

Healthcare Productivity: What HR Professionals need to know

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What's the right number?

The WEF states that productivity gains will be the emphasis of industry for the next five years. Relative to healthcare, I have already emphasized that labor costs are the organization's biggest expense.

Adding value

An HR department that can successfully lower and manage these costs will result in many positive outcomes. For the organization, being the low cost provider gives it: (1) a competitive edge, and (2) flexibility to react to changes in the industry.

From the perspective of the HR department, it gives them; (1) demonstrable, measurable value, (2) respect, and (3) the best chance at being taken seriously at the big table.

Productivity management may be critical but HR professionals have determinedly maintained a professional ignorance of the nuts and bolts. Here then, is a basic primer of what productivity management is all about in the healthcare industry.

Productivity - the basics

What do we mean by productivity in the context of business? Simply put, productivity is the rate of output relative to the input. It usually focuses on the labor costs. It is usually expressed as a ratio: worked hrs/unit of production.

It is a reference to how many worked hours are required to produce a defined output. An assembly line making toasters would reference productivity as the number of toasters per worked hour.

Critical to healthcare

Why is productivity so important to healthcare organizations? There are several reasons:

1. Healthcare providers don't make anything. They provide a service. It is not as easy to measure services as it is manufactured items.
2. Healthcare organizations are very people intensive. Hospitals, for example, require 3.5 or more employees for every patient. It becomes imperative that labor costs be effectively managed.
3. Consumers of health care services are generally not the payers. The days of providers passing on cost increases have been gone for some time. Payers are limiting the choices of their insured and they are directing them to the high quality, low cost providers.
4. Whether the organization is for-profit or not-for profit, it is critical that labor costs be provided at the lowest cost possible. It is not about profit-it is about the sustainability of the organization.
5. Lower labor costs also give the organization flexibility to react and adapt to the massive changes that are occurring in the industry.

So it is THE critical issue in managing healthcare costs. How is it measured if we are not "making" anything?

How productivity is measured

Productivity for our industry is measured as worked hours(WH)/unit of service (UOS). The unit of service will not be the same for every department. For example, the UOS for a nursing unit would be a patient day. The productivity measure would look at worked hours per patient day (often abbreviated as HPPD - hours per patient day).

The unit of service for radiology might be diagnostic exams. For Physical therapy, it might be treatments. You get the picture -the UOS is whatever the "product" or output is for the specific department.

To measure the productivity of a nursing unit for a week, one would take the worked hours for the week divided by the total patient days for the same period. This will give you the ratio of hours/patient day and tell you how productive the

unit was. A typical med-surg unit will operate with HPPD.

Departments that have work volume that varies on a day-to-day basis use this ratio and are generally referred to as “**variable**”. However, there are other departments whose workload does not necessary change daily. These may be departments like housekeeping, Human Resources, Finance, etc. These departments are generally referred to as “**fixed**”.

Generally, clinical departments are variable and most support departments are fixed. There are some exceptions to both but that is good rule for a basic understanding.

So for each cost center, productivity can be expressed either as a ratio of worked hours/UOS or as a fixed predetermined number.

This is how productivity would be examined for each department. (There is also a method for determining the productivity for the organization as a whole but this involves factoring in the outpatient revenue and is based upon AOB-Adjusted Occupied Bed). How that is done will be saved for another post.

A simple way to start

If your organization does not have a formal productivity management program in place, you can start monitoring what it is for the various departments by:

- Obtaining the actual worked hours for a given period (usually a payroll period)
- Obtaining the work volume for the same period (census data for the nursing units, related volume for the clinical departments)

It is fairly simple to measure productivity for nursing units as the official census is readily available. It is more difficult for the other clinical areas. You don't want the revenue from these areas, you want the number of procedures.

If you want to start becoming familiar, work with the clinical directors to obtain this information.

You will notice that everything we have talked about to this point will only tell you what the productivity actually is for that period of time. It does not tell you what it

should have been.

Productivity Targets - the next step

Once actual productivity is determined for each area, the next step is establishing what it should be. This is the real value of productivity management-not just reporting what it currently is, but establishing what it should be for each area. These are generally referred to as “productivity standards”, “staffing standards”, “staffing targets”, etc.

Productivity standards should be viewed as a good thing. Rather than subjective feelings or the talent of the manager determining the staffing level (and costs!), the standards are the objective method the organization can use to determine appropriate staffing. So if a unit census for the day is 20 and my standard is 7.5 HPPD, then the manager can staff 1509 hours.

While standards can be a useful tool, the way they are introduced or “imposed” can cause a lot of negative reaction. That is why I strongly believe that the productivity management belongs in HR. We are the ones that should know how to introduce and administer these. Experience has taught me that when implemented correctly, significant labor costs can be achieved, quality maintained or improved, and employee satisfaction increased.

How this is simultaneously achieved will be the point of many posts and should reinforce the value of HR leading this effort.

A simple first step

If this subject is foreign or you are apprehensive about HR getting involved in this, began by simply understanding the actual productivity of your variable departments each pay period. As you start calculating productivity, you will become more familiar with the issues and more confident of your understanding.

By doing this for several pay periods, you will also begin to see opportunities. For example, when measuring productivity for a nursing unit, do you include management and non-direct care staff? (yes). What differences in productivity are there between similar units (those with similar patient acuity)?

You will soon find that you are developing an understanding (and expertise) into ***where and how your workforce is actually being used***. This is critical knowledge before tackling ***where and how it should be utilized***.

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