Practical strategies for financial strength

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Leveraging Labor to Drive Savings

By Jackie Larson and Deborah Walkenhorst

Shifting from a siloed to an enterprise approach to workforce management enabled a large healthcare network to reduce contingency staffing costs by more than $23 million over five years while simultaneously improving staff satisfaction. ➜ ➜

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In 2006, SSM Health Care–St. Louis, a seven-hospital network, embarked on a multi-year endeavor to transform its approach to managing labor. At the time, the health network was struggling with a number of issues many health systems currently face, such as:

> Heavy reliance on contingency staff to fill shifts, with agency and core staff working on overtime/premium pay
> A decentralized, paper-based approach to resource management
> Inconsistent staffing policies and practices, causing confusion and inefficiencies
> Expensive, open-shift management practices
> Inability to uniformly track and capture labor cost metrics

The overarching goal that SSM Health Care–St. Louis leadership had identified was the need to transition from a siloed approach to an enterprise model of labor management. Under a siloed approach to managing labor resources, directors and managers concentrate on their own departments or units with little knowledge of what is going on elsewhere within the organization. This can be an especially problematic approach to managing inpatient nursing units. It often results in some units sending staff home while other, similar units use overtime, bring in more expensive, last-minute sources of external staffing (that is, agencies), or run short.

Conversely, an enterprise-level model of resource management allows an organization to leverage economies of scale and benefit from the real-time coordination of staffing to efficiently use resources at hand. Elements of an enterprise model include centralized resource management, known as central staffing, and resource sharing—both of which hinge on the ability to view resources and needs at the system level.

To achieve its goals, SSM Health Care–St. Louis partnered with a third-party provider of healthcare consulting and scheduling technologies to help implement the necessary strategies and technology.

Developing Enterprise Labor Management

The organization's transition from a collection of individual hospitals operating separately into a truly interconnected organization was backed by a core operations philosophy and supported by the following staffing policies and strategies:

> Centralized staffing office and policies
> Enterprise float pool
> Enterprise scheduling software
> More efficient open shift management methodologies

Centralized staffing office and policies and float pool. To facilitate its transformation to an enterprise model, SSM Health Care–St. Louis worked with its external partner to develop and implement a central staffing office and enterprise float pool of caregivers, initially outsourcing its management to the partner. The development of the enterprise float pool was intended to reduce dependence on outside agency staffing. To the same end, the health network committed to using only traveler agencies whose caregivers lived more than 200 miles from a hospital within the system. This was intended to prevent hospital employees from leaving the system only to return as agency-employed caregivers; often, a nurse was placed on the same unit where she was once a core employee.

The central staffing office worked with the clinical liaisons (house supervisors) at network hospitals to carry out day-of staffing plans, including the placement of resources (e.g., possible floats) between units and the placement of site-based and enterprise float pool staff. The central staffing office also handled the processing of sick-day calls and proactive recruitment, freeing unit managers to focus on staff mentoring and patient care.

Enterprise scheduling software. This network-wide approach to managing resources was made possible through the implementation of an online enterprise healthcare scheduling software, giving the central staffing office and other managers the ability to view staffing levels across the system and to manage and deploy resources accordingly.

The scheduling system also provides staff with 24/7 access to view their schedules and submit shift trades and other requests online, allowing for paperless and timely administration. Once a staff member submits a request within the scheduling tool, a manager is sent a notification that automatically shows the impact the request will have on staffing. As soon as the request is approved, the schedule is automatically updated and the staff member is notified, all without the need for manual processes.

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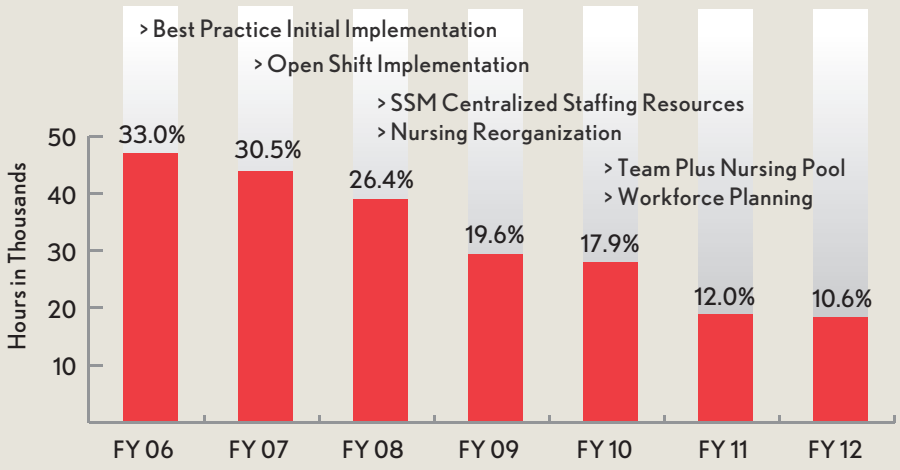
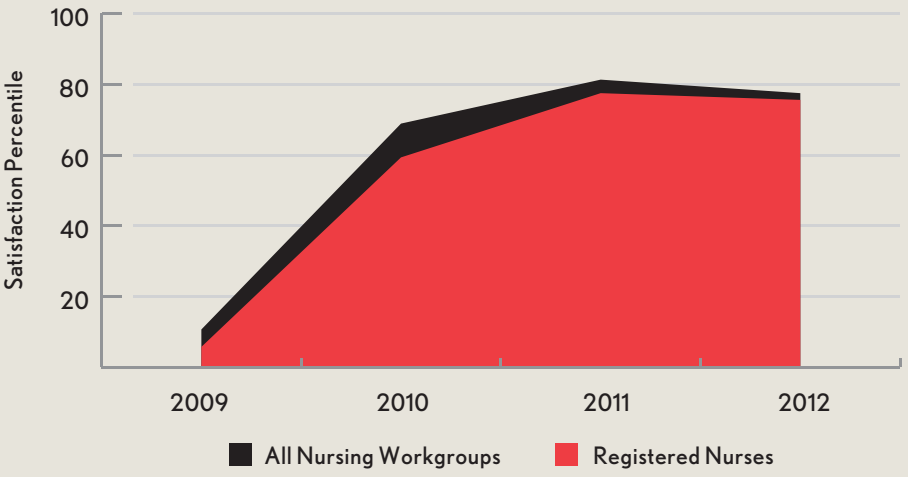
Average Contingency Staff Use*



*In hours and as a percentage of overall care hours

Source: SSM Health Care–St. Louis. Used with permission.

Nurse Satisfaction Scores



Source: SSM Health Care–St. Louis. Used with permission.

Furthermore, the comprehensive scheduling tool uses predictive analytics to provide accurate forecasts of patient volumes, allowing the organization to develop more accurate staffing plans sooner and to allocate resources based on an accurate forecast of future patient demand. Nurse managers can then schedule appropriately for peak days, reducing overstaffing/understaffing, cancellations, and floating—staff dissatisfiers that lead to low morale and decreased quality.

Open shift management methodologies. SSM Health Care–St. Louis also used the scheduling software's embedded open-shift management tool to establish an efficient, proactive approach to filling open shifts. This methodology uses forecasts provided by a predictive model. Shifts are posted based on the gap between forecasted demand and the resources scheduled. Financial incentives (an hourly rate in addition to the hourly base rate of pay) tied to the shifts are based on level of need, which decrease as shifts are picked up.

This methodology encourages staff to schedule up to 30 days in advance of a shift (when the highest incentives are offered), solidifying staffing plans much sooner than reactive open-shift management protocols. In practice, 75 percent of open shifts are filled at least two weeks in advance of the shift.

Achieving Favorable Outcomes

The enterprise model of resource management, including the scheduling software's forecasting capabilities and the open-shift management tools, helped SSM Health Care–St. Louis achieve dramatic reductions in its use of contingency staff over the 2006-2012 period, as shown in the top exhibit at left. In 2006, contingency staffing accounted for an average of 33 percent of the organization's patient care hours. By 2011, that number had dropped to 12 percent. The cumulative contingency savings for this period amount to $23.6 million dollars.

SSM Health Care–St. Louis has also realized a significant increase in staffing satisfaction scores—a result of the strategies and technologies implemented—as measured by a third-party healthcare performance improvement company. As shown in the bottom exhibit at left, satisfaction with staffing levels among all nursing divisions increased from the 12th percentile in 2009 to the 78th percentile in 2012. Among registered nurses, satisfaction with staffing levels increased from the 18th percentile in 2006 to the 81st percentile in 2012. In 2011, satisfaction was in the 86th percentile.

Planning for Success

The transformation at SSM Health Care–St. Louis did not happen immediately, but through a series of steps and specific goals. The right strategies had to be understood, implemented, and sustained. Essentially, the improvements were facilitated by three key elements:

By Harry Kirschner and Carolyn Mansfield

A Collaborative Approach to Reducing the Clinical Supply Spend

Securing lasting savings in the clinical supply chain does not require a winner-take-all approach. Improving collaboration with both physicians and suppliers can result in mutual benefits and sustainable cost reductions.

Mounting evidence is directing hospital and health system leadership to double down on efforts to reduce clinical supply costs. In a survey by Credit Suisse, 80 hospital executives said they believe that "better than expected supply cost performance" was second only to volume as the driving force behind projection-beating financial performance in the last quarter of 2012.[a]

Half of the survey respondents reported that clinical supplies provide the best opportunity for cost management in 2013. For this reason, progressive organizations are reshaping their relationships with their medical staff and their suppliers to drive rapid, multimillion dollar impact on supply chain costs.

Understand the Opportunity

The opportunity in clinical supply spend should attract C-suite attention. A recent study by The Advisory Board Company on non-labor cost reduction revealed some surprising results:

- Many healthcare organizations accept reassuring benchmarks provided by their purchasing partners that show limited price opportunity. But when top performers push beyond benchmarks provided by group purchasing organizations and suppliers that may benefit from less-aggressive pricing, they achieve 12 percent to 22 percent year-over-year savings in "tough" physician preference item categories such as spinal implants.
- Time-honored tactics like standardization, capitation, and market share pre-commitment do not produce the largest price reductions.
- The gap between projected and realized savings is larger than most suspect: As much as 40 percent of the projected savings erode in the first year of a new contract due to cost leakage.

What is preventing common strategies, such as clinical supply sourcing and physician engagement, from producing sustainable cost savings?

For most hospitals, clinical supply sourcing has devolved into an administrative effort to secure pre-commitment to market share assurances for the supplier, followed by a price negotiation based on assumed award scenarios for the hospital. "Physician engagement" refers not to actual engagement, but to the process of persuading physicians to abandon their preferences in favor of a lower-cost alternative. In this model, physicians have the power to disrupt savings efforts by refusing to comply with the hospital-selected award scenario. The result is that the supplier maintains pricing advantage in the negotiation, and hospital leaders assign blame to their medical staff, mistakenly believing that "they'll never standardize to the lowest-cost vendor." Even a "win" in this model falls short because when physicians are

a. "4Q Hospital Survey—Lackluster Trends Continue, but Optimism for 2013/2014," Credit Suisse Equity Research, January 2013.

- Buy-in from leadership, gained through a series of internal meetings, in addition to presentations from the external partner focusing on the strategies, scope of the project, and potential ROI, such as the cost of contingency versus core staffing—all of which were driven by the executive-level project champion at SSM Health Care—St. Louis.
- Cross-departmental commitment, driven by human resources, with nursing, and finance leadership committed to working together to communicate and drive the success of the project throughout the organization.
- Cultural change, achieved over time through a mix of communications, automation of processes and practices, and decreased costs while increasing continuity of care, in addition to the network's desire to change and the commitment of its leadership to the long-term labor management redesign process.

Once the cultural change had taken hold, after roughly two years, the external partner transitioned the management of the central staffing office and enterprise pool to the health network. Now staffed with internal employees, the staffing office uses the healthcare scheduling software and methodologies developed externally to manage staffing and deployment operations across the network.

The outcomes the health network has achieved are due in large part to its collaborative culture. Sustainable improvements in labor efficiency are as dependent on an organization's culture and willingness to change as they are on a software tool that automates successful practices. Together, they offer a complete solution.

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