

managing the margin

...strategies for generating new revenue and controlling costs

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Using Productivity Data to Control Labor Costs

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A common complaint among hospital managers is that they do not have the information necessary to effectively monitor and report their performance in managing variable costs—most specifically, labor costs. Yet in most hospitals, this simply is not the case. Managers have more than enough data. The problem is that many managers do not know what to do with the data they have. Therefore, the hospital's significant investment in information systems goes to waste, as managers are unable to identify and respond to issues in a timely manner.

Executives must create an environment in which both the data and their use are understood and properly valued. Four steps can aid this process:

- Assist management with collecting and analyzing the data
- Develop tools that provide reliable, up-to-date information
- Teach clinical operations teams to manage data related to direct care
- Hold managers accountable for evidence-based performance

Data Management

The first step in the process, assisting with data, can be supported by a productivity/financial analyst position. The analyst has two main job functions: recording data trends (tracking, organizing, and monitoring data) and teaching managers how to work with the data. When managers have access to support from an analyst, they are much more likely to base decisions on quantitative data. However, the analyst position should not be allowed to shift accountability away from the manager. Managers must understand that the analyst plays a consultative role, but the manager bears ultimate responsibility for the department's performance.

Tools

The second step of the process is to develop tools that present reliable and timely data. The management team should have at least the following tools at its disposal:

Biweekly productivity reports. These summary reports are critical for evaluating current productivity

and for identifying areas that need improvement. Productivity reports should measure the actual patient care volume and staff paid in a given period of time against an industry standard or budgeted target. Actual staffing and targeted full-time equivalents should be identified for productive, nonproductive, and overall staffing requirements at the actual volume levels.

Daily staffing grids that link to budgets. Most departments have staffing grids, but often these grids do not link directly to budgets, which creates dual standards and often leaves both the finance and operations teams frustrated. A staffing grid that ties to the budget is more likely to be monitored and used.

Monitoring tools. Many managers need to be constantly reminded to re-evaluate how they are staffing *at that very moment* and to adjust accordingly. Done once or twice per shift, a brief report that shows simply the current average daily census (ADC), what the prescribed staffing is at this ADC, what the actual staffing is, and any notes

about why there is a variance can help focus managers' attention on reducing expense. (This approach is not recommended for managers who are already managing staff levels well, as it does create additional work.)

These tools will assist managers in monitoring department productivity data. However, it is not the amount of data that matters, but rather what managers do with the data. Clinical operations teams must learn to use data to manage care delivery.

Clinical Support

A major weakness for many clinical operations is the ineffective management of care hours. Too often, an operation's human resources are not aligned with its other resources, and the idea of restructuring personnel for maximum advantage is seen as a low priority. Because the issues involved with managing direct care (staffing patterns and trends, workload distribution, skill-mix management, and daily scheduling) appear daunting, the task is often neglected. The result is not only higher expenses, but

also an exacerbation of the nursing shortage.

Organizations should follow several ground rules to manage care delivery:

Use trends and tools to match personnel with needs. For many clinical operations, scheduling and staffing patterns have not kept pace with trends on healthcare use or with new technology. Ignoring the impact that use and new technology have on staffing patterns will result in higher labor costs and dissatisfied patients.

Consider redistributing workload instead of staff. Each clinical manager should know his or her workload distribution and be able to anticipate future changes. This function can be achieved by periodically measuring all activities of the operation by day of the week and by hour. At one hospital, workload for the dayshift peaked during the first four hours and then

sharply declined in the following four hours. To achieve optimal productivity, it appeared that this unit would have to double its staff for the first four hours and let half go by 11 a.m. There is a more effective approach, however:

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redistribute the workload, thereby balancing the staffing requirements over the eight-hour shift.

Put experience back into skill-mix management. Another key factor in improving direct care management is staffing according to skill mix. Skill mix has two components: licensure and years of experience.

Depending on the intensity of the service provided,

staffing the appropriate number of licensed personnel is not nearly as critical as staffing according to the years of experience of each individual. Unfortunately, in nursing, schedules are sometimes developed in which there is

more weight given to the number of people on staff than to the experience level. This arrangement can result in a unit that is fully staffed, yet does not run smoothly.

Maintain a proper mix of full-time, part-time, and per diem workers.

Managers often are more reluctant to send home full-time employees than part-time employees. But managers have difficulty keeping the number of full-time employees low enough so they are the least affected by volume changes, yet high enough to maintain consistency and quality.

Generally, it is best to start with a ratio of 80 percent full-time workers and 10 percent each of part-time and per diem workers (assuming the per diem staff are already employed inhouse), and then adjust to fit the organization's particular circumstance.

Accountability

The final step in the process of managing productivity is to hold managers account-

able for performance based on data.

Some organizations tie a portion of compensation to productivity targets. Even when an organization does not want to provide compensation as an incentive for productivity, the ability to manage productivity should be a criterion during managers' performance reviews.

Ideally, an organization's productivity management needs to be based on accurate and timely data, while allowing for flexibility. The data can be used to identify issues as they arise, but managers must be given the latitude to make changes that will address these issues.

When used appropriately, the combination of accurate data, direct care management, and accountability will allow organizations to effectively manage productivity and, in turn, enhance the bottom line. ■

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To request a copy of Phase 2 Consulting's white paper, "Ten Components of Successful Clinical Performance Improvement" or comment on this article, contact R. Brent Hardaway at rbhardaway@phase2consulting.com.

Productivity in the OR

On-time starts and turnover time can significantly affect operating room (OR) revenue.

One study by the Washington, D.C.-based Advisory Board Company found that on average, 27 percent of OR procedures had on-time starts, whereas "best-in-class" hospitals' on-time starts averaged about 76 percent of all procedures. Streamlining work processes enough to schedule just one additional case daily could potentially result in as much

as \$1.8 million in additional revenue.

For tips on streamlining workflow as well as improving resource standardization and utilization and integrating information and decision-making in the OR, see "Profit Opportunities Still Exist. . . In the Operating Room," a cost-management resource available through McKesson Information Systems and HFMA at www.hfma.org/FeaturedTopic/profit.pdf.