

Estimate of the Situation

Critical Information for Critical Times, Edition of Wednesday, January 14, 2015



How to Reduce Labor Costs

This issue begins a series identifying commonly encountered barriers to meaningful labor cost reduction. It will also describe specific steps to resolve them.

Some material in this issue will be familiar to the reader because elements of it have been discussed earlier. I apologize for the redundancy, but it is summarized here to provide background that is important for the content to follow.

A hospital's success is determined by its performance in five critical outcome areas:

- Cost
- Clinical and Service Quality
- Physician and Patient Satisfaction
- Employee Relations
- Community Image

Despite the fears of some that cost reduction can only be achieved at the expense of quality, these critical outcome areas are not competitive and mutually exclusive, but complementary. The factors that determine performance in these areas are not independent, but synergistic. *Most importantly, the same factors that produce unacceptable cost outcomes also produce unacceptable outcomes in quality, physician and patient satisfaction, community image, and employee relations.* When those factors are identified and dealt with, not only are costs reduced, but performance improves in all other critical outcome areas as well.

In terms of their relative impact, the factors that define the limits of potential performance fall into a hierarchy of four main categories ranging from institutional culture at the top, down through organization elements and resources, to systems and work processes at the bottom. Although in the real world, some performance limiting factors can be placed in more than one category, this taxonomy provides a useful way to understand how organizational performance is impacted and what can be done to improve it. Positively changing factors in the top levels will generally produce a greater organizational benefit than will positively changing lower level factors. In some circumstances, changes at the bottom levels are impossible (or will be ineffective) until changes at higher levels take place.

- *Institutional Cultural Elements:* The hospital's mission, goals, and objectives state these formally. They are defined informally by the beliefs and expectations of patients, the community, the medical staff, management, and department employees and by the behaviors that flow from those beliefs and expectations. Examples of culture defining factors are the medical staff's assumptions about its relationship with the hospital, the focus and values of management, and employee beliefs about what

constitutes a fair work load.

- *Organizational Components:* These are the methods and structures the hospital uses to deploy its resources to perform the work required by its mission. They include the hospital and department organization charts; planning and coordination techniques; task allocations to departments, shifts, and staff; work and employee schedules; and the various ways used to communicate and share information. Factors falling into this category include whether the number of organizational levels existing between the "top" and the "bottom" (within and outside of departments) is appropriate, whether or not the span of control is consistent with the management style, and whether or not the organization can anticipate and prepare for change. In smaller hospitals particularly, this may require rethinking traditional organizational divisions along department lines defined by technical and/or professional specialties. The hospital's human resources must be organized to meet need on demand consistent with quality and safety.
- *Resources:* These include human resources, supplies, equipment, and physical plant. Factors of this type would include whether or not a department has the most effective mix of staff (by skill level, full-time vs. part-time, etc.), whether supplies are available in a timely way and in sufficient quantity, and whether or not the physical plant layout and available equipment permit optimum functioning.
- *Systems and Work Processes:* A process is a series of sequential steps designed to produce a given outcome. A system is a series of related or linked processes. Systems and processes are the primary focus of quality management and continuous process improvement efforts. Factors of this type include whether or not standard processes are in place, whether or not work processes contain "complexity," and whether or not employees understand the structure of work. Process improvement offers significant opportunities for productivity improvement because one focus of the work is the elimination of complexity (steps that do not add value).

Performance in any department is the result of the entire management process and the factors that limit it. The numbers that hospital managers focus on each month (such as FTEs, or paid hours per unit of service) are *outcomes*, reflecting the downstream impact of many interrelated factors distributed across the hospital. If a hospital seeks to improve productivity (i.e., reduce the number of FTEs required to produce a given outcome while maintaining quality), it must deal constructively with the factors producing less than optimum results. Damage is inflicted whenever a hospital attempts to arbitrarily reduce the number of FTEs employed without addressing the underlying factors that produced the demand for FTEs.

NEXT ISSUE: How to reduce wait times (the largest clinic dissatisfier) and labor costs.

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