



**Qualifying the Financial Viability
of Mission-Critical Outsourcing Partners**



Executive Summary

Hospital executives seeking balance between the need to enhance the quality of healthcare through improving service levels, and the demand to reduce costs, often turn to outsourcing. It is a common practice today for acute care facilities to outsource a range of mission-critical services — such as IT services, revenue cycle management and clinical documentation and transcription. Contracting authority for outsourced services is often delegated to department heads. However, when the outsourced service — such as transcription — is deemed mission-critical, the selection of potential partners typically requires a formal selection process involving leadership of the HIM and IT departments along with hospital senior management.

Case in Point

Most acute care hospitals in the United States outsource all or a portion of their clinical documentation needs to one or more medical transcription service organizations (MTSOs). Selecting the right long-term clinical documentation partner is a critical decision that affects virtually every aspect of the organization including the quality of patient care, physician satisfaction, level of reimbursement, operating budget performance, Joint Commission accreditation, and technology migration path. With the increasing focus on quality reporting measures and pay for performance (P4P), the stakes for accurate, timely

When the outsourced service is deemed mission-critical, the selection of potential partners requires a formal selection process.

clinical documentation are higher than ever before. Also with the increasing demand for more and better clinical documentation functional decision makers are placing greater emphasis on ensuring that the potential partner has the financial strength to provide advanced technology solutions and customer service while offering value added services that meet the future evolving needs of the organization.

Hospitals today require quality clinical documentation to serve as a record of the care that was delivered. But, with greater adoption of EMR technology, hospitals will rely more on immediate access to real-time meaningful data, gathered from clinical encounters, to drive the care process. When considering potential medical transcription service organization (MTSO) partners, hospital executives should carefully consider the MTSO's ability to carry out the immediate functions of high-quality medical transcription along with its ability to enable the hospital to advance mission-critical functions of gathering, reporting and sharing information.

Viewed in this context, sufficiently large and financially stable MTSOs are the only organizations that have the ability to meet today's medical transcription challenges while developing innovative products that propel institutions to the next level of clinical documentation.

Signs Your MTSO May Be Experiencing Financial Distress:

- Declining revenues
- Loss of key customers
- Decrease in quality of medical transcription reports
- Increase in turnaround time
- Decline in document quality
- Multiple or frequent changes in account structure
- Inability to reach upper management with concerns
- Increase in system-related issues and downtimes
- Turnover within executive team
- No new investment in technology

Qualifying the Financial Viability of Mission-Critical Outsourcing Partners

Many Small Providers, Few Large Partners

The medical transcription services industry is comprised of some 2,000 firms, most of which are privately owned with annual revenues of less than \$2 million. Typically established by medical transcriptionists, the vast majority of these firms provides services to geographically proximate hospitals,

stretch their payables from 30 to 60 days and beyond, the health of a transcription partner can be impacted directly. In addition, MTSOs are working with smaller margins as well as less capital, due to the decrease in access to credit. Reduced working capital can result in suboptimal operations and reduced or eliminated investment in new technologies.

operational perspective.

- A loss of even one large customer may cause a small or unstable MTSO to cease doing business
- Small or financially unstable companies are unable to fund the capital required to upgrade the technical infrastructure in order to keep pace with customer demand for optimum performance and

clinics and physician practices. In contrast, a dozen or so companies — with annual sales in excess of \$25 million — have evolved to serve larger hospitals and health systems with an array of clinical documentation services including medical transcription outsourcing, dictation capture, automated speech recognition, and integration of medical reports into the enterprise-wide health information system (HIS) and electronic medical record (EMR).

In the future, hospitals will rely on access to real-time meaningful data.

Impact of Down Economy

As in every sector of the U.S. economy, financial pressures are impacting medical transcription companies as well. For example, MTSO cash flow is affected by a longer payable cycle. As hospitals

Financially stable MTSOs are better positioned to weather a down economy, whereas less financially viable companies may experience the following serious problems:

- Unstable MTSOs may have difficulty meeting their largest operating expense — payroll for transcriptionists. This may cause highly skilled transcriptionists to leave the company for more secure employment, severely affecting performance levels for the MTSO's customers.
- With pressure to reduce expenses, operational layoffs can occur in critical customer-facing areas such as call centers and customer service departments, impacting both customer communications and response levels.
- The turmoil caused by financial instability will make it difficult for MTSOs to meet the demands of their larger or more complex customers from a day-to-day

uptimes.

- Small or unstable companies cannot fund or staff research and development for existing or future products. As a result, these vendors fail to provide new solutions that keep pace with the evolving technology requirements of their clients. Enhancements such as EMR integration, clinical data applications and front-end speech recognition for physician self-editing may not be available
- Financially unsound companies may also be the subject of legal proceedings or federal investigations.

Table 1: Financial Core Measures

Incorporate these data points into both your initial RFP and annual partner evaluation:

- Audited Financials
 - Revenue trends
 - Profitability trends
 - Cash on hand and cash flow trends
 - Accounts receivable growth relative

to revenue growth



- Debt levels, ability to service debt, access to financing
- Liquidity ratios
- Legal and regulatory compliance programs (HIPAA/HITECH)
- Use of subcontractors vs. employees
- Credit worthiness
- Ownership status (private, public, venture capitalists)
- Percent of revenue allocated to R&D
- Is this going up or down?
- History of personnel layoffs
- Strength and stability of the management team
- Legal actions, suits or liens against the company
- Governmental investigations

Transcend

Unfortunately, large company size, apparent financial stability, and even quality service and support provided to reference accounts do not always tell the whole story.

In short, MTSOs plagued by financial difficulties can significantly impact the performance of a hospital— by negatively influencing patient care, patient safety and physician satisfaction, increasing the volume of Discharged Not Final Billed (DNFB), and slowing the reporting of key core measures thereby negatively impacting reimbursements.

The Solution: A Financial Selection Process

Hospitals can reduce the risk of being caught in a relationship with an MTSO undergoing financial difficulties. The best preventive action is to require potential partners to pass a financial selection process during the request for proposal (RFP) stage. In addition to conducting a thorough review of credentials and capabilities,

Qualifying the Financial Viability of Mission-Critical Outsourcing Partners

executives should ascertain the financial health of any potential partner. Table 1: Financial Core Measures, on page three of this article, includes data points that should be incorporated into the RFP.

Public companies, such as Transcend, will provide required financial data with complete transparency, since legal regulations stipulate the provision of this data to shareholders. However, private firms are not required to file reports with the Securities and Exchange Commission except under certain financial debt circumstances. To ensure financial security of the vendor, request certified financial statements to review as part of the RFP process. At the very least, it is imperative to run a business credit report to evaluate the credit worthiness of the company including insight into payment trends, judgment profiles, suits and liens, bankruptcies, credit limit recommendations, D&B score and payment histories.

Unfortunately, large company size, apparent financial stability, and even quality service and support provided to reference accounts do not always tell the whole story. Which is why a thorough selection process is

essential.

Continued Vigilance

As a final note, once a partner passes the financial security review, it is important to be aware of any indications that the company is undergoing reorganization or restructuring which would impact layoffs. See the answers to questions such as Where is the ownership of the vendor? Is the company receiving third-party funding from a capital venture company? Is the company for sale?

The MTSO industry is under significant transition. More than ever, due diligence into the financial viability of a potential clinical documentation business partner is essential. Selecting a partner that has the financial strength to deliver excellent results today while providing a migration path of solutions for the future can

be achieved.

About the Author

Lance Cornell joined Transcend Services in November of 2005 as Chief Financial Officer in addition to his extensive

knowledge of the clinical documentation and medical transcription industry, Lance is a Certified Public Accountant with more than 20 years of experience in accounting, financial and financial management, including controller and chief financial officer positions with publicly traded companies.



(800) 555-8727 ext. 657

www.transcendservices.com