MANAGE LABOR COSTS TO CONTROL YOUR FINANCIAL FUTURE

If your operating expenses are rising more quickly than your revenues, you have plenty of company. Fifty-two percent of U.S. hospitals lost money on operations in 2016, said Toby Cosgrove, former chief executive officer of Cleveland Clinic, at a panel in Washington, D.C., in March 2017. More than half of operating expenses stem from labor costs, which is why thinking, planning and acting differently about labor management are critical to a financially sound future.

Organizations may be reluctant to delve too deeply into labor costs, though, because of the onerous prospect of layoffs. By delaying action, they may increase the risk that conditions will worsen, leaving them with fewer options. That's why it's especially important to view labor costs as an area that must be rigorously monitored, analyzed and adjusted.

Healthcare department managers, executive operations leaders and finance leaders should review external benchmark data twice per year. Then department managers should identify the causes of discrepancies to plan and carry out improvements.

Benchmarks Get You in the Ballpark

Benchmarks are just the starting point for comparing your labor costs with those of your peers. What you do with that information makes all the difference. That said, it's important to have a strong framework for benchmarking, along with representative data at the facility and department levels.

Begin by making sure your peer group corresponds to your organization. Common criteria are number of admissions, number of patient days, outpatient multiplier (total gross outpatient plus inpatient revenue/total gross inpatient revenue), case mix index (CMI) and specific hospital services such as an open heart program or an academic medical center. If your peer group is too limited, you may end up with only internal benchmarking, and if it's too broad, the goals may be too easily achieved.

Metrics should include the following:

- Worked hours per unit of service
- Labor cost per unit of service
- Total cost per unit of service
- Staff average rate per hour
- Overtime hours as a percent of worked hours
- Paid hours per CMI-adjusted discharge (facility level)

Given tightened reimbursement, a common goal for external nonclinical benchmarking is the 25th percentile — more aggressive if the department is already performing at that level. If departments are performing outside the percentile goal, managers should be coached. Your goals will need to become more aggressive over time because your competitors will usually be working to improve their productivity.

Acting on the Data

The discovery process — analyzing the data and related processes before developing an action plan — starts with understanding the work and thinking about how to change the process, whether it's how department staff do the work or how a manager makes staffing decisions.

The following questions can help.

- How does the department compare to peer departments?
- What's driving the difference in our performance compared with that of our peers?
- What does this information say about our staffing management/levels?
- What is inhibiting our performance?
- What can I as a manager do to improve the department's productivity?
- What actions would support becoming a leading-class department nationally?
- How can we use productivity goals to encourage continual improvement? (Annual productivity goals should not be the sole source for department goals.)
- How is technology affecting our productivity?
- What resources could help improve the department's productivity?

Possible problems include an inaccurately built staffing grid. Department managers may have said they needed X when they needed only Y, because they didn't assess needs from a bottom-up, activity-based perspective. In the data analysis, ask why the grid is inaccurate, what grid would be more appropriate and how to use a revised grid in making day-to-day decisions.

Another obstacle could be that staffing capacity was miscalculated or is too rigid. Managers should build in sufficient flexibility based on changing demand patterns and analysis of a historical period. Start with a year's worth of data to understand seasonality and where staffing levels are and are not being adjusted.

Department managers sometimes use a staffing model that doesn't account for volume changes from hour to hour, day to day or shift to shift. Are managers flexing their resources up when demand increases and vice versa? An effective balancing act requires short-interval management and staffing structures that enable the front-line management team to flex resources.

Managers should learn how to use shift-management tools, which offer a view into volumes, variations and changes in demand for predicting resource needs. They should also be held accountable for following through. Even though managers know they should send two people home on a given day, they may not do it because they believe staff need the hours or they're uncomfortable telling someone to go home. Coaching can help them execute those tough decisions.

Make sure that detailed data is timely. Productivity reports using data rolled up on a biweekly or monthly basis and received weeks after the fact make it difficult for managers to get useful feedback and learn better techniques. That, in turn, makes it difficult to hold them accountable. In addition, these reports are often aggregated to show average performance using daily snapshots (for example, midnight census, total case minutes), which don't reflect the varying activity throughout the day or account for the levels of over- and understaffing within the period.

Two departments can have the same average biweekly productivity performance, but one can meet it by being overstaffed by 10 percent for half the days and understaffed by 10 percent for half the days, while the other is always within 2 percent of target staffing. Their rolled-up reports show the same performance, but the latter department's performance is far superior (and safer) than the former department's performance.

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Finally, senior leadership may not treat labor management as a priority. If leaders aren't serious about setting staffing levels and requiring front-line managers to flex resources to meet demand patterns, chances are that resources will be misused and increase labor costs. The goal is the right resources at the right place at the right time, delivering the right level of care.

Identifying a target motivates people to migrate to it, as long as it was appropriately developed. Organizations can accelerate that momentum by thinking, planning and acting differently. Key actions are supporting ongoing analysis of benchmark data and processes, while providing training and coaching, and tools and technologies, and holding managers accountable.

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