Presentation Outline

• Why is Productivity Important
• Productivity Definitions and Measurements
• Limitations of Typical Productivity Management Approaches
• Productivity Management Best Practices and Case Studies
• Improving Workforce Productivity and Future Productivity Integration Opportunities
WHY IS PRODUCTIVITY IMPORTANT?
Why is Productivity Important?

- The Affordable Care Act and Deficit Reduction are Accelerating Change
- Increasing Expenses and Decreasing Reimbursement are Shrinking Margins
- Revenue enhancement opportunities are starting to dwindle
Why is Productivity Important?

- There is a growing need for capital due to growth and aging facilities and technology
- CMS incentives call for healthcare organizations to improve care coordination and reduce waste
- To maintain acceptable operating margins healthcare organizations must operate at the lowest possible cost while providing the highest quality of care
Why is Productivity Important?

- Increases in technology budgets haven’t yielded expected (promised?) labor savings.
  - Automation is not always reducing workload
- Labor costs, the largest single cost factor of healthcare systems, are increasing
LABOR EXPENSE
As the largest component of cost, labor expense closely correlates to trends in total expense. For all hospitals, labor expense per adjusted discharge (case-mix and area-wage adjusted) has increased at a 0.7% annualized rate. Major teaching hospitals, however, not only have higher overall labor costs per discharge (nearly $2,000 more than all hospitals in 2012), but they also have an average annual rate of labor expense increase of 3.0%, more than three times that of all hospitals.

TOTAL EXPENSE PER DISCHARGE
Total expenses (case-mix and area-wage adjusted) are growing faster at major teaching hospitals than at any other group studied. For all hospitals, expense per discharge has increased at a 1.6% annualized rate. For major teaching hospitals, the annual rate of increase has been nearly twice that, 2.9%. Medium community hospitals actually managed a reduction in expenses between 2011 and 2012, and had the lowest average annual change of just 0.8%.
Why is Productivity Important?

- Healthcare organizations will need to make substantial improvements in workforce productivity to meet the challenges of healthcare reform.
- AMN Workforce Consulting has found that improving productivity as a part of a client organizations overall cost management program can generate cost savings that can contribute to a 1-3% improvement in operating margins.
- “A 10% increase in hospital productivity today is associated with about 6% more patients in 5 years”

Amitabh Chandra- Harvard and NBER, Amy Finkelstein-MIT and NBER, Adam Sacarny-MIT.
NBER November 2012
PRODUCTIVITY DEFINITIONS AND MEASUREMENTS
Productivity Definitions and Measurements

- Productivity is one measure of the effective use of resources within an organization, industry, or nation.
- The classical productivity definition measures outputs relative to the inputs needed to produce them. That is, productivity is defined as the number of output units per unit of input.

$$Productivity = \frac{Output}{Input}$$
Productivity Definitions and Measurements

• An inverse calculation is used to measure input per unit of output. The greater the number of units of input per unit of output, the lower the productivity.

• For example, productivity in hospital nursing units is typically measured by hours per patient day (HPPD). That requires an inversion of the typical calculations: meaning total hours are divided by total patient days.

\[ HPPD = \frac{Total\ Hours}{Patient\ Days} \]
Productivity Definitions and Measurements

• Adjustments for Inputs Include:
  – Skill Mix, Adjusted Hours, FTE’s, Labor Cost

• Adjustments for Outputs Include:
  – Service Mix, Case Mix, Discharge, Adjusted Occupied Bed, Adjusted Patient Day

* Review Measurement Examples Tool
LIMITATIONS OF TYPICAL PRODUCTIVITY MANAGEMENT APPROACHES
Limitations of Typical Productivity Management Approaches

Identifying opportunities to improve productivity is an easier task than actually achieving and sustaining maximum productivity.
Limitations of Typical Productivity Management Approaches

The most significant barriers and perceived barriers include:

- Lack of political will and long term commitment throughout the organization
- Perceived lack of time and talent to implement serious productivity management initiative
- Perception by clinical staff and others that improving productivity has a negative impact on quality
- Lack of meaningful reports and data
Limitations of Typical Productivity Management Approaches

• Meaningful data and reports are not timely
  - Typically, reports are generated and reviewed at the end of the pay period, which is usually biweekly or weekly at best. That’s too late for the necessary adjustments to be made in time to impact results.

• Patient volume fluctuates continually, along with labor force availability
  - Call-ins, transfers, sick days and vacations disrupt even the most well-intentioned labor plans. Managers must be able to align workforce to volume on a daily basis when the necessary changes are relatively small and manageable.
Limitations of Typical Productivity Management Approaches

Productivity Measurement Challenges

• Hospitals have long looked at their hours per patient day or employee headcount as the primary indicator of both departmental cost and efficiency.

• Benchmarking HPPD or fulltime equivalent employees (FTEs) is popular because the measures are relatively simple to track and comparative benchmarks are easily assessable.
Limitations of Typical Productivity Management Approaches

Typical Hospital Unit Productivity Measures

- Hours Per Patient Day (HPPD) or Patient Visit (H/VST)
- Hours per Statistic “Stat” (H/STAT = Hours/Procedure)

Standard Healthcare Productivity Measures

- FTEs per adjusted admissions
- FTEs per adjusted occupied bed (AOB)
- FTEs per Adjusted Discharges
- Operating Revenue per FTE
Limitations of Typical Productivity Management Approaches

Department Productivity Measures

• Not all labor inputs are alike. When the primary measurements are labor hours or FTE’s, cost and productivity are often misaligned.

* Review Examples: HPPD and H/STAT Measurement Gaps
Limitations of Typical Productivity Management Approaches

Standard Healthcare Productivity Measures

- Standard productivity measurements often shortchange a healthcare organizations quality and cost savings objectives

* Review Examples: Standard Productivity Measurement Gaps
PRODUCTIVITY MANAGEMENT BEST PRACTICES AND CASE STUDIES
Productivity Management Best Practices and Case Studies

Highly productive healthcare organizations have learned that improving productivity requires sustained effort and focused attention on multiple fronts

- **Cost Reductions**
  - Flexible budgets and budget controls measurement
  - Expanded productivity targets and reporting
- **Business Restructuring**
  - Delivery system rationalization and restructuring
  - Organizational structure portfolio evaluation and management
- **Clinical Restructuring**
  - Care processes redesign and restructuring
  - Physician Engagement and Integration
  - Expanded relationships with other providers
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Highly productive healthcare organizations have implemented successful practices that impact the productivity drivers listed in the graphic below.

* Review Productivity Driver Examples and Case Studies
IMPROVING WORKFORCE PRODUCTIVITY AND FUTURE PRODUCTIVITY INTEGRATION OPPORTUNITIES
There are significant pressures to improve workforce productivity in healthcare organizations today.

Improving labor productivity while maintaining or improving clinical quality can drive financial performance improvement.

Many of the current standard productivity measurements are not very effective in reducing costs, improving quality and achieving high levels of productivity.

* Review Improving Productivity & Future Productivity Integration Slides
Summary of Critical Strategies to Improve Productivity

- Develop methods for measuring and achieving productivity improvements
- Benchmark your productivity to peer healthcare providers that have successfully increased productivity
- Reengineer care delivery and business processes if necessary to achieve productivity targets
- Tie productivity targets to your strategic mission
- Include quality, service and satisfaction outcomes in evaluation of productivity
Summary of Critical Strategies to Improve Productivity

• Look at the system as a whole (do not sub-optimize) in deciding on which operations/procedures to focus productivity improvements.
• Establish top down and bottom up managerial accountability for productivity improvement
• Monitor with simple, generally understood reports (add sophistication over time)
• Measure and publicize improvements.
For More Information on Best Practice Approaches to Healthcare Labor Productivity Management or AMN Workforce Consulting contact:

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