

## Productivity Management Drives Top Quartile Performance

Learn how one healthcare organization improved bottom-line performance by \$16.2 million and decreased labor costs by enhancing productivity, accountability, and feedback.

**BY BOB DAVIS**

An 850-bed health system in the southeast needed significant improvement in financial performance after tripping bond covenants.

One major emphasis was on reducing labor costs while improving patient care services and throughput. However, a 10-week assessment by a healthcare consulting group uncovered many roadblocks to implementing or sustaining productivity gains. Prior initiatives had been started with great fanfare, then abandoned.

Conflicting or obsolete data were deemed irrelevant. Various games were played to hide pet programs or divert attention from problem areas. Staff continually engaged in rationalization, denial, blame shifting, and procrastination.

To address these problems, consultants suggested a three-dimensional approach to productivity management:

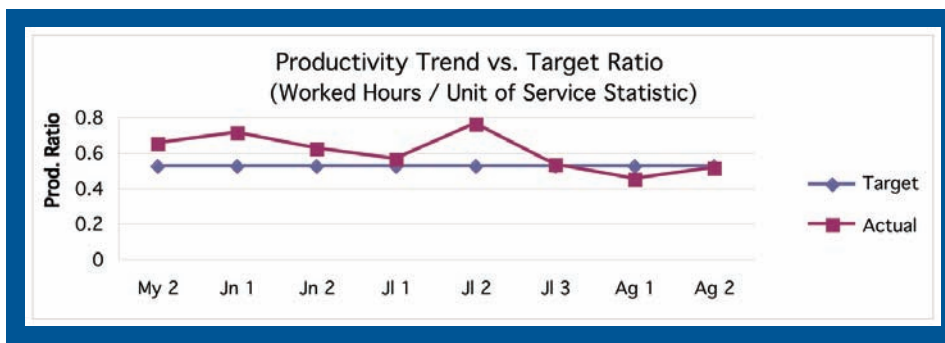
- Integration of tools to measure productivity
- Increased accountability
- Frequent feedback

**Integration**

Lack of useful data was often blamed for the health system's low productivity. Several excellent tools for measuring productivity were provided to managers, but they seemed irrelevant to most managers for several reasons:

- Nearly five months passed before performance levels were reported; by then, it was far too late to recall, let alone act upon, seasonal or one-time events.
- Functionally grouped results after "normalization" did not match cost center staffing or budgets. Also, more than 400 FTEs in small splinter departments were not tracked.
- Peer comparative ratios fluctuated markedly each quarter.

Annual budgets were fixed, expressed in dollars, and to a large extent "top down" in nature. There was limited credibility for monthly variances and diminished accountability at the department manager level. The organization needed to find a meaningful way to marry labor productivity (a variable expressed in worked hours per unit of service) with budgets and reporting.



The approach to integration had two parts. First, a mechanism was created to convert rolling averages of 25th percentile peer performance into "variable" budget targets matching forecasted volumes at each new budget year. This kept targets fresh while avoiding quarterly aberrations.

Then, biweekly or even daily productivity monitoring was emphasized in the normal course of business to consistently predict budget compliance. Departments with large unfavorable gaps were given interim targets tied to milestones within rigorous action plans; each year's target became tighter. Variable staffing performance was now in full view.

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### IMPROVE YOUR ORGANIZATION'S BOTTOM LINE

Find strategies for reining in healthcare labor and supply chain costs while enhancing productivity in HFMA's new newsletter, *Healthcare Cost Containment*. Visit [www.hfma.org/hcc](http://www.hfma.org/hcc).

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### Increased Accountability

A second cause of excessive labor cost was organizational: Complex hierarchies allowed silos, struggles for control, redundancy, self-interest, and a focus on individual cost centers rather than overarching systems and processes. Accountability was weak; there were few “consequences” to managers for subpar performance and few rewards for excellence. The situation required multiple responses.

First, the organization undertook a concerted initiative to align organizational components, reduce excessive managers and managerial levels, merge orphan cost centers into larger functions, and cut out waste.

Second, the organization sharpened employee understanding of the urgency for change and the positive vision for improved programs and service that could result. Change management was coupled with enhanced managerial training. Many of the health system’s managers had been promoted from professional backgrounds and lacked the tools for their new responsibilities.

Third, the organization created a sense of peer pressure for productivity gains among all vice presidents, with both the CEO and CFO promoting transparency. True peer review, with all data on the table, created a more equitable environment. It also reinforced crossfunctional and systematic resolution of productivity barriers under the watchful eye of the CEO. Accountability was strengthened with rigorous action planning. Causes of low productivity, many of them crossfunctional or dependent on top management and IT support, were addressed with interdisciplinary plans with outcome measures and explicit deadlines. Excuses were replaced with commitments.

### Frequent Feedback

The organization sought prompt and forthright feedback to frontline managers to promote investigation and action while underlying causes are still discoverable. A biweekly paid hours report was enhanced to derive worked hours and utilization of services with budgeted targets.

The enhanced reports added three important features:

- Trend graphs isolated each manager’s situation, illustrated patterns, and detected trends (moving downward denotes better performance).
- The reporting system included a built-in variance on-line reporting form initiated by managers. The template was carefully developed to require honesty, clarity, and force action planning. It also triggered upper management follow up.
- Reports were made available on the hospital’s intranet system.

### Lessons Learned

As a result of this initiative, the hospital improved bottom-line performance by \$16.2 million and resolved bond covenant issues in the first nine months. Labor cost reductions accounted for nearly 30 percent of this benefit; FTEs were reduced by more than 3 percent without layoffs. Meanwhile, process improvements contributed to many other benefits. The final report to the bonding authority showed earnings before interest, taxes, depreciation, and amortization improvements of \$30 million.

There are a number of lessons the organization learned through the initiative.

*Productivity reporting should be frequent and embedded in whatever management process carries the most weight with administration. Targets must be challenging, but credible. Rigorous comparison with best-performing peers should periodically refresh targets.*

*Organizational alignment and strong top management sponsorship, combined with middle-management commitment, are critical. Accountability and expectations must be crystal clear. Reaching targets and supporting peers should become minimum expectations. The development of manager competencies is a necessary part of this process.*

*External change agent leadership and discipline are needed. Typically, it takes six to 12 months for desired behaviors to become habitual. ■*

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