

## Managing IT Investment

**An SI collaborative aims to create  
a new cost-management model**

### *Executive Summary*

Cost and revenue management using information technology has finally—and irrevocably—seized center stage for healthcare executives. While managing costs has always been an issue for healthcare executives, the fierce pressures on integrated delivery systems from recent Medicare cuts and managed care have raised the issue today to a new level of urgency. Combined with the costs of Y2K and the impending financial impact of HIPAA compliance, those pressures are shaking up the way IT is planned for, implemented and operated.

In response to feedback from its membership, Scottsdale Institute is addressing the cost-management issue on several fronts. First, in conjunction with First Consulting Group, SI is convening the 1999 Conference on Cost Management at the Hyatt Regency O'Hare in Chicago on October 14-15. The conference will cover cost management through effective practice management, information systems, asset management, revenue-cycle opportunities and outsourcing, among other areas. The conference features practical case studies presented by healthcare executives who have achieved tangible and demonstrable cost savings. The goal is to provide attendees with actionable ideas that they may apply in their organizations. For details call 612-545-5880.

Second, SI has just launched an exciting new collaborative entitled "Using IT to Reduce IDN Operating Costs." Fran Turisco, a practice director in FCG's emerging practices research group, is facilitating the collaborative, which will rigorously scrutinize and identify such factors as baseline costs, IT-enabled proposed process changes and the impact those changes will have on operating costs and revenue. "If you can't identify those factors, you'll never quantify benefits. This is more than just a method to prioritize which projects should be done," she says. In the main text, we describe in more detail the reasons behind the collaborative and why its objective is to develop an IT investment management program linked to business process change initiatives.



A CEO Resource  
for Managing Clinical  
Information Systems

August-September 1999  
Volume 5, Number 7

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## **Background to the collaborative: Why now?**

Value management of IT has become a front-burner issue for healthcare executives as a result of several factors, including the Balanced Budget Act, which has severely cut Medicare reimbursement for providers, and managed care, which continues to hammer down costs.

"Integrated delivery networks are getting less money than in the past, so they're tightening spending," says Fran Turisco, Boston-based practice director for First Consulting Group's emerging practices research group and facilitator of SI's cost-management collaborative.

Also, IDNs have spent so much on resolving the Y2K software glitch in the last three years that any money targeted for non-Y2K projects is much more scrutinized than previously. One of Boston's largest academic medical centers, for example, spent \$15 million on Y2K in the last year alone, making it less likely the organization will approve anything but the most cost-justified IT projects outside of Y2K. Finally, HIPAA compliance in the upcoming years is expected to create additional financial burden on organizations; some anticipating up to two and a half times the resources as Y2K.

## **ROI has been AWOL**

While cost pressures have created a new urgency to manage IT costs, a new management model is required to carry out that task because healthcare organizations have never before had to cost-justify IT on the scale of an IDN. Traditionally, most return on investment (ROI) calculations have been used to justify initial acquisition of IT as a sales exercise to get project approval, not for post-implementation benefits evaluation. As a result, there are little benchmark data to go by when it comes to managing IT costs.

"In the past, organizations would project savings based upon process improvements enabled by information systems—for example, increasing process efficiency by X percent," says Turisco. However, once the funding for the new system was approved, the focus on this objective ended, she says. Perhaps more importantly, expectations rarely led to real results.

Turisco conducted cross-industry research on IT effectiveness and found the statistics on IT project failures to be staggering. In a recent study by the Standish Group, for example, more than 84% of IT projects in all industries failed to meet the original functional expectations. Half of the projects incurred cost-overruns that averaged 189% of the original budget. A whopping 94% experienced a false start and had to be restarted.

"When you think about it, today more than ever if you're a member of a board of directors evaluating a request for a new \$10-million to \$20-million IT project, you're going to ask what you're getting for the money. Since the track record has not been good and the IT investment dollars

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are growing larger and larger, senior executives are now demanding tangible benefits and positive returns. It's no longer good enough to say we need new technology because it's the cost of doing business," she says.

## The collaborative

Without a model to go by, however, IDNs need to create their own IT investment management model. The purpose of the SI collaborative is to facilitate development of that model based upon the documented business processes of the participants. Current participants in the collaborative "Using IT to Reduce IDN Operating Costs" include:

- Borgess Health Alliance, Kalamazoo, Mich., Dave Thompson, VP of Information Services
- Christus Health, Houston, George Conklin, Senior VP-Information Management
- Daughters of Charity National Health System, St. Louis, Corbett Alley, Senior VP and CIO
- Memorial Hermann Healthcare System, Houston, Shane Spees, Administrative Director, Office of the President
- Sparrow Health System, Lansing, Mich., Bob Glaser, VP and CIO

Other participants are welcome, although it's strongly recommended that an organization join as early as possible to avoid having to play catch-up.

So far, members of the SI cost-management collaborative have established a framework for working together by identifying each one's current processes and their objectives for the collaborative. "What we've agreed on is that this is more than just a method to prioritize which projects should be done," says Turisco. "That's good but it doesn't get you where you want to go," she says, adding that it's necessary to strengthen the "purpose justification" of IT projects.

That process involves identifying

- areas of potential impact and baseline costs;
- proposed process changes to be made;
- expected benefits of those changes on targeted processes.

Unless an organization identifies those factors, it will never be able to quantify the benefits of a project, according to Turisco.

Implementing a successful framework means allying the business process with IT. "It's a non-techie thing. Business people should take the lead in creating the business case that incorporates the purchase of performance improving technology investments," asserts Turisco. "IT must work with the business-process people to tie the best technology options to support the proposed business changes. It's an educational process as much as anything."

Turisco, a big fan of the Balanced Score Card approach to management strategy, says a key to success is linking the high-level business strategy of

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Fran Turisco  
practice director  
First Consulting Group

the organization to its smallest incremental process improvements. "If you can't link the 60,000-foot strategy to actual improvements, you're likely to fail," she says.

### **Refining objectives**

As the collaborative has evolved, participants agreed the study should NOT be strictly focused on cost savings, but a broader aspect of improving cost reduction as well as enhancing revenue. This broader focus should encompass the entire IDN, not just the IS department. Given these decisions, the group selected the following key objectives for the study:

- 1) Create tools and framework to allow organizations to reduce operating costs now and in the future or enhance operating revenue through effective investments in information technology (This framework and tools should help the requester to justify the true value of the impact of IT on the organization. For example, you can create a template or checklist to identify potential areas of cost reduction and revenue enhancement.)
- 2) Document a workable governance model for project requests, selection and benefits monitoring
- 3) Identify ways an organization can reduce present costs and prevent future spending of IT dollars through IT architecture standardization

Other criteria and requirements for this framework include:

- Framework is based on best practices from participant sites and other sites (research and experience)
- Can be used as a budgeting and prioritization tool
- Framework includes both qualitative and quantitative tools for costs and benefits
- Non technical framework—easily understood by senior management
- Non application specific framework
- Incorporates legal issues and process issues
- Allows an organization to be more proactive, less reactive
- Identify criteria for valuing and categorizing any IT project—What is the definition of value (e.g. patient satisfaction, care quality, cost effectiveness)?
- Framework provides tools and procedures to determine what must be included in the request and the links back to strategic plans and operational plans

### **Conclusions**

Cost and revenue management in healthcare has become of paramount importance. Information has always been the key to successful financial and quality management and, for today's healthcare executive team, having the right information at the right time is a critical success factor. The focus now is on identifying the right information and implementing as quickly as possible those IT projects that will yield significant business benefits.

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The SI collaborative focuses on developing an analytical model or framework for evaluating and monitoring the benefits of IT projects. This model starts with the IDNs' strategic missions, looks at what is required in terms of information to further their strategic missions while also reducing operating costs or enhancing revenue. The resulting framework will include time, cost and performance considerations. It will draw upon members' current evaluation and prioritization processes as well as research of other IDN practices so the resulting model will better reflect the group's collective wisdom and knowledge. The objective: a reusable framework to identify, prioritize and monitor IT investments based upon quantifiable and realizable benefits.



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*Have You Registered Yet?*

## **1999 Conference on COST MANAGEMENT**

Hyatt Regency O'Hare  
Chicago, Illinois

October 15, 1999

This one-of-a-kind cost management program is designed specifically for healthcare executives and their key team members. Attendees can expect to hear about solutions that have actually worked in **meeting the challenges of making physician organizations successful; effectively using IT to manage cost; determining when to consider outsourcing; identifying and implementing programs that result in hard dollar savings and more.**

This conference is focused on pragmatic results and case studies of those who have successfully implemented measurable results for improved cost management.

**Plan to attend this important event. Register by calling 612/545-5880. Detailed brochure available.**

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