Financial Sustainability part 1: Productivity

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Someone said that in order to get the attention of the post-millennial generation(s), the words "sustainability" and "diversity" need to be used in the lead sentence. Mission accomplished!

HR's focus in healthcare

My whole approach to HR in the healthcare industry is that financial sustainability is critical, that productivity management skills are essential to achieving this, and that HR should own those skills and drive those processes.

While outside firms are slicing off many of the HR functions (and often doing them better), HR can add real value by focusing on strategies and techniques that maximize the bottom line. This should be a natural fit in a labor intensive industry. If being profit minded scares you, think of it as a means to increase the flexibility and options for the organization.

I have written numerous posts on this and most can be found under the "productivity category". However, I want to write a series of posts on financial sustainability of healthcare systems and use a 2012 report by the World Economic Form in conjunction with McKinsey and Company that was titled, "*The Financial Sustainability of Health Systems A Case for Change*".

Yes, the report is now eight years old. However, it was forecasting industry trends through 2040. Now that we are one-third through that period, it is interesting to review some of their projections and see if they are holding true.

The report obviously was looking at healthcare through a macro lens–healthcare industry on a national and international level. They compared the challenges faced by developed countries as well as those less developed. Their observations and proposed remedies are fascinating as they seem to apply on the local or "micro" level as well.

After analysis of the existing conditions, they identified productivity growth in the healthcare sector as critical. (I feel vindicated!) The labeled it as the most important way for health systems to create value. The report stated that over the past 40 years, productivity gains were the principle driver of GDP growth in many European countries and the US.

3 challenges for improving productivity

While productivity gains were critical, the report identifed 3 principle reasons that would make it difficult to achieve in the health sector:

1. Health systems are "sticky". This is because public resistance blocks radical change; the result is that inefficient providers persist. Furthermore, modern management practices (e.g., robust performance management or service line reporting) are too often resisted by powerful vested interests.
2. Health systems cannot outsource to low-cost settings.
3. Health systems cannot easily replace labor by capital. Healthcare is an intrinsically labor-intensive sector.

Are these still true? Absolutely. It is imperative that HR be the change agent to lead radical change. After all, our toolbox should include the skills to minimize resistance. We control the recruitment processes, salaries/incentives, employee relations tools, training functions. We should be able to bring these to bear on achieving productivity gains.

Can't outsource to low-cost settings? There is a better idea–become the low-cost setting! In a labor-intensive industry, productivity gains lead the way to financial sustainability. I didn't say that, the World Economic Forum did.

While healthcare will remain labor-intensive for the foreseeable future, it then becomes imperative to improve internal processes and *reduce* labor costs if they cannot be replaced.

Who else?

Many HR professionals are reluctant to embrace leading the productivity improvement effort. However, in my organizations, I wanted HR to "own" the

utilization and management of the human resources. HR should be the experts in this. It constantly surprises me that HR is willing to give this aspect of the "people function" to someone else.

Let me end with a question, if you don't think HR should be managing this function, then who in your organization should be?