and more effective. For example, having an SSO centrally source candidates, screen resumes, schedule interviews, and consolidate feedback can speed the applicant filtering process, enhance consistency to applicants and hiring managers, and allow local hiring managers to focus more fully on interviewing and making the final hiring decision.

One system’s journey: Saving time trumps face time

“With respect to HR shared services,” said CHI's Katsampes, “the hardest thing for people to get used to was that they couldn’t just walk down the hall anymore and get something fixed by someone they’ve known for years.” He elaborated: “Before, you could call up your co-worker in the local HR department; they’d recognize your voice, ask about your family, and be able to handle your issue without needing to verify your identity. To go from that to a national service model with the required privacy, security, and authentication procedures was a huge change. Now, not only do you have to talk to a person outside your local hospital, but you need to formally verify your identity for every request.”

Did the loss of face time doom the HR shared services effort? Not at all – when employees realized that the new HR self-service technology and streamlined management processes saved them considerable time and hassle. “We not only gave employees the ability to see all their personal benefits and payroll information online, but also to handle most of their own HR transactions online,” said Katsampes. “We also took key management activities and created online self-service applications, so managers could take care of their employee transactions directly. This allowed HR leaders to focus more on strategic issues and less on transactions.” The result? “Right now, about 98 percent of all transactions that could be done online through self-service are being done through the online self-service system. That piece of it has been a huge success.”

As in other areas, using shared services to support higher-value HR processes can reduce service delivery costs and also improve business outcomes further downstream. Consolidating system-wide applicant screening in an SSO, for example, could allow a hospital system to obtain a volume discount from recruiting agencies. Centralizing candidate sourcing and consolidating applicant information can also give each hospital access to a larger pool of qualified internal and external candidates from across the entire system’s geographical footprint. In addition, an HR SSO could examine system-wide information about open positions and hiring criteria to identify applicants who are unsuitable for the jobs they originally applied for — but who have desirable skills in other areas — and refer them to appropriate hiring managers in other departments or

[7] "Shared services shines," p. 6.

hospitals. System-wide access to applicant and employee information could also help hospitals manage the risk of hiring a person who was fired from another in-system provider or who left voluntarily after displaying subpar job performance.

One of an HR SSO's most significant strategic contributions can be its potential to help enhance talent management through workforce analytics. Workforce analytics could draw on an HR SSO's enormous amount of system-wide employee data to yield practical insights on how to improve employee attraction, retention, engagement, and performance. (The actual analyses may be performed either by specialists in the transactional SSO or in a separately managed "Center of Expertise.") For example, one hospital system that analyzed employees' demographic and performance data found that nurses who had previously been employed as teachers tended to be higher performers with higher retention metrics. This system is now specifically targeting former teachers in its nurse recruiting efforts. At another system, an analysis of voluntary turnover data revealed that one hospital was losing a disproportionate number of nurses whose lengthy commute took them past another hospital on the way to their current job. Through predictive analytics, the hospital was able to determine which high-performing nurses fell into this category and to offer them gas and parking incentives to help retain probable flight risks.

One factor that can make implementing HR shared services especially challenging is the fear of losing the high-touch employee service that an on-site HR department typically provides. However, our experience suggests that this concern, while legitimate, often proves to be overblown. We have worked with many providers on HR shared services efforts in which most employees, rather than complaining about the lack of local HR support, enthusiastically embraced remote communication tools such as online self-service as a time- and effort-saving advance. As with finance shared services, a thoughtful service delivery model that maintains appropriate levels and types of HR staff at each hospital can go a long way toward defusing the perception of a depersonalized HR department.

One of an HR SSO's most significant strategic contributions can be its potential to help enhance talent management through workforce analytics.

Information technology

At most health care systems that have adopted a centralized approach to information technology (IT), the IT organization assumes responsibility, at a minimum, for data center and application management. Support services such as help desk, desktop services, network operations, and telecommunications support are also frequently consolidated — although the feasibility of centralizing some of these services, such as help desk, depends at least somewhat on the extent to which the hospitals use standard applications.

Managing IT from a single centralized organization is usually far more economical than maintaining multiple data centers, a diverse application portfolio, and in-house support organizations at each hospital. Consolidating data centers can yield an especially high return on investment by freeing up valuable space that can be repurposed for patient care. Physically housing information in a central location can also help reduce the cost and improve the effectiveness of internal controls and data security efforts: Consolidating data and hardware at a single site eliminates the need for multiple sets of controls and separate security infrastructures at each hospital, increasing consistency and reducing the need for duplicative controls and security infrastructure across sites.

Some health care systems adopt a highly centralized IT management approach in which applications are fully or almost fully standardized across all hospitals and most or all IT support is both physically housed in and administered

by a single organization. Other systems opt for a so-called “federated” approach, which — though not always known as “shared services” — incorporates many features of the classic shared services model. In a federated IT organization, the hospital system’s CIO manages overall IT strategy and administration, and certain IT processes and services (such as data center) are physically located at a single site. However, each hospital or region also has a local CIO or other senior IT executive who maintains a dotted-line relationship to local leadership while reporting to the system CIO. To provide the customer-focused governance essential to effective shared services, hospital leaders and local functional and business stakeholders — administration, finance, clinical care, HR, and so on — may participate in a steering mechanism to help align the IT function’s services with local needs.

In contrast to either a completely decentralized or highly centralized model, a federated organization has the double advantage of being able to drive cost savings through standardization and consolidation while preserving each hospital’s flexibility to respond to local marketplace needs. For instance, a federated IT organization might have a general policy against implementing a system-wide HR and employee services ambulatory health record capability — but make an exception for a particular hospital that may risk losing physicians to a neighboring hospital that does provide ambulatory health records.

One system’s journey: Stabilizing the technology

Technology, as CHI's Katsampes noted, is often the Achilles’ heel of shared services implementations at hospital systems. “Until you go live and put enough transactional volume onto a system, you don’t really know where the cracks are,” he explained. At CHI, those cracks started to surface about halfway through its roll-out of the shared services model. Leaders realized that to continue the roll-out with the existing technology structure would just mean a bigger rework later. They decided to defer further implementations at local systems for three months while they stabilized the technology, redesigned selected processes, and developed new training programs to allow employees to take better advantage of the new tools. “Essentially, we redesigned how we implemented, and we reevaluated how we operated that whole aspect of the implementation,” recalled Katsampes. “And the remaining roll-outs, after the program and system stabilization and optimization, were a huge success in every area. It proved to be three months very well spent.”

Contrary to common belief, a hospital system does not necessarily need an ERP to establish a shared IT infrastructure and management at some level. Even without ERP, for example, the use of a standard set of applications at every hospital can allow a system to deliver application management, help desk, and other support services from a shared environment. We usually find, however, that a pre-existing ERP system significantly enhances the potential value of a shared IT organization. In fact, some highly desirable capabilities, such as the ability to consolidate and share patient data among different applications and locations, are all but impossible to enable without a common IT platform.

Toward an effective SSO

There is no single “right” way to implement shared services, least of all in an industry as heterogeneous as the health care provider market. Every health care system will need to approach shared services in a way that reflects its own unique characteristics with respect to its operating model, degree of technology enablement, and extent of process standardization. Figure 3 shows possible implementation strategies for three hypothetical organizations at various points along the continuum of shared services readiness, from highly decentralized and locally autonomous (organization A) to relatively integrated with some shared services capabilities already in place (organization C).

To help set realistic expectations and smooth the implementation process, we recommend that hospital system leaders carefully consider the following factors when planning a shared services effort:

- **The operating model.** How “center-led” is the system in its organizational structure and culture? Are the individual hospitals highly autonomous or does a single governing body maintain tight central control? In general, the more integrated a system’s operating model, the easier it is to implement shared services, and the more quickly leaders can expect the effort to deliver the desired results. However, the business case for shared services can be compelling even at relatively decentralized systems. In fact, establishing shared services can be a powerful way to encourage and reinforce the changes needed to move a decentralized system’s culture and operations toward a more integrated model — a strategy some systems are pursuing in order to improve efficiencies and increase control.

Figure 3: Possible shared services implementation strategies

	Organization A	Organization B	Organization C
Culture and organization	As a result of growth, mostly through acquisitions, the culture is highly decentralized and autonomous	Largely autonomous but exploring opportunities for increased central control	Increasingly integrated model, with more centralized services and center-led decision-making
Technology platforms	Multiple systems today, but embarking on a platform standardization	Some consistency in applications, but most sites still use remnants of applications from legacy organizations	Standardized platform across organization
Process	Non-standard across markets	Some consistency in process features, but workflow customized to multiple legacy applications	Fairly standardized, but not taking full advantage of common platform
Sample shared services approach	Piggyback on technology roll-out and concurrently redesign processes and organization to align with the shared services model	Implement smaller-scale regional centers. Although this will not maximize economies of scale, it can deliver significant cash management, service level optimization, and data transparency benefits	Expand on strengths in consolidating transactional work to expand into value-added areas such as data analytics

One system’s journey: “One CHI”

One reason stakeholders and employees at CHI embraced shared services relatively quickly was that leaders billed it as one of the flagship projects in the effort to “become one CHI” — the larger strategic transformation of welding the organization together into an integrated operating company. “This program was one of the first main catalysts that was going to make this change,” said CHI's Katsampes. “It was a critical business concept, and people viewed shared services as an exciting opportunity to participate — especially when we recruited stakeholders to take part in its design.”

- **The extent of ERP enablement.** Our experience suggests that systems with an existing ERP find it much easier to implement shared services than those that do not. From a cost perspective, too, implementing shared services without an ERP already in place can increase the "throwaway" cost of investments — such as the cost of training SSO staff on disparate legacy technologies — that will become obsolete as soon as the system adopts ERP. That said, we have seen several hospital systems seek to implement shared services and ERP concurrently. One system we know even views its shared services effort as a prerequisite for a planned ERP roll-out: Its processes varied so widely across hospitals that implementing ERP would have been impractical without the shared services-driven standardization effort.

- **Which processes to move to the SSO.** Rules-based transactional processes such as payroll and general accounting tend to be easier to standardize, streamline, and consolidate than processes that support advisory services such as workforce analytics and financial planning. Thus, transactional processes would be the logical starting point for organizations that are relatively new to shared services. However, systems with SSOs that already effectively deliver transactional services may be in a position to leverage their SSOs' data — and credibility with internal customers — to expand into selected higher-value activities. Additional factors to consider when selecting processes for shared services include the extent of existing process consolidation and/or standardization, the ease or difficulty of physical consolidation, the degree to which current technology can support shared process delivery, and the extent of staffing shortages at each site.

- **Which activities to retain at the local hospitals.** Many processes, especially those that support higher-value business advisory services, have components that are more appropriately performed locally than at an off-site SSO. For these processes, a thoughtful mix of on-site and shared service delivery can help mitigate the risk of widespread fear that shared services means less personal attention and lower-quality service.

- **Where to put the SSO.** An SSO's location can have a large impact on the shared services effort's overall outcome. Even leaving aside the question of offshoring, which most organizations pursue only after their SSOs are relatively mature, different parts of the U.S. can vary significantly in labor cost, quality, and availability, as well as in their regulatory, tax, and operational implications. The location decision should consider, not just the pros and cons of the candidate sites themselves, but also factors related to the functions and processes to be placed in the SSC, the hospitals and geographies to be served, the mix of internal versus outsourced service delivery, and the organization's internal dynamics.

- **The role of outsourcing.** Health care providers have historically limited their use of outsourcing to IT service delivery. However, the growing maturity of the outsourcing marketplace, combined with the urgency of the industry's cost-reduction imperative, may make outsourcing certain shared HR, finance, supply-chain, and other processes a viable option for provider systems today. We believe that a "portfolio" approach that uses a careful mix of in-house and outsourced service providers — an approach that is gaining popularity among many organizations in other industries — may offer health care providers the greatest value.

- **The shared services governance model.** Many of shared services' potential benefits depend crucially on effective customer-focused governance to maintain productive collaboration between the SSO and the operating units. A variety of tools and techniques — service-level agreements, performance metrics, governance boards, customer councils, and the like — can help an SSO and its customers jointly set service standards, streamline end-to-end processes, and monitor and improve performance. When effective, such governance mechanisms promote operational excellence by enlisting both the SSO and its customers in a collaborative effort to align service delivery with business needs. Effective governance also makes the SSO directly accountable to end users for service cost and quality based on customer-defined requirements and helps foster a sense of ownership of the shared services program across the entire system.

One system's journey:
The proof is in the numbers

"I would advise anyone going down the shared services path to analyze and document the pre-implementation cost, productivity, usage, and service level results of the in-scope transactions before you implement shared services," said CHI's Katsampes. "After you go live, you can then document the improved productivity, improved cost savings, and other benefits to back up your original business case."

Shared services has been helping organizations in many industries reduce costs, improve efficiency, and deliver strategic value for decades. Now, it's health care's turn to pursue the potential benefits that shared services has to offer. The urgent marketplace pressures facing the health care industry today make shared services a smart, well-timed investment to consider for systems looking for ways to reduce costs without compromising the quality of care.

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Contacts

Authors

Jeffrey A. Christoff
Principal, Deloitte Consulting LLP
+1 513 784 7370
jchristoff@deloitte.com

Eileen Laudadio
Director, Deloitte Consulting LLP
+1 404 631 3117
elaudadio@deloitte.com

Christine M. Armstrong
Principal, Deloitte Consulting LLP
+1 213 688 6920
cmarmstrong@deloitte.com

Gina Schaefer
Senior Manager, Deloitte Consulting LLP
+1 404 631 2326
gschaefer@deloitte.com

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