Improving Workforce Expense Management

By Mike Stroble

Labor expense can amount to 50% or more of a hospital's total operating expense. Yet, many hospitals do not provide a comparable effort when managing this expense. Worse yet, many department managers and front line supervisors are unaware of the significant impact that their staffing decisions have on the bottom line. Many staffing plans are not based on predictable workload variations, and when staff flexing is required, managers find all too often that they have too many full time employees working a given shift. Sending staff home with paid time off is clearly not in the CFO's plan.

Do you know how your staffing efficiency compares to other hospitals for each of your departments? Benchmarking each department's labor utilization to other hospitals is the quickest way to identify labor savings opportunities. And it's also a good way to establish appropriate labor targets for each department. Hospital leaders find the labor targets that work best to improve the bottom line are those that the department managers "buy into". Managers, therefore, need to understand how their labor targets were established so that they can decide if they are valid and achievable.

Labor targets should be based on worked hours per unit of service not paid hours. Worked hours are what a manager has the opportunity to manage on a daily basis based on the actual workload demand for the day. So, how do you manage paid hours? You only have one opportunity to actually manage paid hours. That's when you hire the person. If you hire a person as a 1.0 full time equivalent, you've just committed to paying for all worked hours as well as any benefit time accrued such as paid time off. If you "hire" a person as PRN or for a float pool, you're only committed to paying for actual worked hours. Even hiring a person as 0.8 or 0.9 FTE gives you more flexibility to your staffing plan. You are not committed to having them work 40 hours per week and they accrue PTO at a lower rate.

The unit of service used as the workload volume measurement for each department should be a simple measurement that is easy to obtain and is directly related to the amount of worked hours required to accomplish the work. Yes, it's possible to develop more accurate measures such as weighted measures or relative value units. But, do you have the staff time available to develop and maintain these measures? An example of a target is 0.43 worked hours per procedure.

Leading hospitals train their managers and those who make staffing decisions in the fundamentals of productivity management. Managers need to understand how to efficiently plan their staffing mix, and how to schedule staff to meet workload variations. Many managers are clinical experts. Unfortunately, many have never received formal training in productivity management. Then, to manage labor productivity most effectively, managers need to know how well their departments are performing through timely productivity reports. These reports should be provided to department managers at least at the end of each pay period. Ideally, managers need to know their department's productivity daily. If reports are not provided daily, the managers should be trained in how to calculate daily productivity themselves.

To be most effective, productivity reports should display the target and actual worked hours per unit of service, and the target and actual worked FTEs.The variances between target and actual for each of

Labor Utilization Comparative Analysis		Sample Hospital			Compare Data *			FTE Variance to Compare *negative variance indicates over staffing*		
Department	Measure	Workload Volume	Worked Hours	Worked Hours/ UOS	25th %ile Hrs/UOS	50th %ile Hrs/UOS	75th %ile Hrs/UOS	25th %ile	50th %ile	75th %ile
Admitting and Registration	100 Patient Registrations	955.04	52,466	54.94	40.26	48.52	58.42	(6.74)	(2.95)	1.60
Ambulatory Surgery	100 Patient Observation Minutes	14,163.45	37,435	2.64	1.62	2.27	2.41	(6.97)	(2.54)	(1.59)
Case Management	Cases Managed	7,061	14,795	2.10	1.24	1.45	2.18	(2.90)	(2.19)	0.29
Computerized Tomography	100 Procedures	138.48	13,097	94.58	88.34	97.35	107.28	(0.42)	0.18	0.85
Diagnostic Radiology	100 Procedures	408.47	42,517	104.09	68.45	74.36	128.65	(7.00)	(5.84)	4.82
Endoscopy	Procedures	5,209	14,923	2.86	2.95	3.38	4.21	0.21	1.29	3.37
Environmental Services	1000 Net Square Ft Cleaned X 4	696.868	63,746	91.48	75.54	88.27	97.32	(5.34)	(1.07)	1.96
General Accounting	100 APD	547.69	8,676	15.84	15.94	18.74	22.87	0.03	0.76	1.85
General Surgical Inpatient Unit	Equivalent Patient Days	8,312	78,578	9.45	7.21	7.74	8.24	(8.97)	(6.85)	(4.85)
Laboratory	100 Billed Tests	4,122.17	90,498	21.95	19.24	22.78	25.46	(5.38)	1.64	6.95
Med/Surg/Cardiac Intermed Unit	Equivalent Patient Days	10,976	148,963	13.57	12.64	13.39	13.78	(4.92)	(0.96)	1.10
Medical Records	Patient Records Completed	126,128	64,650	0.51	0.54	0.62	0.68	1.66	6.51	10.15
Operating Room	100 OR Minutes	4,714.36	76,354	16.20	15.28	15.74	15.97	(2.08)	(1.03)	(0.51)
Pharmacy Services	100 Orders Processed	3,149.67	33,567	10.66	8.57	9.24	9.87	(3.16)	(2.15)	(1.19)
Plant Operations	1000 Gross Sq Ft Maintained X 4	1,691.108	22,564	13.34	11.08	12.54	14.36	(1.84)	(0.65)	0.83
Post Anesthesia Care Unit	100 PACU Minutes	3,422.22	13,751	4.02	4.54	5.65	7.12	0.86	2.68	5.10
Respiratory Care	100 Billable Procedures	361.32	18,415	50.97	32.78	39.15	42.65	(3.16)	(2.05)	(1.44)
Social Work Services	100 Social Work Cases	20.95	7,458	355.99	338.25	348.65	378.69	(0.18)	(0.07)	0.23

The FTE variance columns show the difference in FTEs required if the sample hospital department performed at the 25th, 50th and 75th percentiles. * Compare data is not actual and is used for illustrative purposes only.

these measures should also be displayed. It's also helpful for managers to see the productivity %, non-productive % and total paid hours. In addition to the measures for the reporting period, year-to-date measures should also be shown. Reports that include a year-to-date graph are ideal. A critical factor is that department managers need to understand how all the calculations are made on the productivity report. If they don't understand the calculations, they won't understand what they need to manage better in order to improve their department's performance.

Flex staff up, not down. Sounds backwards, but think about it. To maximize staffing efficiency, managers must flex staff up to meet increased workload demand. Then, flex down by using less of the staff they flexed up. Here's how it works. You start by determining the correct staffing mix for the Core Staffing level. The Core Staffing level should be based on an identified time period with lower workload volume, not the average volume. A systematic methodology must be used to calculate the most efficient staffing plan that provides positive impact to the bottom line. Identifying the correct mix of full time, part time and PRN staff is critical to maximizing labor productivity, and it's all based on identifying the correct core staffing.

Match staffing plans to expected workload volumes. Sounds simple, but many department managers have never analyzed their workload volume by time-of-day and day-of-week. When they do, they often find they have too many staff when workload is low and not enough when workload is high. Managers should prepare staffing plans that allow them to achieve their target worked hours per unit of service. For position control efforts to be most effective each department must have a staffing plan that is calculated using a systematic and methodical process for determining the correct mix of full time, part time and PRN staff.

Train all department managers and key staff in the utilization of Lean methodologies. Lean is derived from the Toyota Production System which uses proven concepts that enable hospitals to focus on the elimination of non-value added activities, inefficiencies and defects and achieve a balance between quality and finance. Lean is a growth strategy, a survival strategy and an improvement strategy. Use Lean to create a better working environment where what is supposed to happen does happen on time every time.

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- Tuesday, Aug 24, 2010; Curacao AN
- Wednesday, Aug 25, 2010; Aruba AN
- Thursday, Aug 26, 2010; Day at sea
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