An Ounce of Prevention: Avoiding Five Common Pitfalls in Hospital Outsourcing Services Agreements

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Many hospital leaders decide to outsource hotel services (e.g., food and nutrition services, housekeeping services, linen and laundry services, plant operations and maintenance services, patient transportation, valet and parking services, and other similar services) in order to reduce costs and improve quality of service to the hospital’s patient population. As hospital business and legal teams negotiate with vendor partners, they should consider the potential pitfalls of such complex outsourcing relationships and provide frameworks within service arrangements to resolve issues as they arise. Understanding the common ways in which these relationships can fail and taking proactive steps at the time of contract negotiation will help protect the contract value and support sustained satisfaction with the arrangement.

The following are five areas of potential hospital dissatisfaction and loss of value in an outsourcing services arrangement:

1. Communication Difficulties

Minor issues in outsourcing relationships can evolve quickly into problems when arrangements lack systems and processes to facilitate discussion among the parties,
or lack detail regarding the expected content and regularity of communications in
the form of meetings and reports. Reports should be factually based, using agreed-
upon key performance indicators and benchmarks. Meetings should be required
between on-site vendor personnel, hospital direct reports, and regional or corporate
vendor personnel. A timeline for resolution and escalation processes up the chain of
seniority should be specified. In addition to vendor account managers and
supervisors, a centralized oversight committee with representatives from both the
vendor and the hospital should be established to ensure that the parties meet their
communication obligations.

2. Ineffective Governance and Management

Failing to designate a key vendor resource to oversee and manage the outsourcing
engagement on a day to day basis and be accountable to the hospital customer is
another potential pitfall. A hospital requires assurance that the vendor understands
the outsourced department’s operations, its budget, and the terms of the
arrangement. Agreements that do not specify the day to day review of reports and
operations, and fail to provide a feedback loop with hospital management, staff and
patients, create a lack of transparency around the value generated by the vendor.
Hospital clients are unlikely to view the arrangement as effective if there is
uncertainty regarding whether the vendor is responsive to concerns, is achieving
results and is satisfying quality objectives. As stated above, the agreement should
provide that the vendor resource liaise frequently with hospital and more senior
vendor management, as well as the centralized oversight committee, to assure
effective management of the arrangement. In addition, as discussed further below,
the vendor should assure continuity and quality in on-site management, with
adequate hospital input, to avoid dissatisfaction in the overall outsourcing services
arrangement.

3. Lack of Hospital Input When Replacing or Removing Personnel
or Managers

The success of an outsourcing services arrangement depends on key personnel
managing the process. Engagements that fail tend to include poor or inconsistent
on-site management by the vendor. Further, hospital dissatisfaction is likely if the
agreement only includes a vendor duty to provide a qualified on-site manager and a
unilateral right for the vendor to select the replacement in the event that the
hospital requests removal and replacement of such individual. Successful
arrangements foster continued dialogue and investment by both parties to assure
continuity of management from an experienced and capable team leader. Vendors
that do not recognize hospital preferences, or reward and retain on-site managers
who meet the hospital’s needs, lose an opportunity to demonstrate their commitment
to long-term partnership with the hospital. In addition, when the relationship is not
working well, or replacement or removal of vendor personnel otherwise becomes
necessary, hospital participation in the replacement process is essential.

4. Unilateral Approach to Conflict Resolution

Unilaterally terminating an agreement or imposing monetary penalties for poor
performance, while effective remedies, should not be a hospital’s only approaches to resolving conflicts with an outsourcing services partner. Whether the nature of the issue is contractual or related to performance, personnel or other issues, both parties should be engaged in addressing the root cause of an issue as it arises. The agreement can require each party to be accountable for its own commitments and to assume its share of the responsibility to the extent that its performance negatively impacts results. Both parties should be required to share all necessary information in support of their obligations. In addition, notification processes should be in place to make the hospital aware as soon as a vendor identifies a key benchmark that it will miss or a personnel change that it will need to make, outside of standard reporting commitments related to quality and regularly scheduled meetings. Depending on the nature of the services and the performance issue that has occurred, a requirement for the vendor to supply a plan of correction plus a timeline for implementation might be appropriate.

5. Failure to Discuss Expectations and What Value Equates with Success

Even under positive circumstances, when key performance indicators are met and quality is achieved, dissatisfaction with the outsourcing services arrangement can arise when the vendor and hospital do not agree on what value equates with success over the duration of the arrangement. The hospital must be upfront regarding any expectations it has regarding continuous process improvement over the duration of the agreement, beyond initial cost savings and meeting the benchmarks for customer satisfaction. The agreement should contain commitments for the vendor to present additional cost-saving opportunities and better service options on at least an annual basis. Further, in addition to having the right to impose financial assessment for bad results, the hospital might want to consider paying an incentive for exceptional results. Both parties need to act in a manner that demonstrates an understanding of what constitutes success for each party: for the hospital, achieving savings and improved quality; for the vendor, making a fair profit in exchange for delivering the desired results.

An ounce of prevention is worth the effort to protect the intended value to a hospital or health system in an outsourcing services agreement. Including key contractual terms in services agreements and assurances around the issue-management process will support a positive working relationship and help hospitals to avoid situations in which the arrangement might fail.

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