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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY

UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
THIRD YEAR, FIRST SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 13th December, 2023
Time: 8.30am –10.30am

KPS 300 - CONTRACT ADMINISTRATION

INSTRUCTIONS TO CANDIDATES

ANSWER **QUESTION ONE (COMPULSORY)** AND **ANY OTHER TWO** QUESTIONS

QUESTION ONE (30 MARKS)

Centers for Medicare & Medicaid Services (CMS) is a federal agency within the U.S. Department of Health and Human Services that provides health coverage through Medicare, Medicaid, the Children's Health Insurance Program, and the Health Insurance Marketplace. CMS uses the National Health Expenditure Accounts as the official estimates of total health care spending in the United States, which includes expenditures for health care goods and services, public health activities, government administration, the net cost of health insurance, and investment related to health care. According to these estimates, U.S. health care spending reached $3.5 trillion in 2017, which translates to $10,739 per person and 17.9% of the nation's gross domestic product (GDP). The latest preliminary estimates by independent federal actuaries show that the spending has further grown to $3.65 trillion in 2018, 59% of which was for hospital, doctor, and clinical services. The total spending is larger than the GDPs of countries such as Brazil, the United Kingdom, Mexico, Spain, and Canada, and it is estimated to grow at an average annual rate of 5.5% from 2018 to 2027. Despite high spending, the United States lags behind comparable countries on a number of health care quality measures such as overall mortality rate, premature death, life expectancy at birth, mortality amenable to health care, disease burden, wait times for primary/urgent care visits, and cost-related access barriers.

The question of which factors are driving the health care costs higher in the United States than in peer countries is often a subject of discussion and debate. The complex and highly fragmented nature of the U.S. health care system as well as differences in the measurement of quality/intensity of care across different countries make it especially hard to find definitive answers. The cost of state-of-the-art medical technologies and prescription drugs, rising chronic diseases, and high administrative costs are often cited as contributing factors. Other arguments are that the United States uses more health care services, has too many specialists, provides too much inpatient hospital care, and spends too little on social services, although a recent Harvard study finds the "prices of labor and goods, including pharmaceuticals, and administrative costs appear to be the major drivers of the difference in overall cost between the United States and other high income countries."

The new paradigm of value-based care is one effort that has been initiated with the goal of improving quality of care while reducing health care costs. Value-based care has a focus on overall value of care, and it is replacing the conventional fee-for-service financial model that is focused on patient volume. Meanwhile, hospitals are facing increasing pressure on their operating margins, and many of them are experiencing stagnating or declining margins. A study that has analyzed for-profit and nonprofit provider networks found that average operating margins decreased from 4.15% in 2015 to 2.56% in 2017, representing an almost 39% decline. Hospitals that are facing deteriorating margins are having problems in two main areas: revenue growth and cost control. Particularly, the study showed that hospitals' expenses grew 3 percentage points faster than revenue. It is therefore not surprising that a recent national survey of hospital executives identified cost control as the new number one issue facing hospitals. Initiatives related to supply chain and labor cost/productivity improvements are reported to be two of the most commonly used measures undertaken by hospitals to control and reduce costs. As cost reduction is put high on hospitals' agendas, there is a renewed interest in outsourcing as a possible solution to achieving cost efficiencies. A 2018 survey on health care outsourcing reveals that 98% of health care leaders from more than 700 hospitals and inpatient organizations are considering outsourcing options in both clinical and nonclinical functions. Although it has been a common practice for hospitals to outsource their noncore, nonclinical functions, the emergence of value-based care is one reason why outsourcing is being considered for clinical expertise as well. In fact, outsourcing has already found its place in a variety of areas such as diagnostic imaging service lines and operating room efficiency. If you ever have an MRI or CT scan, it is very likely that your scans are going to be read by an overseas radiologist due to an outsourcing practice called teleradiology. Likewise, if you have a surgical procedure, the anesthesia service may be provided by a third-party vendor. While outsourcing vendors typically have certain specializations, they can also offer bundled services for hospitals, including, for example, IT, clinical services, and analytics. The survey concludes, "As hospitals look for ways to reduce costs, outsourcing is a valid strategy to achieve a financially healthier organization."

Outsourcing is not the only development that the health care sector should be paying attention to. Globalization makes it possible for businesses to operate and serve in markets all over the world—and the health care business is no exception. A striking example of this phenomenon comes from a recent partnership between India-based Narayana Health and America's largest nonprofit hospital network, Ascension. The joint venture has opened a hospital in the Cayman Islands, located 430 miles south of Miami, Florida. Narayana has already established itself as a low-cost, high-quality health care provider in India, and this mission holds true for the Cayman Islands hospital, which is its first development outside India. The hospital is offering surgical procedures at less than half the average U.S. price while achieving quality outcomes that match or exceed the best U.S. hospitals. The approach to obtaining low prices lies in its commitment to quality, operational excellence, and advanced technology. The hospital leverages its network of suppliers in India to achieve volume discounts for FDA-approved medical equipment and medicine. All of its back-office operations have been outsourced to low-cost but high-skilled employees in India. High-performing doctors from India were transferred to the new hospital in the Cayman Islands. Is it possible that American health care will be offshored to hospitals and health care providers like the one in the Cayman Islands? It is too early to tell. However, considering the recent developments in globalization of health care, including the booming medical tourism sector, the business model of Narayana has the potential to disrupt U.S. health care, and U.S. health care providers should take notice.

a) What are the advantages and disadvantages of adopting outsourcing in health care? (6 marks)

b) How can outsourcing help hospitals achieve improvements in their supply chain management? (6 marks)

c) What are some arguments either in favor of or against the view that health care offshoring to facilities like the one in the Cayman Islands is a threat to the U.S. health care industry? (6 marks)

d) Name any SIX types of contracts that Centers for Medicare & Medicaid Services can get into with the healthcare service providers in a bid to offer health coverage. (6 marks)

e) What are the ethical principles that CMS has to consider when outsourcing its services to India. (6 marks)

QUESTION TWO (20 MARKS)

a) There are various steps followed by organizations during the contract administration formation process. Describe the stages of contract formation (6 marks)

b) Contract administration requires various principles to ensure that the contracts are managed effectively. Discuss any FOUR principles to be taken into consideration during the contract formation process. (8 marks)

c) Name any THREE importance of having procurement categories in an organization. (6 marks)

QUESTION THREE (20 MARKS)

a) There are various benefits an organization can accrue from effective procurement contract management. Describe any FOUR benefits. (8 marks)

b) There are various procurement contracts that can be gotten into by procurement departments in the organization. Discuss any THREE (6 marks)

c) Identify THREE aspects to consider when conducting post contract implementation appraisal. (6 marks)

QUESTION FOUR (20 MARKS)

In order to ensure contracts are administered successfully, contract strategies have to be developed.

a) Describe any FOUR best practices to improve contract strategy in an organization (8 marks)

b) Analyze THREE types of contracting strategies in an organization (6 marks)

c) Highlight the various categories under each contracting strategy. (6 marks)

QUESTION FIVE(20 MARKS)

a) A contract dispute is a disagreement between two or more parties privy to a contract such as a buyer and a supplier. Discuss any FOUR types of contract disputes that contracting parties can get into. (8 marks)

b) Explain any THREE factors considered when applying conflict resolution strategies (6 marks)

c) Identify THREE emerging trends in contract management. (6 marks)