

# Estimate of the Situation

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## Effective Labor Cost Management

Despite many management initiatives to control labor expense, labor costs still account for more than 50% of total operating expense in most U.S. Hospitals.

In a typical suburban community hospital, an FTE's average hourly rate is about \$29. That calculates to more than \$60,000 per year in salary/wage expense. With average benefit costs of about \$16,800 the total comes to \$76,800 per FTE with higher costs on the U.S. East and West coasts and in larger hospitals.

Hospital executives have been working hard to control and reduce labor costs for decades. Today, in light of changing utilization patterns, reduced revenue, and shrinking margins, many senior management teams are coming under increasing pressure from governing bodies to reduce or at least control the growth of expenses.

In the real world, of course, CFOs and CEOs don't control labor costs. Department managers do that with the staffing decisions they make—or fail to make—every day. Here are the four essential steps any hospital must take in order to produce significant and lasting labor cost reduction:

1. Identify credible work-load based staffing standards for each department. Standards must be believable to department managers and must be reasonably attainable given each department's throughput capacity.
2. Establish department manager ownership of and accountability for labor cost management. This is the hardest part and often requires a significant change in the hospital's culture.
3. Provide timely, ongoing labor cost management feedback to department managers. Use a computer-generated pay-period reporting system that includes benchmark and budget comparisons and focus on year-to-date performance (which is what counts), not hourly, daily, or single pay period results.
4. Require department managers to systematically follow-up on year-to-date variances, identifying and resolving causes. This should result in the identification and prioritized resolution of performance barriers.

Significant labor cost savings are often experienced following the initial implementation of these steps.

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