

8 Ways to Cut Labour Costs in Your Hospital

Written by Rachel Fields | December 16, 2010

Labour costs are one of the largest expenses for most hospitals, so tight management of staffing is essential to maintaining financial health. Dennis Patterson, chairman of The Collaborative for Healthcare Leadership, discusses eight ways hospital CEOs can cut labour costs and staff appropriately.

1. Use IT to track labour costs. According to Mr. Patterson, CEOs who waste the most money on labour are those who have no way of tracking and benchmarking labour data. "There are several labour systems out there — I'm not a proponent of one over the other — to really track how you are using your labour in order to adjust to volume and patient acuity," he says. "The people who are in the most trouble are people who had no information technology to say, 'How many people did I use yesterday or last year to deliver the same level of service to my patients?'"

He says hospital leaders should invest in an IT system that tracks and benchmarks labour costs to let the hospital know which months are particularly volume-heavy and which departments are overstaffed, among other factors. He recommends the data be analyzed on a daily, weekly and monthly basis depending on the level of supervisor.

"The first line managers should be looking at the data daily and using it to know whether they have to call in more staff or not have staff come in because it's not necessary," he says. "Department supervisors should look at the data weekly, and the executive team should look at it monthly."

While executive oversight of labour data can inform better policies and processes, Mr. Patterson says executive attention can also simply help enforce labour oversight down the line. "If the executive team doesn't look at it, the people on the front line will know that and they won't look at it either," he says.

2. Establish labour expectations. Mr. Patterson says smart CEOs will sit down with medical staff, nursing staff and department heads and establish how many FTEs per patient acuity level the hospital will allow. This gives staff a benchmark to work from, and it helps department supervisors analyze data. If no one knows how many FTEs should be staffed, they also won't know when the level of staff is too high or too low. "If everybody has that standard, they know what they're going to be held accountable for," he says.

3. Recognize trends and adjust staffing accordingly. If a good portion of your surgeons takes vacation in August every year, you should plan for case volume to drop and for nurses and OR technicians to be less useful, Mr. Patterson says. "I think the hardest thing is that people don't like telling people not to come to work," he says. If you recognize that once a year, your patient volume drops due to external forces, you should inform your staff of that trend and let them know they can and should take vacation during that time.

The same rule applies for the reverse situation. Over the holidays, a lot of people come home from school or get time off work and use that time for elective surgery, Mr. Patterson says. "That's when the hospital is letting people go off on vacation for Christmas and New Year, and now they'll need to use an agency because they need people," he says. Using an outside agency to staff your hospital can cost 3-4 times the salary you would pay to regular employees, costing your hospital money because of poor planning.

4. Assign staff to duties that fit their credentials. Don't waste money by staffing a nurse to do the job of a secretary, Mr. Patterson says. All too often, over-staffed hospitals give nurses non-clinical duties that could easily be performed by a non-clinical staff member who costs the hospital less money. "When you do a turnaround, you'll find that because the CEO was so concerned that the medical staff would react [poorly] to

laid off nurses, the hospital would lay off a unit clerk instead," he says. The nurse would then have to perform the duties of the unit clerk for a much higher wage than was previously paid to the clerk.

Appropriate staffing can be improved by setting standards for which staff members perform which duties. Each unit should look at its necessary tasks and decide which credentials are necessary for each one. This might mean using one nurse, two aids, one tech and one secretary for a particular unit, a much less costly staffing model than using five nurses.

5. Divide labour costs by unit. Different units will have different labour costs, and your hospital must know which costs apply to which unit before you can start saving money. If a certain unit needs extra staff and calls in staff from an outside agency, that unit's staffing costs will be higher. But if those hours are sent to a central pool, rather than allocated to the department that used them, your hospital will just see an increased cost in overall labour rather than an increased cost for the specific department.

"It's very important that if you are using staffing as an outside resource, you make sure those resources are allocated back to the proper cost center," Mr. Patterson says.

6. Develop a central staffing pool. Using outside agencies to staff your hospital during high-volume or high-acuity periods can be expensive. Instead, Mr. Patterson recommends setting up your own central agency pool, so you're hiring nurses or techs that are assigned to a pool you created. The pool basically functions in the same way as an outside agency, but instead of paying 3-4 times your normal wage, you're paying the usual salary without benefits.

He says your hospital should set up a call centre that contacts nurses when the hospital is short-staffed. If you keep an eye on your staffing trends, you should be able to predict when you will need more staff and plan in advance.

7. Implement layoffs one at a time, not en masse. Mr. Patterson says troubled hospitals often ignore the need for layoffs because they value employee morale. In doing so, though, they experience greater financial difficulty and eventually have to lay off hundreds of employees, causing embarrassing publicity and employee outrage. If volumes are dropping and nurse-patient ratios are becoming smaller, your hospital should consider laying off some employees to save money. If you start cutting positions when financial difficulty becomes apparent, you will avoid the problem of staffing too many nurses for too few patients and losing even more money.

8. Incorporate labour control into staff evaluations. Because labour costs are a significant expense for hospitals, Mr. Patterson believes labour control should be built into employee evaluations, especially for department supervisors. "The two things I would put very high on any evaluation are appropriate staffing and patient satisfaction," he says. Employees who fail to meet staffing expectations for their unit should be monitored more closely.