

Value-Based Care Is a Key Trend for Healthcare Providers — So Is Value-Based IT

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As the total cost of ownership of IT consumes a larger share of the hospital budget, healthcare delivery organization CIOs and IT leadership should take these steps to demonstrate the business value of the services they provide.

Key Challenges

- HDO CIOs and IT leadership have not expressed the value of their services in a manner that resonates with business stakeholders and upper management.
- Most HDO CIOs are not clear on how their IT costs perform against HDO goals of providing quality and affordable care.

Recommendations

- Use industry business drivers to establish strategy and IT requirements.
- Capture baseline IT spending from asset, general ledger and other financial systems.
- Associate IT services with the underlying IT required to deliver them.
- Show value by articulating IT services in the language of the business.
- Formulate IT value statements or stories for each major IT service.

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Strategic Planning Assumption

By 2018, 20% of healthcare provider IT departments will frame their offerings as business services rather than traditional technology and support services.

Introduction

In his 2003 Harvard Business Review article, "IT Doesn't Matter," Nicholas G. Carr suggested that IT had become less of a strategic advantage and more of a commodity. He also suggested that managers should shift their focus from offense — using IT as a competitive differentiator — to defense — managing IT cost and risks aggressively. Carr's thinking provoked an outcry from the vendor community and some deeper reflection on the role and value of IT to the enterprise.

Most healthcare provider CIOs have confronted questions about IT's value to the enterprise over the course of their careers. In most cases, the IT department remains a cost center within the healthcare delivery organization (HDO) — where IT infrastructure, data center, applications and support services are dispensed — in theory, based on budgets closely aligned with hospital business requirements and strategic vision. When this alignment becomes skewed and unclear to stakeholders — a type of impedance mismatch occurs between costs and delivered value. This was tolerated when the cost of IT was a smaller percentage of the overall revenue. This is no longer the case.

The cost of healthcare has been widely discussed and is a nationally recognized problem. However, there has not been enough discussion surrounding the rising cost of healthcare IT — largely because IT is an important part of the solution. With HDOs under considerable pressure to improve care quality and reduce costs, it is time to better understand how the services provided by healthcare IT facilitates or undercuts these goals.

As the total cost of ownership of IT services consumes a larger share of the hospital revenue (see Note 1), CIOs must be able to clearly demonstrate the business value of the services they provide, so that their enterprise customers are clear on the cost-benefit trade-offs and marketplace alternatives. To do that, HDO CIOs must develop a compelling value story, have a firm grasp on costs, and possess enough competitive intelligence to defend their prices, rates and service levels.

Analysis

Use Industry Business Drivers to Establish Strategy and IT Requirements

It has become abundantly clear that healthcare struggles with escalating costs, inconsistent quality and timely access to care. At the same time, healthcare providers are dealing with market forces (see "Business Drivers of Technology Decisions for Healthcare Providers, 2015") that have increased business uncertainty and threaten the viability of their operating models and the relevance of their services. As a result, most healthcare providers have begun to reconsider their fundamental value propositions and business strategies, and are looking more closely at how IT enables their future and at what cost. These market forces — changing demand, value-based care, consumerism, healthcare reform, increased competition and others — are also a source of significant opportunity for HDOs that choose to recognize and respond to them.

The market forces driving these fundamental industry changes will lead to new business strategies, service delivery models and underlying competencies. IT is increasingly recognized as critical to operational efficiency, clinical effectiveness, competitive differentiation and business transformation. HDO CIOs and IT leadership should assist in this transformation by:

- Engaging with executive management to aggressively leverage IT to standardize and optimize clinical and business processes
- Engaging with clinical leadership to establish realistic plans to advance care transformation to evidence-based best practices and coordinated team care delivery enabled by the electronic health record, workflow re-engineering and advanced clinical decision support
- Executing an analytics agenda incorporating clinical and patient event data that yields real-time awareness and predictive/prescriptive uses
- Adopting data management best practices and creating an enterprise core competency in sophisticated data and big data governance
- Creating an IT innovations team to drive breakthroughs in consumer, patient and physician engagement

Healthcare provider business and IT leadership have a unique opportunity to harness information and communications technologies in a manner that will lead to a sustainable, consumer-centric, value-based care delivery system. IT's stature within the enterprise will be determined by the CIO's ability to bring about this transformation while expanding and optimizing current business value.

Capture Baseline IT Spending From Asset, General Ledger and Other Financial Systems

IT costs are often viewed as a black box, due in part to IT's inability to speak in business terms first and technology second. Therefore, without the right perspectives on IT costs, the business often mistakenly assumes that IT costs are too high and need to be reduced. In reality, IT costs more often need to be optimized rather than reduced. This involves less cost cutting and more

containment, but with reason and purpose — to reduce overall spend and to fund change and innovation. Having the proper insight into how IT spending contributes to business outcomes or value, can aid in the governance around the money spent on IT.

If there is no proof of value for IT spending, then costs will always be the villain in the cost versus value debate (see "One More Time: This Is How You Express Costs in Business Value Terms"). Costs for IT are often managed across the board, without regard for the benefits of individual IT investments. If IT leaders cannot show costs differently, and in a language that is understandable to stakeholders, then the default assumptions about IT costs — that they result from inefficiency, mismanagement and past mistakes — will remain. These assumptions lead to misguided funding reductions that are inappropriate for the benefits delivered.

A deeper understanding of IT cost structure will enable the translation of IT costs into comprehensible and actionable language that can foster a more productive discussion about costs, benefits and, ultimately, value. Begin this discussion by establishing baseline IT spending — by capturing IT operating and capital expenses from asset, general ledger and other financial systems.

The purpose of capturing and understanding IT spending is to equate IT costs to specific business services. This, in turn, helps the enterprise to better manage IT spending and home in on those IT investments that drive business value. It is a fundamental first step toward running IT more as a business.

The failure to operate the HDO IT organization, or some significant portion of it, more as a business will result in indiscriminate, across-the-board budget cuts that do not take into account the impact on the business (see "2015 Top Actions for Healthcare Provider CIOs: Run IT More as a Business").

Associate IT Services to the Underlying IT Domain Items Required to Deliver Them

IT services must be associated with the underlying IT domain items required to deliver them (e.g., servers, storage, systems, personnel, service desk and support) — in order to begin the valuation process. A more granular understanding of associated costs and where they reside is the basis for establishing a baseline of IT spending. Another way to get a better picture of IT spending is to characterize it based on how it is used by the enterprise.

Gartner recommends IT spending be stratified simply into "change" and "operate/run" categories. The purpose of this breakdown is to identify the IT spending that is incurred to invest in new capabilities, innovations and transformation and those that are required to keep the enterprise moving. This differentiation is important so each category can be more closely associated with the underlying domain items they employ and, ultimately, to business outcomes they enable and the value they drive.

The operational spending of IT budgets is typically the largest and most misunderstood component of IT spending (see "Manage Four Views of the IT Budget"). Many HDOs tend to reduce IT operational spending without understanding the full impact on the enterprise — particularly those cuts that can undermine enterprise performance — financial or otherwise.

Showing how IT operational spending is more directly related to business value and performance can minimize poor decisions. It empowers the business to make informed choices and share accountability about what IT services it wants to use.

Show Value by Articulating IT Services in the Language of the Business

The healthcare provider CIO will need to define a portfolio of IT services to support the HDO's existing and emerging business requirements as the HDO becomes a digital business and adapts to a more dynamic and competitive marketplace. These services will describe the business capabilities the IT services enable, rather than focus on the technology deployed to provide them.

A catalog of IT services will need to be derived from HDO business stakeholder requirements. Costs must be assigned to each service based on the true costs of providing them — by capturing budget actuals, licensing costs, contracts, M&S agreements, the cost of labor and all of the other things that businesses use to determine pricing and profitability.

Cost and service-level transparency makes it possible to benchmark against other healthcare providers and technology service providers. HDO business leaders will need to determine whether IT's services, service levels and costs are in line with what the business needs to succeed. In other words, can IT deliver services at a level and cost that the enterprise requires? IT value statements must be crafted in a manner that relates IT services as unambiguously as possible to specific business outcomes.

Clearly articulating value puts IT in more of a businesslike posture. It allows IT enterprise clients to better understand IT's value proposition and related overheads and cost structure. Also, it makes it easier for business stakeholders to allocate budget dollars for the services and support they require.

Formulate IT Value Statements or Stories for Each Major IT Service

Gartner encourages CIOs to develop service descriptions for each service in their catalog. These service descriptions are critical because they define the scope, features and functions of the service. They do not address the issue of value — although the inherent value of well-defined service is apparent.

Value statements are needed to describe the benefit of the service. Value statements describe the expected business benefit that will be enabled by the service. Value statements are, in essence, the answer to the question: "Why do we provide this service?"

Value statements are the beginning of the value story. Without them, enterprises can lose sight of the overall purpose of the services they provide. However, value statements tend to be high-level and are not enough for IT executives and stakeholders to conduct a cost-benefit analysis of a service.

To get a more comprehensive picture of the value and cost-benefit of IT-supplied services, frame value statements as compelling value stories. Use accumulated information surrounding business drivers, required business services, enabling IT and IT spending to formulate IT value statements or stories for each major IT service you have established.

Run IT More as a Business

Increasingly, the value of IT will be determined by the CIO's ability to govern, deliver and manage a complex and extended IT infrastructure and application portfolio with cost and service-level transparency and accountability. Transparency increases trust and elevates the role of IT from a cost center to a strategic business partner, and assists the HDO in achieving the right level of IT spending relative to its business requirements.

In "Every Budget Is an IT Budget," the message is clear: Competitive advantage will be increasingly determined by CIOs' abilities to select, implement and manage IT. The budget then becomes the tool for steering resources toward desired business objectives. One approach for determining the value of IT is to allow enterprise customers to decide what type and how much IT they want to purchase and, ideally, from whom. This would make the annual exercise of crafting an IT budget one based on real choices and business demand. This scenario will likely be the endgame over the next three to five years.

Gartner Recommended Reading

Some documents may not be available as part of your current Gartner subscription.

"Business Drivers of Technology Decisions for Healthcare Providers, 2015"

"Three Key Steps Are Needed to Show the Value of IT Services"

"One More Time: This Is How You Express Costs in Business Value Terms"

"Manage Four Views of the IT Budget"

"Strategic Benefits Realization: IT as an Engine for Coherent Execution of Strategy"

Note 1 Cost of Healthcare IT

- The 2013 healthcare providers' vertical industry average IT spending as a percentage of revenue is 4.2%, up from 3.9% in 2012.
- The 2013 healthcare providers' vertical industry average IT spending as a percentage of operating expense is 4.3%, up from 4.1% in 2012.
- The 2013 healthcare providers' vertical industry average IT spending per employee is \$6,450, up from \$5,947 in 2012.

See "IT Key Metrics Data 2014: Key Industry Measures: Healthcare Providers Analysis: Multiyear."

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