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## Healthcare providers keep close tabs on labor costs to keep spending in check

Executives say providing high quality at the leanest possible cost is all about efficiency.

[Jeff Lagasse](#), Associate Editor



Cost saving strategies vary from health system to health system, but experts say close monitoring of labor costs is one of the most important areas that can affect an organization's finance structure.

Strategies abound for controlling a system's labor costs, but the first step is often a relatively simple one: settling clear goals and expectations.

Jay Spence, vice president of solutions marketing at management consulting firm Kaufman Hall, said these goals are often established as part of a broader strategic and financial planning exercise, and translate into higher-level labor ratios. Those ratios can be used to help guide

additional budgetary targets, which in turn can promote accountability in manager-level positions.

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"On an ongoing basis, HR can support finance leaders by partnering with them on programs that address areas where cost-saving measures can be implemented and evaluated," said Spence. HR, he said, can also partner with operational managers to ensure those measures don't adversely affect quality of care, or erode morale for existing employees.

Accountability matters, and a finance department can help promote it, said Spence, educating managers on various cost realities. And since managers influence staffing decisions -- and ultimately, labor utilization and costs -- any proposed reductions should be evaluated against some common sense criteria: what's reasonable, what's achievable, and what's sustainable.

For sustained results, reports and [analytics](#) should monitor whether the organization is on track to meet its labor cost and efficiency goals, and to keep tabs on what's been achieved to date in some of the key labor management initiatives. If a change is needed, said Spence, the analytics should be eyeing the steps being taken to achieve it -- and what risks are inherent in that effort.

"Because labor is the largest cost in most healthcare provider organizations, it is also viewed as the most controllable," said Spence. "The reality of healthcare reform is that while continuous cost improvement is important, it can't be done in a way that sacrifices the quality of care or patient satisfaction. Poor quality can have a direct correlation to financial returns."

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For Mark Meyer, chief financial officer for the Georgia-based Grady Health System, providing high quality at the leanest possible cost is all about efficiency. Meyer, who will be speaking about labor cost management at the upcoming [Healthcare Financial Management Association](#) conference in Las Vegas, said that in revenue cycle worlds -- admissions, billing, follow-up and analysis -- efficiency is best achieved through technology.

To highlight this assertion, Meyer cited a technology, recently implemented at Grady, that types in registration information for patients automatically, and then sends it to the insurer, which in turn automatically verifies that the insurance is in place. At no point in the process is there any human interaction; Meyer said Grady is one of the first health systems to adopt this approach.

Of course, as with any technological approach, there are limitations.

"Technology is the leading driver of efficiency," said Meyer, "but when it comes to bedside nursing, for example, there's only so much you can do. You have to be hands-on with the patient."

Certain variables can make it a challenge to control labor costs, and Meyer said one of the struggles can be changing the culture, getting everyone onboard with what the system is trying to accomplish -- particularly when it comes to employees who have been there for decades.

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"Many folks have been doing things a certain way for a long time, so to change that culture is not always an easy thing for folks to adapt to," said Meyer. "We're all looking out for the patient, but how you define that ... can look different depending on which eyes are looking at that."

When physicians and nurses are engaged and supportive, he said, good things can happen for the patient. Patience is the key to any kind of system-wide cultural transformation, said Meyer; otherwise, there may resistance to how the organization is trying to evolve.

"As an administrative leadership team, you need to make sure the medical staff is engaged and a part of that decision-making process," he said. "You can't hand a dictum to a medical staff and expect them to embrace it. They have to be involved from the beginning. Anybody who's been through this knows that;s truly the key. Especially in an academic environment like this one, we've got about 500 residents here at any point in time, and that's just another aspect that adds complexity."

Meyer and Spence both agree that no amount of efficiency measures or labor cost initiatives should ever have a negative impact on patient care.

"As healthcare organizations evaluate ways to effectively manage cost, the connection that exists across [operations](#), finance and human resources is having a shared goal -- improve the value of patient care delivered at the lowest cost possible," said Spence. "While cost reduction is important, is must be balanced against the level of service and quality of care that is provided."

Twitter: [@JELagasse](#)

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