

## Chapter 69

# A Preliminary Study of Key Factors Affecting Management and Evaluation of IT Outsourcing Contracts in Hospitals

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### ABSTRACT

*Many hospitals are experiencing pressure to improve their operational efficiency and patient safety due to escalating costs and increased competition. In order to achieve these and other business objectives, hospitals have to outsource some of their Information Technology (IT) functions to external outsourcing contractors. The scope and range of IT-related outsourcing services are also increasing, as evidenced by the promotion of Applications Service Providers (ASP), Business-to-Business (B2B) integration, cloud-drive business and IT services, desktop and helpdesk, IT infrastructure services, and software development outsourcing. However, little attention has been paid by many hospitals to the key factors that affect their IT outsourcing decision-making and negotiation processes. This is important given that the IT outsourcing can play a key role in organizational success. Moreover, contract decision-making and negotiation processes in hospitals are particularly under-studied, especially in the management and evaluation of the IT outsourcing contracts. Hence, the main objectives of this chapter are to: (1) examine and identify some key factors affecting the management and evaluation of IT outsourcing contracts in Taiwanese hospitals; and (2) propose a set of recommendations to overcome or minimize the key issues identified in this study. One contribution of the study is the recommendations provided to deal with issues that are critical in the management and evaluation of IT outsourcing contracts in hospitals.*

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## INTRODUCTION

A recent survey in US revealed that organizations ranked bringing outsourced Information Technology (IT) functions back in-house as one of their least important business objectives and more organizations sought to outsource more of their IT functions (Computer Economics, 2010). Many hospitals still rely on IT outsourcing to maintain their competitive advantage and to improve their business efficiency. During the last decade, hospitals are experiencing pressure to improve their operational efficiency and patient safety due to escalating costs and increased competition. According to a recent report released by Market Intelligence and Consulting Institute (MIC), large hospitals and healthcare organizations in Taiwan is predicted to increase their IT spending by 3% (NT\$5.4 billion) in 2011 (iThome, 2011). In order to achieve their business objectives, hospitals and healthcare organizations have to outsource some of their IT functions to external contractors. The scope and range of IT outsourcing services are also increasing, as evidenced by the promotion of applications service providers (ASP), business-to-business (B2B) integration, cloud-drive business and IT services, desktop and helpdesk, IT infrastructure services, and software development outsourcing (Gonzales et al., 2005; Huang et al., 2005). IT outsourcing has become a worldwide phenomenon with no signs of a slowdown in its use (Computer Economics, 2006; Gartner, 2009).

The main reasons for IT outsourcing are, among other things, to save costs, concentrate on other activities or core activities, improve services and productivity, and to contract out the maintenance of existing systems (Lin et al., 2007). The setup of organizational management for IT outsourcing is an expensive exercise. Outsourcing contractors have the advantage of economies of scale due to their large client bases. This is not something that a single organization can afford to do it. Therefore, cost saving is one of the reasons for IT outsourcing. Another reason for IT outsourcing is to increase ef-

ficiency. Outsourcing contractors are able to keep up the trend and provide necessary leading edge software and systems to their clients. Moreover, IT outsourcing contractors have usually possessed more technical know-hows and skilled personnel to solve their clients' problems than an independent company. However, IT outsourcing contracts often fail to deliver the planned business benefits that outsourcing organizations expect (Ridder, 2009). Most outsourcing organizations had also fail to invest enough in critical outsourcing competencies as well as in managing all phases of their outsourcing contracts (Ridder, 2009).

Moreover, IT outsourcing in the hospital setting is particularly under-studied. Very few studies have examined how the hospitals manage their IT outsourcing contracts as well as how they consider key issues and problems in making IT outsourcing decisions (Diana, 2009; Lorence and Spink, 2004). Only 20% of healthcare organizations' budgets are spent on outsourcing compared with 33% for other industries such as manufacturing, banking, insurance, and finance as healthcare organizations tend to have less experience in managing external relationships such as IS outsourcing (Shinkman, 2000). Indeed, it is not unusual for hospitals and other healthcare organizations to make mistakes in developing and managing their IT outsourcing process (Guy and Hill, 2007). Understanding key IT outsourcing decision-making and negotiation issues will help hospitals to better manage, negotiate, and select appropriate IT outsourcing arrangements and contracts. This will also help hospital managers to decide about when to consider outsourcing as an option. Therefore, the main objectives of this book chapter are to: (1) examine and identify some key factors affecting the management and evaluation of IT outsourcing contracts in Taiwanese hospitals; and (2) propose a set of recommendations to overcome or minimize the key issues identified in this study. One contribution of the study is the recommendations provided to deal with issues that are critical in the management and evaluation of IT outsourcing contracts in hospitals.

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