

# 4 Steps to Healthcare Strategic Labor Improvement

## IDENTIFY LIMITS TO PRODUCTIVITY, IMPROVE PERFORMANCE

By **Delphine Mendez de Leon**, managing director, Huron Healthcare  
**Dwight Devlin**, senior director, Huron Healthcare

Labor productivity should be an essential area for a healthcare organization to focus on as it looks to contain costs while maintaining clinical excellence. In fact, total labor expense represents the largest portion of a hospital's operating costs — typically around 50 percent of operating costs and 90 percent of variable costs.<sup>1</sup>

The traditional approach to attain labor savings usually includes eliminating jobs and making across-the-board percentage cuts. Unfortunately, sweeping cuts in labor aren't effective and limit an organization's ability to comply with Affordable Care Act (ACA) directives, respond to changing market conditions, and deliver quality care. Across the board budget cuts impact the ability to provide appropriate direct patient care and cutting back on non-clinical staff overburdens clinicians and undermines the delivery of other patient services.<sup>2</sup> The end result is lower patient satisfaction and less than optimal clinical outcomes.

A better approach assesses labor management in key areas to identify

operational processes that inhibit productivity and implement the right tools, systems, and practices to improve performance. By multilaterally working through the four steps outlined here, organizations regardless of size or integration can systematically make improvements in labor costs.

### THE LABOR TRANSFORMATION PROJECT AT ADVENTIST HEALTH SYSTEM

Using the four-step approach, White Memorial Medical Center (WMMC) and Glendale Adventist Medical Center (GAMC) achieved \$13.2 million in sustainable labor savings in one year.

To adapt to a changing healthcare environment, the Adventist Health System developed a five-year strategy focused on achieving top quartile performance in labor productivity, non-labor expenses, quality, and length of stay. Each hospital was expected to achieve double-digit EBITDA (earnings before interest, taxes, depreciation, and amortization) by achieving Top Quartile Performance (TQP) goals. WMMC and GAMC partnered with Huron Healthcare to build a model and strategy for long-term, sustainable performance gains in labor productivity. It was understood that, in order to achieve this performance standardization throughout the system, Adventist would implement strategies to achieve TQP goals gradually over the five-year period.

#### At-A-Glance

- White Memorial Medical Center (WMMC) and Glendale Adventist Medical Center (GAMC)
- Two teaching hospitals in Los Angeles, CA with over 800 beds
- Part of the Adventist Health System, a 19-hospital system with sites in California, Oregon, Washington, and Hawaii
- Achieved \$13.2 million in sustainable labor savings in one year using the four-step approach

### Four Steps for Strategic Labor

#### 1 Assess

Discovery of all pertinent information, facts, and data in preparation for setting up the logistics of, and outlining requirements around, the engagement's scope

#### 2 Design

Planning a comprehensive timeline that includes critical milestones for completing the work

#### 3 Implement

Completing work steps identified in the design phase, managing stakeholders expectations via a communication plan, and correcting the course of the design

#### 4 Monitor

Ensuring that results as designed are achieved, and adjusting as necessary

### STEP 1 ASSESS CURRENT LABOR PRODUCTIVITY

To begin their labor management transformation, WMMC and GAMC worked with Huron Healthcare to conduct a comprehensive assessment of labor processes, procedures, and costs. The project team appointed a Labor Steering Committee to guide the effort and conducted executive, corporate, and departmental interviews; completed benchmarking studies; conducted staff-level process and workflow observations; and evaluated existing corporate and department structure, systems, vendors, tools, and reporting.

External benchmarking data, based on comparable organizational characteristics, can provide a directional starting point for

# STRATEGIC LABOR IMPROVEMENT

further assessment. While an organization may not have access to outside benchmark data, it is critical to create a unique point of reference by focusing on internal performance data.

WMMC and GAMC looked at specific factors such as:

- Twelve months of daily or even shift-by-shift internal historical performance by cost center
- Strategic and programmatic changes over three years
- Performance compared to similar outside organizations, if available
- Existence and use of daily management tools
- Departmental factors such as layout, equipment, and processes
- Capacity and volume variation
- Culture (discipline, accountability, decision-making authority)
- Other factors such as union contracts

The assessment process produced a scorecard of low-, moderate-, and high-ranked opportunities at department, hospital, and system levels.

## STEP 2 DESIGN APPROACH

The two hospitals used the assessment rankings to develop a comprehensive approach to labor management improvement. As a first step, they discussed questions such as:

- Should TQP be based on industry benchmarks? If so, what would success look like?
- Would goals be based on high-level indicators like FTEs per adjusted occupied bed (AOB) or FTEs per adjusted discharge?
- Would success be defined by each cost center getting to TQP?

The project team, collaborating with Huron, decided to define TQP goals at the cost center level using industry benchmarks as directional indicators. They also decided not to expect every department to reach TQP, but to seek incremental improvement year over year. They capped improvement at the department level at 10 percent in any given

year, and at 20 percent over a five-year period. This aligned with the system goal to achieve double-digit EBITDA.

Next, they used assessment factors and an algorithm to determine a reasonable percentage for improvement in Year One.

Executives were able to review their Initial Productivity Goals (IPGs) and reallocate, as long as they achieved the same benefit.

While each organization was working toward Year 1 goals, the project team provided them with Year 2 goals to use in the labor budgeting process. As with the first-year goals, executives could reallocate goals as long as they achieved the same financial benefit.

The project team then looked at five-year improvement goals. They determined that each year would require an evaluation of the department's previous year's performance and percentile ranking. Every department would be required to improve incrementally and in proportion to its gap to the top quartile performance.

## STEP 3 IMPLEMENT KEY SOLUTIONS

To achieve performance goals, the project team focused on the intra-facility first. In Years 2–5, they planned to broaden the initiative to include inter-facility/regional opportunities and, finally, system-wide improvement to be driven by:

### People Strategy

- Management development
- Span of control
- Culture of accountability
- Change management
- Vacancy review process

### Staffing Management

- Productivity targets and tools
- Internal and external benchmarking
- Volume forecasting/staffing to demand
- Daily staffing, scheduling practices, and tools
- Skill mix changes
- Cross-training
- Overtime and agency use

### Work Optimization

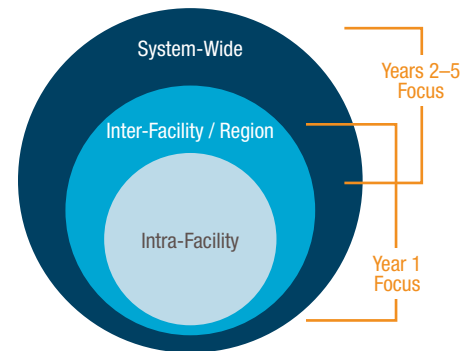
- Process redesign
- Reducing waste
- Shared services capabilities
- Scope of services

### Leveraging Technology

- Optimizing current technologies
- Introducing new technologies

### Implement: Identifying Opportunity

To Achieve TQP, Everything Needs to Be in Scope



### Department-Level Action Planning

At the department level, frontline managers were responsible for creating action plans and held accountable for productivity goals. For example, the team achieved \$350,000 in annualized savings in one radiology department alone through new processes such as:

- A new staffing schedule to match peak demand times
- Reducing core staffing hours across select modalities, changing full-time to part-time staff, and reducing overtime without replacement
- Matching shift-based staffing to demand
- New productivity tools to monitor daily performance
- Cross-training of technical staff

In a similar case, a labor team was able to improve IV Therapy cycle time by 74 percent.

In addition to improvements at the department level, the Labor Steering Committee oversaw implementation of foundational productivity improvement, including:

## Standardization

- Implemented standard staffing grids, schedules, and staffing tools to provide consistent guidelines to staffing management, flexing to demand

## Linking Productivity to Hiring Decisions

- Established a new Vacant Position Review Committee
- Used position requisition tools and strategies for greater rigor in hiring to ensure that productivity became a key factor in the approval process

This fundamental initiative, driven on a weekly or biweekly basis by senior executives, promoted sustainability and accelerated the change management process through data driven decision-making and by focusing on departmental leader accountability.

## Visibility

- Created biweekly productivity trackers so managers had insight into performance
- Individual department scorecards utilized the Productivity Index range to track trends and productivity over time along with specific indicators (e.g., overtime and agency use)

## Low Census Flex Policies

- Created primary approaches for equitable staffing-to-demand
- Created a threshold model for automatic flexing of exempt positions in fixed departments if global volume levels dropped below a set revenue or volume threshold
- Allowed the flexing of non-exempt “fixed” positions within variable departments

## Accountability

- Required managers not achieving productivity targets to develop action plans for achieving their goals for the Labor Steering Committee and report progress

## Sustainability

- Managers monitored action plans until they reached the IPG, at which point the IPG became the Fixed Productivity Goal (FPG)
- Used the FPG to develop the next fiscal year FTE requirements based on volume trends in a move toward flex budgeting

## STEP 4 MONITOR PROGRESS

Tracking progress is a critical and often overlooked aspect of making sustained improvements. The project team maintained action plans in a sustainable improvement plan tracker and monitored completion of action steps on a regular basis. In addition, the Functional/Department Dashboard measured progress, realization and select productivity, and quality indicators. The biweekly Productivity Tracker monitored cost center improvement relative to actual volume and progress toward goals.

Ongoing productivity monitoring reinforces accountability and supports sustainability. In the long run, consistent monitoring and reporting helps organizations shift from a culture of “justification” to a culture of “management action” and continuous performance improvement.

## ACCOMPLISHMENTS

Executive monitoring should include observing worked and paid hours per adjusted patient day, a primary indicator of sustainable change in productivity.

For WMMC and GAMC, Year 1’s labor improvement initiative produced **\$13.2 million in sustainable labor productivity savings**. Key accomplishments included:

- **Implementing tools and processes** for frontline managers to better align their labor resources with the work demand;
- **Increasing the span of control** to be better in line with industry standards;
- **Implementing select regional consolidation** and shared management opportunities;
- **Eliminating services** not aligned with the needs of the community; and
- **Reducing waste** and non-value added activities.

## KEY SUCCESS FACTORS

The WMMC and GAMC labor improvement initiative relied on several factors. First, project teams planned for stages of change.

The team also used an adaptable, working communication plan to support active, frequent communication among project

## Questions to Prioritize Improvement Projects

Assessing benefits, risks, and impacts

- What is the level of financial impact?
- Is the organization ready for the scope/depth of the changes required?
- What are the immediate impacts vs. long-term improvements?
- Will MDs support the proposed initiatives?
- What is the impact on Human Resources-related activities?
- Will the initiatives lead to improved patient quality or service?
- Will the benefits meet the operational and strategic goals of the organization?

leaders, stakeholders, and employees. They built a case for change by communicating about why the project was necessary, how employees would be supported to drive change, and what the initiative would mean for the health system in the future. They were careful to use messages tailored to each audience, and provide regular updates on project timing and milestones.

Finally, instead of setting one or two key targets, the initiative included both short- and long-term goals over a three- to five-year horizon, with a goal of 5-10 percent improvement each year. This kind of planning supports clearly defined, reasonable, and sustainable gains.

## CONCLUSION

For many organizations, access to outside performance benchmarks can be a challenge. However, instead of using outside data to achieve meaningful improvements, organizations can look at internal performance data over time to achieve similar goals.

And, instead of relying on across-the-board labor cuts, healthcare organizations can use this systematic, four-step approach to make meaningful decisions about reducing excess labor costs and managing ongoing labor expense.

## Key Learnings and Success Factors

- 1 ASSESS AND MONITOR RISK**
  - Recommend strategies to mitigate risks
  - Assess your organization's capacity throughout the program
- 2 MOBILIZE AND ALIGN LEADERS**
  - Create a guiding coalition of sponsors with a common vision
  - Build foundational agreements that lead to united action
  - Assist sponsors in knowing what they can do to support the program
- 3 ENGAGE AND COMMUNICATE WITH SPONSORS**
  - Develop clear, targeted, and timely messages
  - Build program awareness and understanding
  - Create avenues for involvement and feedback
- 4 PREPARE AND EQUIP THE WORKFORCE**
  - Identify impact on employee roles
  - Determine new competencies and behaviors
  - Equip managers with tools to orient employees
  - Design and deliver "just-in-time" training
- 5 ADDRESS ORGANIZATIONAL IMPLICATIONS**
  - Align performance management goals and rewards
  - Articulate new roles and responsibilities
  - Define accountabilities, interfaces, and interdependencies
  - Establish sustainable capabilities for your organization

### FOR MORE INFORMATION

To learn more about strategic labor improvement and the benefits of the four-step approach, contact the Huron Healthcare solutions team.

### ABOUT HURON HEALTHCARE

Huron Healthcare is the premier provider of performance improvement and clinical transformation solutions for hospitals and health systems. In 2015, Huron acquired Studer Group, the market leader in driving healthcare cultural transformation. The combination of Huron and Studer Group is focused on improving healthcare providers' clinical, operational, and financial outcomes. By partnering with clients, Huron delivers solutions that improve quality, increase revenue, reduce expenses, and enhance physician, patient, and employee satisfaction across the healthcare enterprise. Clients include leading national and regional integrated healthcare systems, academic medical centers, community hospitals, and physician practices. Modern Healthcare ranked Huron Healthcare fourth on its 2015 list of the largest healthcare management consulting firms. Learn more at [www.huronconsultinggroup.com/healthcare](http://www.huronconsultinggroup.com/healthcare) or follow us on Twitter: @Huron.

To see how Huron Healthcare solutions can empower your mission, contact us at 866-229-8700 or visit [huronconsultinggroup.com/healthcare](http://huronconsultinggroup.com/healthcare).

### REFERENCES

<sup>1</sup> Herman, Bob, "10 Statistics on Hospital Labor Costs as a Percentage of Operating Revenue," Becker's Hospital CFO, December 10, 2013. Available at: <http://www.beckershospitalreview.com/finance/10-statistics-on-hospital-labor-costs-as-a-percentage-of-operating-revenue.html>

<sup>2</sup> Healthcare Insights, "The Evidence is Clear: Analytics Key to Controlling Labor Costs," 2014. Available at: [http://www.hcillc.com/files/HCI%20Labor%20Prod%20whitepaper\\_Ri.pdf](http://www.hcillc.com/files/HCI%20Labor%20Prod%20whitepaper_Ri.pdf).

### CONTACT

To learn more about Huron Healthcare's solutions, please contact:



**Delphine Mendez de Leon, R.N., MBA, MPH**, managing director, Huron Consulting Group  
646-277-8855  
[dmendezdeleon@huronconsultinggroup.com](mailto:dmendezdeleon@huronconsultinggroup.com)



**Dwight Devlin**, senior director, Huron Consulting Group  
943-310-0060  
[ddevlin@huronconsultinggroup.com](mailto:ddevlin@huronconsultinggroup.com)