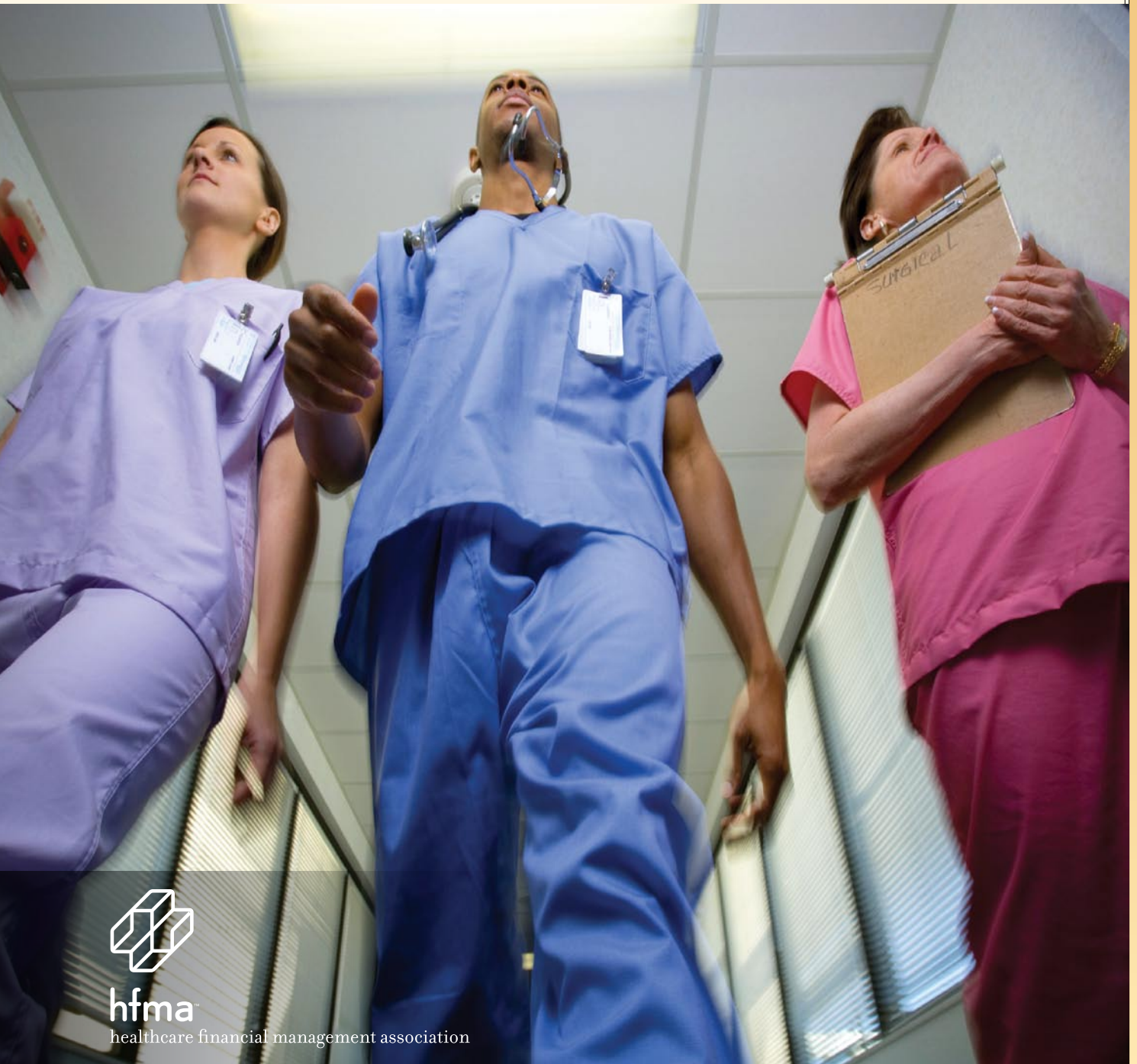


# Securing Revenue with Improved Labor Use



**hfma**  
healthcare financial management association

Total and inpatient margins are declining. And a cascade of financial pressures continues to threaten hospital revenue:

- As the economy continues to trend downward, financial support from Federal and state governments is eroding, adding to the billions of dollars in payment shortfalls hospitals are absorbing.<sup>1</sup>
- Rising unemployment levels are increasing the ranks of the uninsured and the burden of uncompensated care on hospitals.<sup>2</sup>
- Those who remain employed are watching their dollars tightly and delaying hospital treatment or elective medical procedures, a major revenue stream for hospitals.<sup>3</sup>

Hospitals consequently are tightening their belts, and they are looking principally at the largest segment of their costs: labor.

In response to the economic downturn, 53 percent of 736 hospitals surveyed by the American Hospital Association at the end of 2008 were considering reducing staff.<sup>4</sup>

Yet staffing cuts in hospitals aren't always the right option. Many hospitals don't have much fat on their staffs in the first place. Hospitals also have to preserve the standard of care and ensure that they have the right employees taking care of patients to produce positive outcomes and drive income from emerging quality-driven payment systems.

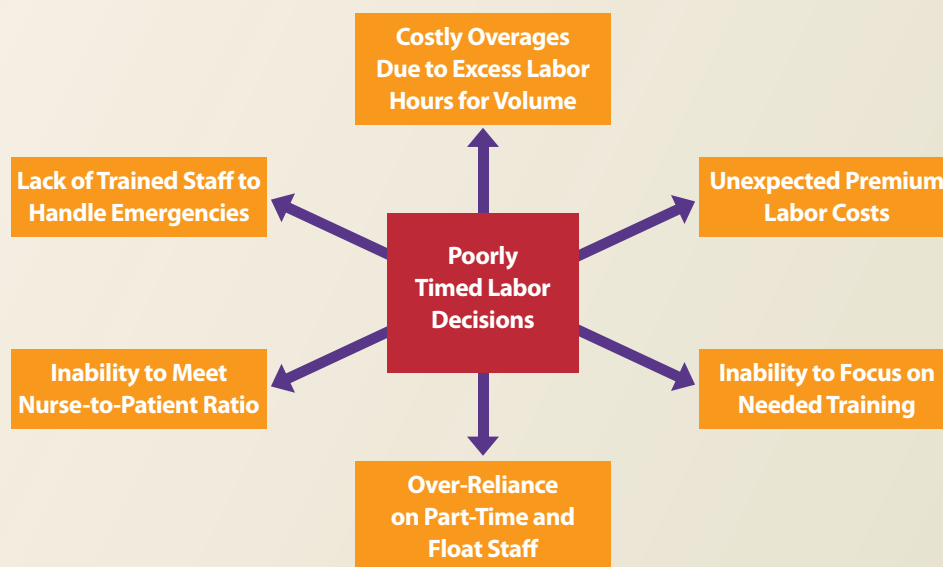
For many organizations, the better answer to managing costs is adopting an improved approach to labor management.

As the following examples show, existing processes at hospitals are often resulting in poorly timed decisions that fail to cost-effectively make use of resources:

- Workload volumes used to manage an inpatient nursing unit tend to be based on a flat annual average, failing to address daily needs or fluctuations.
- Managers often haven't received data quickly enough to respond to changes in patient volumes.
- Skill mix and pay type or job category have not been balanced, so managers cannot easily make the most appropriate choice based on salary, overtime, agency, and seniority or determine how well they are meeting budget targets.

To position their organizations to optimize labor resources, hospital leaders must develop a better understanding of labor cost management and sources of labor variance. In addition, processes should be in place to foster communication and collaboration around productivity measures, make use of data-gathering tools and analytics, and support accountability.

## Effects of Poorly Timed Labor Management Decisions



## The Labor Management Process

Management of labor costs may seem relatively clear-cut at first glance because decisions are grounded in historical performance and on familiar forms of measurement. In daily practice, however, the function often is hampered by problems in determining and reporting labor statistics.

The customary full-time equivalent (FTE) statistic, when correlated with a workload indicator, for example, would seem to be a straightforward and universal indicator of a healthcare organization's management of labor, because it normalizes labor and can be used to compare organizations. But FTE ratios are affected by the diversity of the inputs used to create them. Some hospitals include specialized staff in the calculation of FTE per occupied bed. Teaching facilities include resident physicians' time, and pediatric facilities factor in additional nurses' aides and laboratory and radiology personnel, notes Donna L. Gellatly, FHFMA, CPA, MBA, professor emeritus of the health administration program at Governors State University, University Park, Ill.

For-profit organizations are considered to be "lean and mean" organizations that keep employee levels at a minimum to hold the reins on the bottom line. Other facilities have large cohorts of volunteer personnel that free up paid staff from administrative tasks in the reception area, parking lot, or hospital floors, Gellatly adds.

It is often difficult, therefore, for hospitals to know whether their internal FTE statistics are bad or good, or whether they are meaningful in comparing performance with that of other facilities to identify opportunities for improvement.

Productivity, or the average time needed to perform a unit of work, itself is problematic. Productivity reflects time and workload volume, but not cost. It does not consider the skill level of the person who is doing the work, nor whether the

person is a full-time salaried employee working during regular hours, a member of the part-time staff, a salaried employee working overtime, a contract/agency person, or other person representing some other potential skill or pay type.

Productivity reporting also is often focused on nursing units, even though many healthcare services are delivered by other types of professionals. So the most common productivity metric—hours per patient day—may work for inpatient nursing units but not for the laboratory, business office, or housekeeping.

## The Importance of Labor Variance Reporting

Hospitals can reduce labor costs significantly by identifying where there are variances in efficiency and productivity (i.e., where they are paying too much because of an increased amount of labor). On the other side of the equation, hospitals can identify variances in wages or prices (i.e., where they are paying too much for the labor used).

A key factor in managing labor efficiency is matching the appropriate amount of labor to the workload demand on a daily or shift-to-shift basis. Labor costs get out of control if there is too much or too little labor for the workload demand. Too much labor may lead to cost overruns, especially if the excess labor includes high-cost supplemental labor hours; too little labor leads to risks in patient safety, staff satisfaction, and potentially the overall quality of care provided—all undesirable events.

Productivity measures help departments adjust labor to fluctuations in patient volume. For inpatient nursing areas, productivity can be assessed in terms of hours per patient day. But in other areas, productivity may depend on the hours per procedure (laboratory or radiology), hours per patient visit (emergency department or outpatient center), hours per meal served (food service), or hours per admission (patient accounting or registration).

Decision points determine the frequency of evaluating available labor, as required by workload volume and reacting to adjust labor to volume. On a moment-to-moment, hourly, shift-based, daily, weekly, or biweekly basis, staffing levels need to rise or fall with the immediate expected workload. On a monthly or quarterly basis, staffing needs to link patient demand forecasts with projected work schedules.

### 7 Ways to Improve Labor Use

- Match labor to volume fluctuations
- Manage use of premium labor
- Consider skill mix
- Develop process efficiencies
- Reduce nonproductive time
- Ensure frontline staff have ownership/stewardship skills
- Build accountability with meaningful benchmarks

Baptist Healthcare System, Louisville, Ky., manages labor with pay-period reporting that compares actual against budgeted volumes to arrive at the percentage of volume variance. The health system then tallies actual versus flexed productivity and FTEs and determines how they match up against productivity targets. To enhance identification of the most likely causes of a variance, labor hours are reported in detailed fashion, such as planned time off, sick time, education, and orientation time. Reports are created to show trends in labor hour distribution over time and allow departments to determine whether labor variances are trends or temporary spikes or blips, where they are coming from (e.g., pay type issues or skill-mix issues), and how performance compares from period to period.

Skill mix and pay type are equally important factors. When Prairie Lakes Healthcare System in northeastern South Dakota reduced its productivity standard by more than 2.7 hours per patient day, the hospital's CNO, Jill Fuller, PhD, RN, had two choices: She could have nursing do more with less, a classic method of productivity management. Or she could do less

with less. She and her frontline staff decided to change the way they worked and streamline processes so doing less with less would do a better job of utilizing staff skills.

In addition to direct patient care requirements, or nurse/patient ratios, Fuller and her staff looked at how managers and support positions, such as charge nurses who do not take patient assignments and nursing assistants, were being utilized in the standard for productive paid hours, and then shifted staff out of positions that misused skill mix or pay type or added unnecessary paid hours per patient day. The charge nurse role was eliminated and bedside nurses assumed leadership functions, rounded with physicians, and managed patient care orders. Policies and procedures that did not add value to operations but consumed the time of higher paid staff, such as burdensome paperwork and duplicative committee work, were eliminated to reduce productive hours of labor out of management overhead.

## Communication and Collaboration

While the labor management process begins with previous data, current statistics, and strategic goals, actual improvement relies on collaboration, cooperation, and consensus among clinical and financial leaders.

"You have to communicate the need, the purpose," says Carl Herde, CFO of Kentucky's Baptist Healthcare System. "If you are going to be more cost-efficient, you have to explain why and what the outcome will be. Is the purpose to avoid future layoffs, produce a sound bottom line, meet the fiduciary responsibility to the community to provide cost-efficient care, or maintain creditworthiness? Whatever the rallying call is, it should be communicated throughout the organization. People want to do a good job and want to be known as doing a good job and as good managers. So delineating expectations is important."

A corollary is camaraderie, Herde adds. Improving labor management requires hospitalwide or healthcare system-wide goals. The work done in one department, after all, affects what is done in another.

"The idea is to ask: Are there things we can do better at point A or point C or point D in the healthcare process? Can we find more efficiency in the use of energy and resources? What makes the most sense for the hospital, no matter which department is involved? You need to get folks working together to find that out," he says.

## Establishing a Culture of Accountability

Frontline managers have not always been empowered to meet productivity and labor cost targets. Managers also sometimes view productivity and labor cost goals as arbitrary or unreachable or both. To promote accountability for labor costs, healthcare organizations need to:

- Bring clinical and financial leaders together to collaborate with one another and reach consensus on a labor cost management approach
- Adopt relevant, department-specific and understandable indicators of performance and thresholds
- Provide automated tools that not only collect data but also allow users to input data into the system quickly and easily
- Produce information that can be sorted and searched by common causes or corrective actions
- Allow input when decisions contradict guidance or preset plans so managers can track actions and promote and enforce accountability
- Reinforce an environment of accountability, not an after-the-fact punitive atmosphere

Source: Adapted from *Beyond Productivity. A New Approach to Controlling Healthcare Labor Costs*, Kronos, Inc.

## Bottom-Line Benefits of Improved Labor Management

How important is improved labor management to an organization's bottom line? Consider just a few examples.

**All Children's Hospital**, St. Petersburg, Fla., began using a labor management system that consolidated volume-adjusted productivity reports throughout the organization and aided in analysis of workload volume and hours. In nine months, managers were able to use the data to reduce labor expense growth per adjusted patient day by 66 percent.<sup>5</sup>

**OSF Saint Francis Medical Center**, a 710-bed tertiary care referral center and teaching hospital in Peoria, Ill., and flagship of the Order of Saint Francis Healthcare System, electronically tracks nurse staffing levels every four hours in order to optimize patient placement and maintain an average nurse/patient ratio of 1:5 on its medical/surgical units. In the process, the medical center has saved \$1.2 million.

**Baptist Healthcare System**, Louisville, Ky., uses benchmarks to make operational decisions that balance staffing against available resources across its five hospitals. The hospitals have a total of 1,656 licensed beds and manage 74,000 admissions a year, generate \$1.3 billion in net revenue, and maintain a 2 percent operating margin and 200+ days cash on hand. Over the course of eight years, Baptist achieved steady gains in productivity compared with the upper quartile of a national benchmark, and its improved labor management produced a cumulative gain of more than \$50 million.

**Prairie Lakes Healthcare System**, Watertown, S.D., has been able to meet a streamlined productivity standard for its 52-bed medical/surgical unit by eliminating wasteful policies and procedures and unnecessary work. In the process, the organization improved employee satisfaction and morale. After improving the productivity goal from 10.2 to 7.5 hours per patient day for nursing, clerical, and management tasks, Prairie Lakes has not only cut labor expenses, but also nearly doubled job satisfaction scores. Employee satisfaction was only 46 percent when the process began but reached 83 percent at its end.

**Saint Thomas Hospital** of Nashville, Tenn., relies on biweekly reporting of nursing labor utilization such as hours per patient day and bedside orientation. Breakouts of overtime, agency, and traveler expenditures are available, so nurse managers can allocate resources and make decisions that allow them to stay within labor budgets. Using this reporting tool, Saint Thomas reduced nursing bedside orientation hours per equivalent patient day from 0.57 hours in 2003 to 0.23 hours in 2007, resulting in an estimated savings of \$2.7 million.<sup>6</sup>

**Unity Health System**, Rochester, N.Y., is able to share staff across all acute care medical/surgical units and keep unfilled gaps low—less than 1 percent at times. Its online scheduling system helps it maintain below-budget labor costs and allows employees to do self-scheduling by following a standardized framework for staffing.

At Prairie Lakes Healthcare System, management needed to gain buy-in and support from frontline staff when it set a new productivity standard. As Fuller notes, those at the frontline often know where problems lie and are willing to challenge tradition to find more efficient ways to get the work done.

"Frontline teams asked why they couldn't have medications at the bedside," she cites as an example. "Our job as leaders was to negotiate with pharmacy and make a capital proposal that would put in specially designed cabinetry so it could be accessed inside the patient's room or from the hallway. Pharmacy techs now fill the cabinet with the patient's scheduled medications so the nurses don't have to go hunting and gathering medications from the dispensing area down the hall. That makes staff more productive and efficient."

### ■ Tools and Analytics

Managers need real-time, enterprisewide decision support tools and resources so they can work with finance to establish realistic and appropriate budgets, productivity targets, benchmarks, thresholds, and protocols. In addition, timely access to information helps hospitals understand and resolve operational issues that interfere with efficient labor management as well as report on progress being made toward improvement. Basic data-collection tools, such as timekeeping, provide mines of information that organizations can examine to improve productivity and resource use.

Online scheduling systems can be particularly useful for managers looking to find and fill vacancies quickly without

straining the budget with overtime and contract or agency staff. Such technology can help the organization ensure adequate skill mix to meet patient volume and demand, improve short- and long-term planning and budgeting, identify and respond to trends that undermine efficiency, and save labor costs by reducing overtime and time spent in scheduling. One hospital emergency department saved \$48,000 in overtime after integrating online scheduling with the hospital's time and attendance system. If one were to assume an online scheduling system could cut at least six hours per pay period for 50 nurse managers who earn \$47 per hour, then after 13 pay periods it would result in savings of more than \$180,000.<sup>7</sup>

Position control forms also can assist with improving labor decisions, says Candace Smith, MPA, RN, vice-president of nursing/patient care services at New York's Unity Health System. Such tools can bring staffing in line with budgets for overall staff as well as budgets for technical, clerical, and management functions by job code so managers can identify the skill mix that is needed for each shift, control vacancy rates, and breakdown budget items by job category, from the director level to technical and clerical support.

Of course, improving availability of data is only a starting point. Analytics are what drive managers to make better decisions faster because they transform workforce information into business intelligence.

Adopting a benchmark wholesale, for example, does not lead to process improvement because it fails to account for differences in staffing level, patient population, or service mix from one department or facility to another.

"Having a few FTEs over a benchmark doesn't necessarily mean anything," says Herde. "You have to understand the benchmark. For example, does it include contract coders

who are working from home? You also have to understand the facilities against which you are comparing performance. Are they doing a lot of open heart surgery or orthopedics, which means they will have a different supply cost expense structure? Is your hospital performing operational processes differently than others, such as handling denials in registration rather than the billing office? You have to look at such factors that may cause a given department to fail to meet the benchmark."

## Accountability

Labor management improves only if managers are accountable for their staffing levels and costs. In many ways, day-to-day accountability can be supported by integrating productivity performance into operations processes and decision making.

In St. Petersburg, Fla., All Children's Hospital has integrated productivity targets into routine labor management processes, such as hiring FTEs or developing budgets. For example, managers requesting FTEs must demonstrate need based on designated productivity threshold.

In addition, a desktop management tool helps managers make decisions about their departments on a daily and weekly basis. Labor budgets are tracked against workload by hours, skill mix, and cost. Using the tool, senior-level management is able to not only better understand sources of variance but also track progress of planned changes against subsequent variance trends.<sup>8</sup>

Of course, formal processes also should be in place to support accountability. Some hospitals have rules that call for correction or an action plan if hours or salary standards miss productivity goals by 1 percent in the previous quarter, or they may require staff to make up below-standard performance in the next quarter.<sup>9</sup>

### Integrating Labor Productivity into Operations Management

Description	Users	Functions	Benefits
<b>Daily staff assessment and future staff planning</b>	Administrative nursing supervisor	→ Monitors labor resource allocation → Initiates changes for future staffing needs	→ Enables hospital to adjust daily staffing needs on a timely basis → Provides appropriate staffing while meeting productivity targets
<b>Variance explanations and action plans</b>	Operations senior management	→ Documents variances from target every pay period → Communicates explanations of variances, along with action plans, to middle and senior management	→ Helps achieve accountability by tracking progress of planned changes against subsequent variance trends

Source: Kronos Inc. Adapted by HFMA from "Strategies for Managing Workforce Productivity—and Costs," *Healthcare Cost Containment*, HFMA, August 2008.

## OUR SPONSOR SPEAKS

## Going Beyond Labor Hours

**Susan M. Reese, RN, BSN, MBA, senior industry consultant, healthcare, at Kronos, Inc., responds to one hospital's concerns about labor costs by underscoring the importance of using comprehensive labor cost data.**

**Q** Our departments continually meet their budgeted labor hour productivity targets, yet labor costs are almost always out of line. Closer reviews confirm that actual labor hours per unit of service—direct and indirect hours—are being tracked accurately. Why might these persistent discrepancies be happening?

**A** Managing labor hours alone is not enough. It's a common mistake to assume that if hours are in line with expectations, then the dollars will follow.

Hospitals also need to be able to track types of labor hours used, such as overtime or agency hours, because they will impact costs differently. In addition,

it is important to recognize that variances can occur for different reasons. A variance of *rate* is the difference between the target/planned hourly salary rate and the actual hourly salary rate. It is a measure of whether you are paying too much for the labor used. Also possible is a variance of *efficiency*, the difference between the target/planned total paid hours and the actual total paid hours. An *efficiency* variance indicates the wrong amount of labor is being used.

Looking at efficiency and rate at the skill level—the number of paid hours and expense by each work group—can help uncover the underlying cause of a labor management issue.

Source: Kronos, Inc.

Prairie Lakes Healthcare System publishes productivity reports every two weeks that include payroll data for every cost center and department. All directors receive the reports electronically, says Fuller, noting that such distribution provides a bit of peer pressure to improve performance: "It's easy to look at them and think, 'Why are you hitting your standard, if I'm not hitting mine?'"

At All Children's Hospital, select department managers present their labor productivity results at resource utilization review meetings each month. In addition to analyzing results and explaining variances during these monthly meetings, presenters share insights and brainstorm ideas with their colleagues for addressing problem areas.<sup>10</sup>

Similarly, at Baptist Healthcare, if a department is not meeting a targeted upper quartile benchmark, its manager needs to go to peers and discuss why.

"A department may never be able to meet a particular benchmark for a variety of reasons," says Herde. "If so, managers need to explain what they do differently. They also need to work with peers to address any challenges noted because it takes a team approach. Most managers are so busy on a day-to-day basis, it's hard for them to step

back and see what they can do to improve efficiency. There is team consensus that decisions have to be made by a group to create cross-accountability."

### ■ Benchmarking

Using data to compare performance with that of others outside the organization also can be useful for improved labor use. Benchmarking productivity brings a third-party objective view to hospital outcomes.



hfma™

April 2009  
HFMA Educational Report  
Copyright 2009  
Healthcare Financial  
Management Association  
All rights reserved.

For reprints contact  
1-800-252-HFMA, ext. 2.

This published piece is provided solely for informational purposes. HFMA does not endorse the published material or warrant or guarantee its accuracy. The statements and opinions by participants are those of the participants and not those of HFMA. References to commercial manufacturers, vendors, products, or services that may appear do not constitute endorsements by HFMA.

"It's difficult when you are focused internally to see how services are provided," says Herde. "If someone has a better mousetrap out there, you need to be able to see it and have the confidence to make a change."

When Baptist Healthcare System first became involved in benchmarking, data capture was manual, reviews were done with data that were five months old, follow up and results were inconsistent, and the process resulted in layoffs. Benchmarking evolved over the next 15 years to become a hospitalwide process that uses benchmark data in day-to-day decisions. Confidence in using the data has grown to the point that benchmarks are used in budgeting, performance evaluations, shared success programs, and when reviewing or replacing positions.

Baptist now benchmarks its performance against hospitals that provide similar types of services and volumes and are in the upper quartile of a national benchmark. The organization identifies the departments that consistently exceed performance targets, and plans to gradually come in line with benchmarks by cutting excess FTEs through attrition and by improving the work process.

In addition, the healthcare system also maintains detailed flex budgets to adjust to changes in volume. Herde explains that in the early days of benchmarking, budgets were fixed so "x" number of salaries were set for the month based on budgeted volumes. But volumes were higher or lower than projections. So departments might be beating their budgets from a salary cost perspective because their volumes were down, not because they were meeting productivity benchmarks.

Now that Baptist incorporates benchmarking into budgets and flexes budgets, managers can manage labor based on volume.



hfma™

### About HFMA Educational Reports

HFMA is the nation's leading membership organization for more than 35,000 healthcare financial management professionals employed by hospitals, integrated delivery systems, and other organizations. HFMA's purpose is to define, realize, and advance the financial management of health care. HFMA educational reports are funded through sponsorships with leading solution providers. For more information, call 1-800-252-HFMA, ext. 330.

"Our desire is to be very cost-effective, without having to go through massive layoffs," Herde said. "If we are diligent with managing labor costs daily, weekly, and monthly, hopefully we will be able to avoid waking up one morning and saying, 'Oh my gosh, we have to cut 20 percent of our staff because we're not being productive.'"

### Endnotes

- <sup>1</sup> *AHA Annual Survey, 1997-2007*, American Hospital Association.
- <sup>2</sup> Bureau of Labor Statistics, U.S. Department of Labor, 2008; *The Economic Crisis: Impact on Hospitals*, American Hospital Association, November 2008.
- <sup>3</sup> *The Economic Crisis: Impact on Hospitals*, American Hospital Association, November 2008.
- <sup>4</sup> *The Economic Crisis: Impact on Hospitals*, American Hospital Association, November 2008.
- <sup>5</sup> Connors, G., Graves, B., "Strategies for Managing Workforce Productivity—and Costs," *Healthcare Cost Containment*, August 2008.
- <sup>6</sup> Willoughby, S., Graves, B., "Balancing Clinical Care and Finance to Improve the Bottom Line," web exclusive, *hfm*, April 2008.
- <sup>7</sup> Dominick K., "Online Nurse Scheduling and Staffing," *The Business of Caring*, April 2007.
- <sup>8</sup> Connors, G., Graves, B., "Strategies for Managing Workforce Productivity—and Costs," *Healthcare Cost Containment*, August 2008.
- <sup>9</sup> "Productivity Measures in Need of an Image Overhaul," *The Business of Caring*, July-Aug 2008.
- <sup>10</sup> Connors, G., Graves, B., "Strategies for Managing Workforce Productivity—and Costs," *Healthcare Cost Containment*, August 2008.



KRONOS®

for Healthcare

Kronos helps organizations manage their most valuable strategic asset—their workforce. How? By giving them the tools they need to help them control labor costs. Minimize compliance risk. And improve workforce productivity. Our easy-to-own workforce management solutions make complete automation and high-quality information a reality.

Kronos time and attendance, scheduling, absence management, HR and payroll, hiring, and labor analytics solutions give our customers the edge they need to compete in the global marketplace. With thousands of installations in organizations of all sizes—including over half the Fortune 1000®—we're proving workforce management doesn't have to be so hard.