
Beyond Productivity:

A New Approach to Controlling Healthcare Labor Costs

Healthcare organizations strive to provide excellent care while struggling to keep costs in line with expectations. More often than not, organizations meet their general productivity goals but labor expenses exceed — and confound — expectations. Meanwhile, frontline managers insist they're doing the best job possible in light of constantly-changing workloads, fluctuating patient needs and a variable workforce. How can healthcare organizations achieve and maintain a patient-focused organization and a desirable work environment, given that cost control and accountability across the enterprise are also imperative? Is there a better way to manage workforce productivity?

Typical approaches to workforce productivity in healthcare organizations provide the “what” — the historical context of what happened. However, the “why” that analysis brings — insight into why results occurred and why they did or did not meet expectations — is often missing. Typical approaches to workforce productivity also fail to provide guidance about what should be done next based on historical results and pre-established expectations. These approaches simply track results — for example, payroll costs were \$400,000 this pay period, or productivity was off by 2.5 percent. This basic productivity information comes too late and lacks the depth and context to make it actionable — in other words, insight that would empower managers to make decisions and take actions to control costs based on the information.

A new approach — guided analytics — that goes beyond basic productivity tracking can bring costs under control and empower managers to be accountable for meeting the organization's labor cost management goals. This white paper compares and contrasts typical productivity measurement approaches to labor cost management using the new guided analytics approach.

Guided Analytics: Why Productivity Management Is Not Enough

Many companies face a hard truth. They don't know their workforce. A recent study by Mercer Human Consider these real world examples of results achieved by healthcare organizations that have adopted a guided analytics approach:

- A large, faith-based system serving communities in 11 states with a \$1.6 billion salary budget and 50,000 FTEs recognized that its proliferation of approaches and technical solutions to labor cost management needed a major overhaul. The organization saved \$34 million in a single year after adopting a guided analytics approach.
- A children's hospital cut labor expense growth by two-thirds, lowered the ratio of labor expense to net revenue by 1.5 percent, and reduced FTEs per adjusted occupied bed by 1.4 percent within nine months of implementing a guided analytics approach to labor cost management. These results were achieved even as patient days and acuity of care were increasing.

Labor costs are the single largest expense in healthcare organizations today, often representing 45 percent or more of net patient revenue. All healthcare organizations seek to deliver high-quality care. Productivity measurement is a typical approach for aligning the amount of labor needed with the volume and acuity of the patient population. For example, nursing productivity has long been measured in terms hours per patient day, often adjusted for acuity.

Cost and productivity are misaligned, however, because all labor inputs are not alike. A familiar example is the wide variation in the cost of a nursing hour, depending on the nurse's skill level and the labor pool from which the nurse is drawn. Two nursing units with equal productivity can experience dramatic differences in labor costs if one optimizes skill mix and labor source and the other does not. A unit can be 100 percent productive — representing a perfect alignment of labor to volume — while simultaneously missing budget cost targets by a significant margin. Consider a unit that addresses staffing shortages primarily through extra overtime and extensive use of agencies, compared with a unit that leverages the use of extra part-time staff. The latter approach is clearly more consistent with sound fiscal management and control.

Nevertheless, many healthcare organizations attempt to manage labor costs with typical approaches that are only capable of generating basic productivity data. These approaches can't differentiate labor by skill mix or labor source. Furthermore, reports that are usually generated biweekly or weekly at best aren't timely enough to guide everyday staffing decisions. What can a nurse manager do on Friday about a problem rooted in Monday's staffing decision? So frontline managers are frustrated and senior executives are disappointed when key goals — including productivity, cost and profitability — are repeatedly missed and labor cost control remains elusive.

Limitations of Typical Approaches

Despite significant investments in system development, typical approaches to cost control often shortchange the cost management process in several ways:

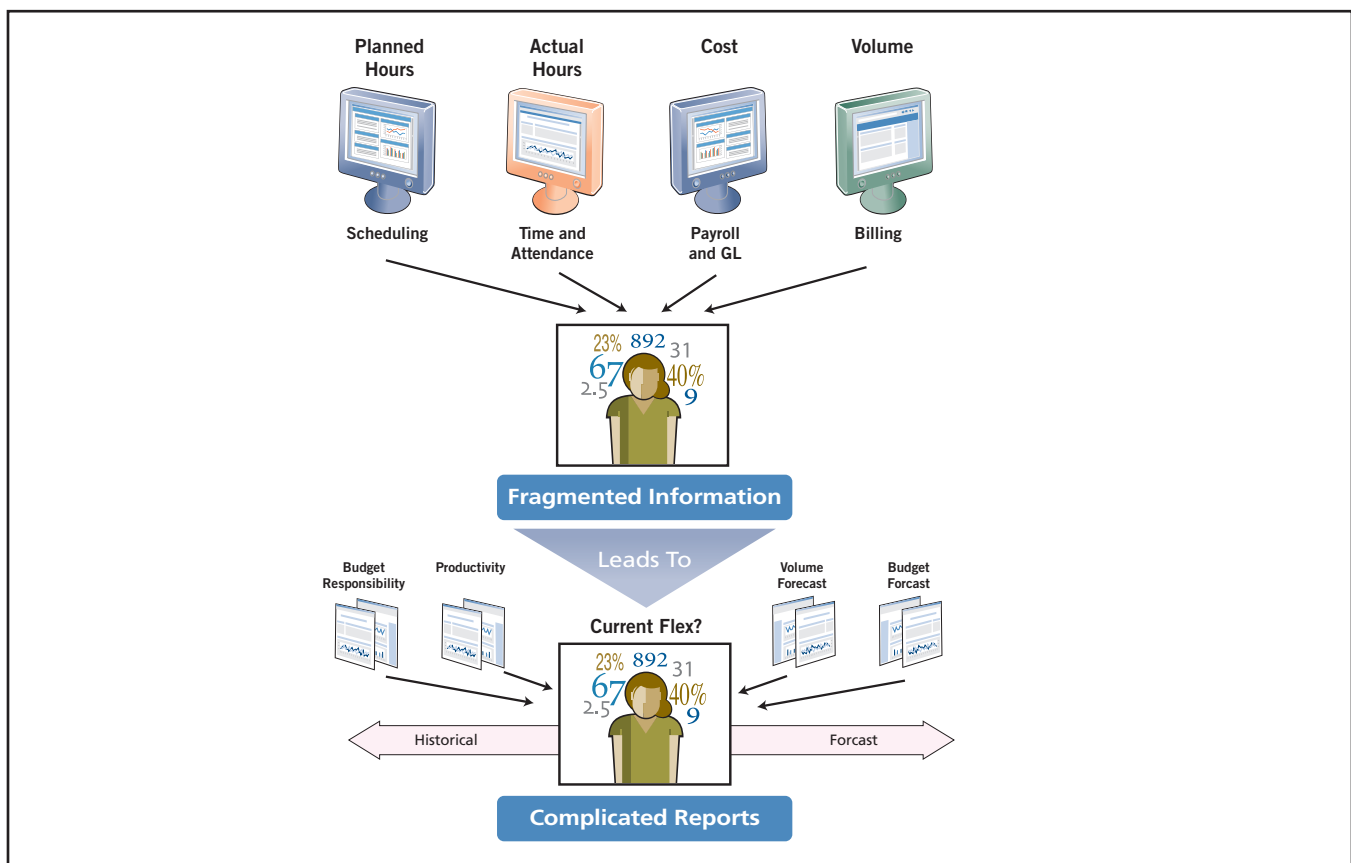
- Productivity is not viewed in terms of cost. Instead, productivity is viewed solely in terms of number of hours worked per unit of volume. Little consideration is given as to the skill level — who is doing the work — and the source of the workers, which can include full-time employees, extra part-time employees, floaters, overtime or agency staff. A common scenario is that a unit easily achieves productivity goals but repeatedly misses cost targets. Yet most organizations provide little guidance about appropriate labor sourcing decisions.
- Productivity measurement is often geared to nursing units. A substantial proportion of healthcare labor costs are not nursing-related yet many systems are strongly, if not exclusively, nursing oriented. This is reflected in the lack of department-specific productivity measures at managers' disposal. For example, dietary may measure productivity in terms of number of meals served and a clinical laboratory may measure it in terms of tests performed. The metric commonly used by nursing — hours per patient day — has little applicability for many other departments. When managers are compelled to use generic units that are not relevant or meaningful to them, measurement is ineffective or misleading at best; often, productivity in non-nursing departments isn't measured at all.
- Information lacks the context that would make it actionable. Frontline managers invariably have questions when they are reviewing daily and weekly workforce reports. Finance managers also have questions during their retrospective review.

What daily staffing decisions led to the cost results shown in a monthly budget report?	And what should be done next?
What should have been done instead?	What adjustments could bring results within expectations?

Typical labor cost reports provide little or no guidance that would help managers make these key decisions. Their snapshot views offer no way to identify the reasons why cost variances occur and no help for charting a course forward.

A New Approach to Controlling Healthcare Labor Costs

- **Information is not timely.** Typically, reports are generated and reviewed at the end of the pay period, which is usually biweekly or weekly at best. That's too late for the necessary adjustments to be made in time to impact results. Patient volume fluctuates continually, along with labor force availability. Call-ins, transfers, sick days and vacations disrupt even the most well-intentioned labor plans. Managers must be able to align workforce to volume on a daily basis when the necessary changes are relatively small and manageable — avoiding deep reductions in labor levels that would jeopardize quality of care and are therefore untenable. The result of untimely information? The actual cost of high-quality care can often exceed budgeted expectations.
- **Information that could reveal patterns or problems is lost.** Typical approaches offer no easy place to capture day-to-day staffing decisions and the reasons behind them. In busy, patient-focused environments, justification that isn't immediately recorded won't be remembered later. Reconstructing workforce decisions later is difficult and frustrating at best. A month from now, can a manager be expected to remember who was sick, when that person called in, what floaters were or weren't available, and why an agency resource was chosen? Of course not. Unable to determine why decisions were made, managers can't improve their performance or counsel their direct reports about how to make better staffing decisions. When the time comes for hiring decisions to be made, recurring patterns and problems have not been identified or analyzed so there is nothing to substantiate labor requests. As a result, subjective judgments must take the place of objective data.
- **Information is fragmented and incomplete.** The necessary data points are fragmented across multiple systems. Data inputs include the number of planned hours from the scheduling system, labor costs from the payroll system, and acuity-adjusted patient volume from admitting and patient accounting systems, among others. Using typical approaches to compile this information and generate accurate and timely reports presents significant challenges, including inconsistent data, asynchronous reporting periods, unresolved security concerns, and difficulties in formatting data into a meaningful view.



The Accountability Challenge

Accountability leads to control, and control is what keeps results within expectations. Yet because frontline managers have not been empowered to effectively manage to productivity and labor cost targets, many healthcare organizations have limited authority to hold managers truly accountable for labor costs. With typical decision support tools that offer little insight into reasons for cost variances or guidance for necessary improvement, managers often reject targets as arbitrary, unreachable or both.

To establish a culture of accountability, healthcare organizations need a labor cost management approach that:

- Evolves through collaboration and consensus between clinicians and finance leaders
- Uses relevant, department-specific performance indicators and thresholds and is well understood by users
- Automates the collection of data where possible and at a minimum allows users to input data into the system quickly and easily, with time-based entries that avoid the need to reconstruct decisions after the fact
- Generates information that is sortable and searchable by common causes or corrective actions
- Requires input when decisions contradict guidance or preset plans, allowing management to trace actions to promote and enforce a culture of accountability
- Fosters a culture of accountability, not an after-the-fact punitive atmosphere

Executive buy-in and user training are integral to the success of any cost control initiative.

- First and foremost, seek buy-in at the executive level on key aspects of any new approach under consideration, including new processes, units of service and cost control targets.
- Then make plans to provide training and support to all users before they are expected to be accountable for using a new system.
- Enforce an iterative review process on an ongoing basis, annually at a minimum, focused on studying previous results, assumptions that drove decisions and reasons by exceptions as well as generating recommendations for improvement.

Adopting a New Perspective: The Importance of the Process

A well-intentioned but misguided emphasis on costs can obscure the fact that shortcomings in the *process* are blocking the road at every turn. Focus on acknowledging and subsequently eliminating each roadblock:

- **Consider cost.** Realize that cost must be factored into productivity assessments. Productivity in healthcare organizations does not consist of interchangeable units of input per volume of output. Labor source and skill mix are critical elements of the equation. Focus on balancing labor level, skill and source — in other words, the right number of the right type of workers who have been selected from the appropriate labor pool.
- **Go “whole house.”** Make a commitment to managing labor costs for the entire hourly workforce. Costs should be measured, monitored and managed across the enterprise, not just in certain departments or segments of the workforce. This will necessitate the development of key performance indicators (KPIs) that are relevant to each department and labor cost plans that are the collaborative work product of finance leaders and clinicians.
- **Focus on why, not just what.** Appreciate the importance of context in workforce decision making. Data can quickly become overwhelming when the burden of analysis is solely on the user. The labor cost management system should guide users by directing their attention to problem areas, indicating the nature of the problem, leading the user to explanations of the problem, and suggesting appropriate corrective steps. Imagine being able to see in the rearview mirror, out the windshield and around the corner — all at the same time.
- **Recognize that time is of the essence.** Busy frontline managers can't and shouldn't wait for weekly or biweekly reports to guide their staffing decisions. They need daily, shift-level information at their fingertips — easily consumable and quickly interpreted — to guide them in making decisions in real time. In many cases, frontline managers are interested in seeing information only for their employees and just for the current pay period.
- **Put it together.** Consider all the disparate information systems where relevant data currently resides. What will it take to extract the necessary data and transform it into relevant, actionable information for decision making? Don't settle for typical approaches that generate inflexible reports with predefined formats and little capability to “drill down” into the information.

Guided Analytics: A Better Approach

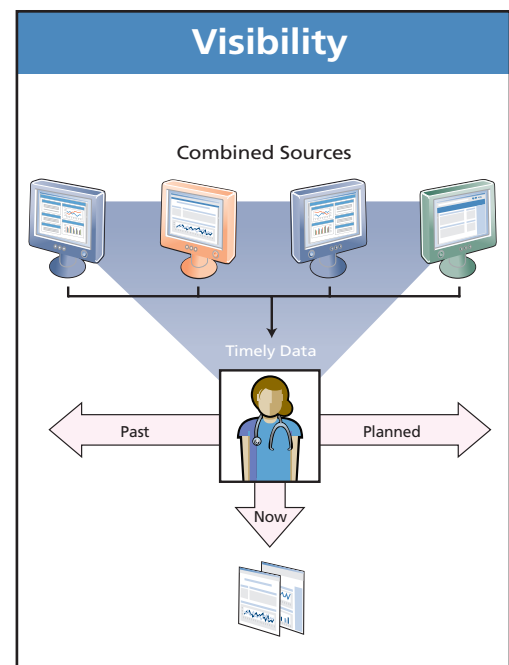
Chart a course around the roadblocks set up by typical approaches to labor cost management by assessing how well your current approach supports your organization's cost control efforts. In most cases, an assessment will reveal that typical approaches are not delivering the desired results.

In contrast to typical approaches, the guided analytics approach uses insight gleaned from data on past results to guide decisions toward achieving expected outcomes. Such an approach, enforced by technology, can direct managers to the right decisions while establishing a culture of accountability that is critical to cost control. The guided analytics approach is characterized by visibility, guidance and control:

- **Visibility** is delivered through on-demand access to cost and productivity performance as compared to targets, on a daily basis and in time for necessary adjustments
- **Guidance** enables managers to make appropriate labor management decisions, charted against meaningful measurements that are relevant for all departments
- **Control** is achieved through manager accountability and top-down buy-in to productivity and cost targets set forth by the organization

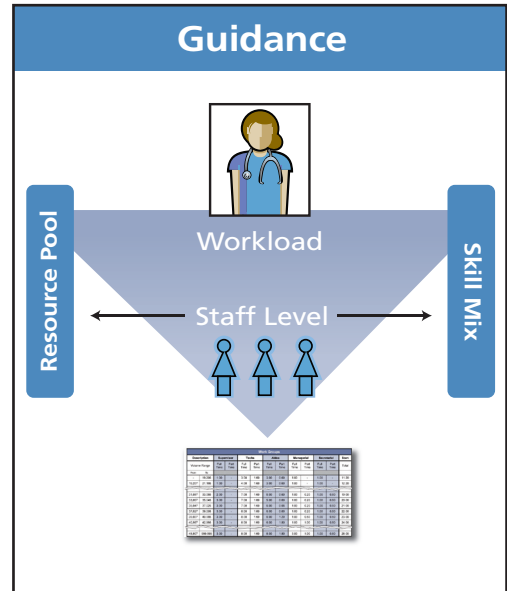
Visibility — the ability to see information in a way that leads to appropriate labor decisions — is the first key attribute of the guided analytics system:

- Web-enabled dashboards would provide convenient, on-demand access to information
- Relevant Key Performance Indicators (KPIs), measurements, or metrics should be configurable to role and user
- Security should limit access to appropriate information, yet common views and standard measurements should be built in to help drive consistent performance measurement
- Snapshots of workforce performance are needed to combine several disparate data elements into a single view, creating a single repository of data drawn from multiple sources. For example, productivity should be displayed in terms of hours, broken down by resource pool, and labor expense should be shown in terms of the associated dollars.
- Data segmentation by date would allow users to see the day, pay period by date and the complete previous pay period
- The system must be easy to use, with high-profile indicators and dashboards and easy-to-interpret reports that direct users' attention to problem areas



A second key attribute of the guided analytics approach is **guidance** that directs managers to achieve gains and improve performance over time through a process of constant analysis and adjustment.

- The guided analytics approach should include formal employment plans for making near-term and long-term employment decisions and a way to manage against the plan
 - The plan should convert cost-per-hours expectations to frontline labor acquisition and deployment decisions
 - Budget reports should be pay-period-based and flexible to show the impact of expected decisions based on the plan
 - Data should be shown in both hours and dollars, making cost an integral part of the decision-making process
 - Reports should show how actual decisions reflected or varied from expected decisions

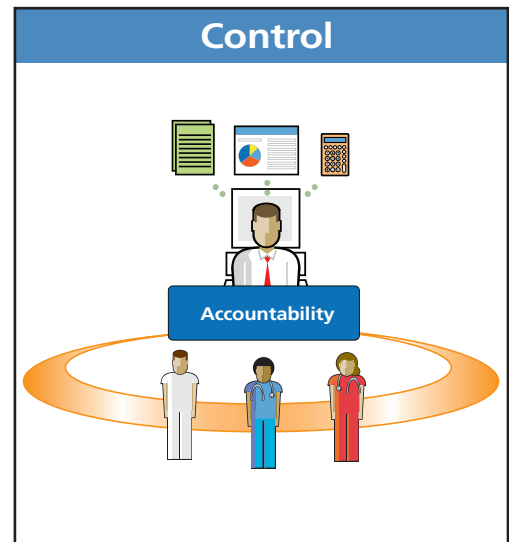


- Guidance should go deeper with a root-cause analysis that “drills down” into the reasons for variances and other issues.
 - Unlike reports, which are predefined formats for commonly answered questions, the analytics technology should appropriately organize the data in a way that allows users to easily navigate through it in the context of the business issue at hand
 - The technology should quickly guide the user to isolate the root cause of a labor performance issue

Work Groups												
Description	Supervisor		Techs		Aides		Managerial		Secretarial		Start	
Volume Range	Full Time	Part Time	Full Time	Part Time	Full Time	Part Time	Full Time	Part Time	Full Time	Part Time	Total	
From												
-	19,206	1.00	-	3.00	1.60	3.00	0.60	1.00	-	1.00	-	11.20
19,207	21,186	1.00	-	4.00	1.60	3.00	0.60	1.00	-	1.00	-	12.20
31,087	33,066	2.00	-	7.00	1.60	5.00	0.60	1.00	0.20	1.00	0.60	19.00
33,067	35,046	3.00	-	7.00	1.60	5.00	0.60	1.00	0.20	1.00	0.60	20.00
35,047	37,026	3.00	-	7.00	1.60	6.00	0.06	1.00	0.20	1.00	0.60	21.00
37,027	39,008	3.00	-	8.00	1.60	6.00	0.60	1.00	0.20	1.00	0.60	22.00
39,007	40,986	3.00	-	8.00	1.60	6.00	1.20	1.00	0.60	1.00	0.60	23.00
40,987	42,966	3.00	-	8.00	1.60	6.00	1.80	1.00	1.00	1.00	0.60	24.00
48,907	999,999	3.00	-	8.00	1.60	8.00	1.80	3.00	1.00	1.00	0.60	28.00

The third key attribute is **control**, a way to ensure best practices and consistent results, even as the environment changes. Accountability is needed to achieve control of results. To help the organization hold managers responsible for their decisions, the guided analytics system should help managers understand the reasons behind those decisions and identify corrective actions.

- The guided analytics approach is based on department-specific cost and productivity targets and thresholds, uniquely identified for each department, labor type and skill mix within the department. This helps ensure acceptability of and buy-in to the thresholds, a critical prerequisite to accountability
- Targets and thresholds should be reviewed and adjusted in concert with the budget cycle to allow for changes that occur inside and outside of the organization to be reflected.
- Without accountability, control is limited at best. After buy-in has been achieved, it is critical for the organization to hold managers accountable for results
- Deviations from expected decisions should be captured to ensure that justification for labor deployment decisions is not lost, to distinguish one-time occurrences from trends, and identify areas where additional training is needed



The guided analytics approach provides the capability and attributes needed to effectively align labor cost to volume, managing productivity and labor cost by associating the needed decisions with the desired results. Enabling frontline managers with insight empowers them to make the appropriate labor cost management decisions and adjustments, which creates a culture of accountability and control. Most important, the guided analytics approach provides the vehicle for reconciling high-quality care with cost control so these two seemingly divergent goals become compatible. Forward-thinking organizations that have already adopted the guided analytics approach are seeing rapid returns on their guided analytics investment and realizing substantial cost savings in managing their most valuable asset — human capital.

