

## Balancing Labor Costs With **Quality Care**

Lasting improvements in productivity depend on a combination of technology, talent, focus and time.

*By Michael Bernstein*

Because the workforce accounts for the largest cost of care in every hospital, operational efficiency—achieving it and sustaining it—is critical to managing the delivery of high quality patient care.

The U.S. Bureau of Labor Statistics purports that RN positions have the largest projected 10-year job growth, followed by orderlies, attendants and medical technicians. It is clear that the cost of the healthcare workforce will continue to rise. The challenge, then, for all hospitals becomes providing the right staff with the right skill set to support the highest quality patient care possible—while simultaneously improving productivity and reducing costs. This is no small order.

Valley Medical Center is the first and largest public hospital district in the state of Washington, with 303 licensed beds and more than 2,000 employees. Located between Seattle and Tacoma in the rapidly growing city of Renton, we serve a population of around 400,000 people. We treat 75,000 people in our ER annually, making it one of the busiest on the West Coast. Additionally, approximately 300,000 visits will be made this year to one of our network of primary- and specialty-care clinics. Understandably, the cost of labor has our attention.

When I joined Valley Medical Center in May of 2000, labor costs were being tracked with paper, pencil and spreadsheet. That made it impossible to get timely, meaningful data to help management make informed decisions on how to get resources to where they were needed most, much less identify opportunities to increase productivity. I knew this coming into the job. In fact, even before I arrived I had conducted analyses of the hospital's financial statements; I knew that total labor costs as a percent of net patient revenues were above the industry norm, and I knew we had an enterprisewide productivity initiative ahead of us.

### **From the CEO: Do It**

About 60 individual departments comprise Valley Medical Center. When I assumed the CFO position, costs were rising in terms of hours per unit of service and rate per hour, but there was no historical data to formally assess them and especially no trended data. I asked the finance department to go back, manually, for a three-year period, month by month and department by department, to assess total unit statistics for each one. They examined cost per unit of service, hours per unit of service, and standardization of units by department. They identified fluctuations and patterns of fluctuation in statistics as well as the source of data for each department. The job was weighty, but the finance department knew we wouldn't be conducting manually-based assessments like this again in the future.

When an organization sets out to improve productivity, labor performance management and labor costs at the enterprise level, it's not a matter of simply matching skill sets to jobs or the number of employees to the volume of work or improvements to processes. It's all of those and beyond. Twice before in my career, I had implemented Visionware from Kronos, a labor productivity management tool and methodology that supports productivity analysis and reporting as well as analysis of labor utilization and investment. I recommended it a third time for use at Valley Medical Center.



From past experience, I knew that executive leadership would be crucial to this broad initiative. My first step was to involve the CEO and COO and make the case for implementation. After some long conversations and many hours of analysis, we scheduled a demonstration of the Kronos technology in October of 2001 and formally began implementation in March of 2002.

Implementing software is relatively easy. Orchestrating a change in organizational culture is the opposite. Fortunately, Valley Medical's CEO viewed the escalating labor costs and fluctuating productivity levels as one large opportunity for improvement. His reaction was, "Do it. Make it happen." That directive helped a lot of senior managers to get on board, and to recognize that the service expansions and quality advances we all wanted might be possible, if we could improve our processes and free up the cash necessary to pursue them.

### **No Stones Unturned**

Culture change came more easily for some departments than others. For clinical and ancillary departments that generate patient charges—and charges have statistical measurements attached to them—one of the first changes we made was in capturing charge data. We told departments that generate patient charges, "We are going to use the billing system as the source of your statistics." That meant these departments had to get their charges entered on time, or else they would risk showing X number of hours worked but no comparable levels of productivity achieved for those hours. It is a side benefit, of course, that our charge capture has improved considerably.

Other departments were evaluated differently. An underlying requirement of an enterprise change of this breadth is that we examined and assessed functions—not employees—but we did examine and assess every single function in every department. For example, we might find that in our billing department, a biller was also filing and, as a result, falling behind. To get billing out promptly, the answer was not to add another biller; it was to identify what was impeding billing and get that function handled by an appropriate level employee.

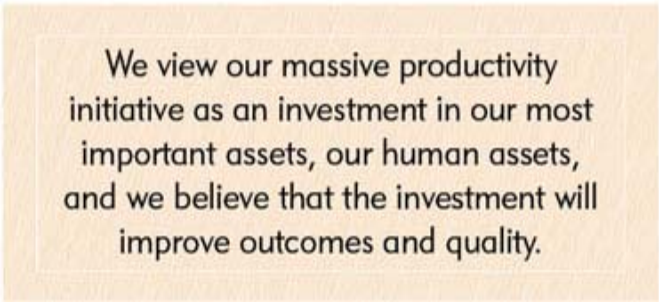
In billing, this might mean adding clerical help. But, in other departments, the resolution might be to transfer functions out of one department and into another that could tackle them more cost-effectively. A few departments actually acquired more FTEs in the process.

One of the benefits of the three years of data assembled manually, and especially data added since the implementation of Visionware, was availability of trended data. It wasn't long until we could approach a department head and say, "For 25 percent of the pay periods, your department achieves X level of productivity, but for the other periods, it reverts to Y level." We challenged departments to examine their internal process; we challenged them to identify processes that would consistently deliver the optimum productivity levels. New targets were set by using this approach.

### **Lean and Mean? Yes and No**

Effecting change in internal processes and FTE levels doesn't necessarily equate with running a lean-and-mean organization. In fact, our staffing levels in clinical functions are quite rich by comparison to other hospitals. Cutting dollars by reducing FTEs isn't the immediate path to improved clinical productivity. When a hospital takes this approach, services may suffer and then patient, physician and staff complaints will begin.

Over the past five years, Valley Medical Center has been voted one of the best, large not-for-profit organizations to work for in the state of Washington. Why? One major reason is that we have allowed our nurses to assess patient acuity and to adjust staffing levels to acuity levels. Staffing for high quality care doesn't depend on the number of patients alone; it also depends on how sick those patients are.



We view our massive productivity initiative as an investment in our most important assets, our human assets, and we believe that the investment will improve outcomes and quality.

When the quality of care is excellent, word gets out. Doctors increasingly will refer their patients here. We have actually had physicians relocate their practices to Valley from other Puget Sound area hospitals because of our results. We view our massive productivity initiative as an investment in our most important assets, our human assets, and we believe that the investment will improve outcomes and quality. Theoretically, improvements in outcomes and quality will increase our market share.

### **Results Backed by Data**

For Valley, those improvements did increase our volumes. For the period from 2003 to 2006, our patient volume grew 13 percent, and we added about 50 MDs to our medical staff, a 10 percent increase, and FTEs grew by 6.9 percent with only a 2.6 percent increase in labor costs on an adjusted discharge basis. For our first full year under our productivity program, total labor dollars, in gross dollars, went down. Our auditors said they had never seen an increase in staff with a simultaneous decrease in labor costs.

Within the first year of the Kronos Visionware implementation, our nurse managers went from checking productivity once every two weeks to meeting on it three times a day. Other department managers met daily to discuss productivity, and other staff met weekly. This oversight continues today.

Within the first year, we reduced premium labor pay by \$400,000 and improved labor productivity by \$1.8 million. These results mean we reached ROI (return on investment) within the first five months of installation through premium reduction alone. Within the first two years, we also achieved a:

- 7.5 percent reduction in premium time (agency and overtime combined);
- 2.75 percent reduction in FTEs per AOB (adjusted occupied bed);
- 1.5 percent reduction in labor expense as percent of net revenue (approximately \$1.5 million).

### **Preventing FTE Creep**

Today, we have nine years of data collected upon which we will continue to base our process improvement. Balancing costs and maintaining productivity is a way of life, not a time-limited project. If an organization fails to hold managers responsible and to stay constantly focused on this type of initiative, the momentum slips away and "FTE creep" returns.

For that reason, we review every FTE request. Each one goes through a detailed, rigorous process of justification with a productivity analyst. Finally, we have set and met our internal benchmarks, so the future will find Valley Medical Center focusing on meeting external, industry-based best practice benchmarks. Today, we use Kronos Visionware to support our productivity improvement efforts with a best-practices focus, and we plan to implement additional Kronos technologies for absence management in the future.

A 2002 Press Ganey study found a strong correlation between staff satisfaction and patient satisfaction. By providing our managers with timely data to help them achieve efficient and cost-effective staff deployment, we improve Valley's productivity and reduce our costs. We also provide higher quality patient care by assigning the right staff with the right skill set to the right patient at the right time.

For more information about **workforce and labor-productivity management solutions from Kronos Inc.**,  
[www.rsleads.com/701ht-202](http://www.rsleads.com/701ht-202)

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