



analyzing your hospital's labor productivity

SAMPLE DAILY LABOR PRODUCTIVITY NEEDS

Daily Standard Hours Per Unit of Service		Potential Units of Service		Total Hours Available		Total Employees Needed (Calculated)	
Nursing (Patients)	Radiology (RVUs)	Nursing	Radiology	Nursing	Radiology	Nursing	Radiology
4 to 4.5	1.2	14	55	60	66	7.5	8.25
4 to 4.5	1.2	15	60	60	72	7.5	9
4 to 4.5	1.2	16	65	72	78	9	9.75
4 to 4.5	1.2	17	70	80	84	10	10.5
4 to 4.5	1.2	18	75	80	90	10	11.25
4 to 4.5	1.2	19	80	80	96	10	12

SAMPLE BIWEEKLY LABOR PRODUCTIVITY ANALYSIS

		Actual Units of Service		Standard Hours Required		Standard Hours Used		Percentage Variance	
		Nursing	Radiology	Nursing	Radiology	Nursing	Radiology	Nursing	Radiology
Sunday	2/13/05	15	24	60	29	64	24	-6.7%	16.7%
Monday	2/14/05	18	65	80	78	78	88	2.5%	-12.8%
Tuesday	2/15/05	17	75	80	90	78	104	2.5%	-15.6%
Wednesday	2/16/05	15	82	60	98	68	112	-13.3%	-13.8%
Thursday	2/17/05	18	74	80	89	90	88	-12.5%	0.9%
Friday	2/18/05	14	89	60	107	56	100	6.7%	6.4%
Saturday	2/19/05	10	40	48	48	48	48	0.0%	0.0%
Sunday	2/20/05	15	26	60	31	65	24	-8.3%	23.1%
Monday	2/21/05	19	78	80	94	82	88	-2.5%	6.0%
Tuesday	2/22/05	20	75	88	90	84	88	4.5%	2.2%
Wednesday	2/23/05	16	74	72	89	66	88	8.3%	0.9%
Thursday	2/24/05	17	75	80	90	92	88	-15.0%	2.2%
Friday	2/25/05	14	86	60	103	58	108	3.3%	-4.7%
Saturday	2/26/05	9	38	48	46	47	48	2.1%	-5.3%
				956	1,081	976	1,096	-2.1%	-1.4%



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When fringe benefits and contract labor are added to salaries and wages, total hospital labor costs constitute more than half of total revenue. As an example, Fitch Ratings reported in August 2004 that across its 215 rated not-for-profit hospitals, the labor ratio was 52.2 percent. More accurate forecasting of staffing needs compared with projected volumes and better use of labor can lead to improved profitability.

With a simple three-step method, and without any commercial tools other than Excel, hospitals can begin to manage their labor costs through labor productivity only.

Step 1. Determine your current labor ratio (salaries, contract labor, and fringe benefits divided by total revenue). Do not forget to include any nonemployee labor costs, such as agency fees and purchased services.

Step 2. Set positive overall labor ratio goals—that is, a ratio less than the median (for example, 52.2 percent). If you are currently unfavorable to the median, set initial goals to get to the median. If you are at the median, set goals 1 or 2 percent less in the upcoming goal-setting period (6 to 12 months from now). If you are currently favorable to the median, set goals to move toward best practices (44 to 45 percent for a single freestanding hospital).

Step 3. Develop a labor productivity system that will help your organization determine the level of hours needed per unit of service. Each department should have its own productivity standard. Then, on a daily, biweekly, and monthly basis, labor productivity information should be collected, reported, and distributed to the department managers so any necessary action can be taken to

ensure meeting the goals. Hospitals can use commercial products to generate these reports automatically, or they can use an Excel spreadsheet to capture and report the information.

The first table shows the initial step in developing an effective labor management process in the nursing and radiology departments. The hospital determines its daily staffing needs based on expected units of service and the number of labor hours it has chosen to use as a standard, based on benchmarking.

The second table represents a spreadsheet analysis of biweekly hours in relation to the units of services produced. In the last column, the totals show just a 2.1 percent unfavorable variance in the nursing department (956 hours were required but 976 hours were used) and a 1.4 percent unfavorable variance in the radiology department (1,081 hours were required but 1,096 hours were used) during this two-week period. This may not be considered a poor outcome, yet there are several days when the unfavorable percentage exceeded 10 percent in both departments. If the managers had been able to maintain productivity within the standard goals, the hospital would have used fewer staffing hours and thus saved on labor costs.

Keep in mind that this analysis purely reflects labor productivity analysis but not any rate variances (based on average hourly rates). A full labor management tool would take both into account in determining the operating manager's results in achieving labor cost goals.

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If you have developed a useful tool that you'd like to share, please contact Margaret Veach, senior editor, at mveach@hfma.org.