

Three Steps to Increased Productivity & Decreased Labor Costs: A New Way of Thinking in Healthcare Delivery

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Introduction

Rising labor costs – driven by increased staff turnover, growing use of external agency labor, and demand for higher wages – continue to account for a large percentage of hospital and health system expenses. Although the problem is evolving, the **approaches to measuring and managing labor in health delivery remain antiquated**, plagued by 1) financial performance targets that are misaligned with workforce management tools, 2) a lack of understanding among front-line managers about the dynamic relationship between hours, volume, and cost, and 3) the lack of discipline and rigor around labor expense management processes, cadence, and reporting.

In the current environment, effective workforce management requires hospitals and health systems to embrace a new way of thinking centered on **patient-focused staffing**; one that **empowers front-line managers to run their departments as if they were small businesses**. This article outlines the three elements to a successful workforce management program in healthcare.

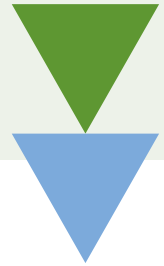


“Bristol Health’s experience with Impact Advisors has been outstanding. The pandemic left [us] in a difficult financial position needing rapid cycle improvement. The Impact Advisors team identified and prioritized opportunities for improvement, brought in a qualified team of implementation experts and closed our substantial operating gap in less than six months. [They] integrated and worked with the Bristol Health team seamlessly, as if they were part of our culture. Their performance and engagement make it easy for me to give them my highest professional endorsement.”

— Kurt Barwis
CEO, Bristol Health



3 Steps to Successful Workforce Management



1. Align on Realistic, Patient-Focused Targets.

The first step in optimizing hospital and health system workforce – and maximizing productivity – is ensuring key operational and clinical stakeholders have access to the data that can best support informed decision-making. The traditional way of measuring labor in health delivery is woefully inadequate. The data that many hospitals and health systems currently rely on to make workforce decisions is far too one-dimensional, disproportionately focused on hours worked without enough consideration for the inherent variances in patient demand and the inextricable relationship between hours, volume, and cost. The result is that health delivery organizations today end up just staffing to a schedule instead of to **patient needs**. Additionally, focusing solely on worked hours per unit of service (WHPUOS) doesn't factor in the critical aspect of costs.

Impact Advisors works with clients to establish labor productivity targets that are not only based on WHPUOS, but **paid hours per unit of service (PHPUOS) and cost per unit of service as well** – which collectively provide alignment with true cost, overall budget, historical performance, and unique patient needs. **We proactively work with the executive suite right from the beginning.** As the very first part of the engagement, we introduce the senior leadership team to our overall labor improvement program, the target-setting process, and our proprietary OPTIX labor reporting system, structures, and tools that will empower our client's teams to succeed.



2. Empower Your Front-Line Managers.

Just like the act of wearing a heart monitor doesn't automatically make a person healthy, simply having a system in place to measure performance doesn't mean an organization is effectively managing their workforce. The right reports, tools, and education are essential to empower front-line managers and ensure they are using data to take the appropriate actions.

For each report or tool, there needs to be a robust methodology for when to use it, where to use it, who uses it, and how they use it. Just as importantly, there needs to be an investment to educate front-line managers about the data in those labor reports, so they can develop the skills and mindset of a “small business owner.” This is why Impact Advisors wraps coaching and education around our reports and tools. From a “Bootcamp for Managers” to ongoing one-on-one and group coaching sessions, we teach front-line managers how to interpret data and how to influence it, whether from an hours perspective, a volume perspective, or a cost perspective. This helps empower them with the understanding they need to be able to effectively communicate with their team, their supervisor, and C-Suite executives about variances.

The ability to adapt to different levels of financial literacy and business acumen is also critical to effectively empower front-line managers. Impact Advisors mirrors and matches our speed to each individual with whom we work. We have found this investment of time results in teams becoming excited about reporting because they fully understand the factors that lead to their productive (or even unproductive) time, and they are also better able to articulate their success and challenges to leadership.

“This has been the best partnership ever.”

— Robin McGuinness, DNP, RN, CENP
Senior Executive Officer, AdventHealth
Chief Nurse Executive, West Florida Division



3. Create a Culture of Engagement.

Establishing labor productivity targets that accurately reflect the dynamic relationship between hours, volume, and cost – and leveraging the right reports, interactive tools, and education that can serve as a roadmap to reach those targets – are crucial, but ultimately still represent only part of the equation. There also needs to be a strong and continuous organizational commitment to engaging department leads and driving cultural change.

One of the cornerstones of driving engagement around labor transformation initiatives is biweekly labor productivity huddles, which serve as a platform to review prior pay period performance, understand the root cause of productivity variances, and identify solutions to mitigate those variances. This helps drive a culture of transparency and continuous improvement across your organization while creating a common language for discussing labor productivity.

Another critical aspect of creating a culture of engagement is expecting – and planning for – the normal human response to large-scale change. Adopting a “small business owner” mindset for labor management represents a massive shift to the way most hospitals approach productivity – and staff will almost always need to work through the stages of the Kübler-Ross Change Curve (i.e., Denial, Anger, Bargaining, Depression, and Acceptance). Achieving results hinges on a commitment to rigor and a willingness to embrace cultural change at every level of the organization. Successes – large and small – should be celebrated early and often along the way.

Overview of Impact Advisors' Biweekly Labor Productivity Huddles

The huddle process starts by organizing staff into logical groups by department and/or related service lines (i.e., separate huddles for inpatient nursing, perioperative and ancillary services, support services, etc.). This ensures discussions are as meaningful as possible.

Managers review their biweekly labor productivity reports in advance of the meeting and identify the driver(s) of their variances. Transparency is critical, so the labor productivity reports sent to managers and C-Suite executives are the same.

During a typical huddle, the front-line manager will review the productivity report from the previous pay period with the group, talk candidly about any challenges and variances during that time, and discuss an action plan with the team to address those challenges and variances. The Service Line Lead is expected to direct the huddles, and it is important that senior leadership team members are present as well, so they can hear directly from front-line staff.

The huddle process repeats every two weeks, into perpetuity, and quickly becomes an ingrained part of the hospital's culture, typically within a few months. A successful approach is highly focused on empowerment and engagement. Impact Advisors begins by leading the huddles, but we quickly “move to the back of the room” as managers become more invested in the process and empowered to lead the discussions.

A Magnet Healthcare System with Seasonal Patient Surges

When working with a non-profit Magnet healthcare system to reduce labor costs, Impact Advisors saw an additional savings opportunity through more proactive preparation for seasonal staffing trends by better managing their **position control**. The position control tool allowed each department to identify the number of FTEs they should hire, by both position type and shift, to support their budgeted average daily census.

Impact Advisors also used historical data to predict each department's seasonal average daily census and staff required. This enabled leaders to confidently hire the appropriate complement of full-time, part-time, and seasonal staff.

Cross-training enabled the nursing team to be more flexible and better meet demand. For example, nurses within maternity services could work in either labor and delivery, NICU, or triage versus only one area, which was standard practice. Having more “utility players” allowed the team to be more fully utilized and efficient across all areas.

The ability to bring reporting from disparate systems (e.g., EHR and ERP) into one consolidated tool, OPTIX, provided ease of access. This enabled front-line leaders to track the right data to make the best decisions and drive preferred outcomes against internal benchmarks.

The Bottom Line

Workforce pressures in health delivery are not going away any time soon.

Hospitals and health systems need to abandon the outdated approaches currently in place for measuring and managing labor – and embrace a new way of thinking that empowers front-line managers to run their departments as if they were small businesses. Success in the current environment requires leveraging data that is aligned with patient-focused targets, empowering front-line managers, and fostering a culture of engagement.



Our Client Impact

Impact Advisors has worked with multiple clients to implement workforce management focused strategies to generate cost savings, optimize capacity, and prepare for future growth. Our labor experts leverage a proven, patient-focused staffing approach and our proprietary OPTIX reporting system to empower client teams to manage to their own targets and hard-wire results.

Client A

A 154-bed hospital with over 100 employed providers seeing patients in more than 20 locations

Timeframe: 2023 - Present

Key Value Delivered:

- Achieved **\$25M margin improvement** to date by increasing revenue, decreasing labor and supply costs, and managing denials

Client B

A 13-hospital system with a long-term acute care facility and more than 15,000 staff members supporting about 2,300 licensed beds

Timeframe: 2023 - Present

Key Value Delivered:

- Achieved **\$39.7M savings - 13.4% improvement** over the previous year on a Labor Cost per Adjusted Discharge basis, the organization's best year ever

Client C

A non-profit magnet health system comprised of two hospitals with over 700 licensed beds, more than 1,100 physicians

Timeframe: 2022 - Present

Key Value Delivered:

- **Increased patient days by 3.1%** (+4,647 days)
- Reduced FTE count by 8.7% (-259 FTEs) without layoffs
- Delivered over **\$27M FTE savings**

Client D

A healthcare system with 30+ hospitals, 13 extended care facilities, multiple regional offices and hundreds of physician practices

Timeframe: 2003 - 2016

Key Value Delivered:

- Saved over 4500 FTEs
- Consolidated 6 hospitals
- Implemented over **\$800M cumulative savings**

Client E

A non-profit system made up of more than 600 health centers, including long-term care facilities, community care facilities, community hospitals, walk-in clinics, and health ministries

Timeframe: 2016 - Present

Key Value Delivered:

- **\$160M cumulative improvement** to the bottom line over the initial 3-year period (remaining years have been spent maintaining improvements)

Client F

A non-profit health system with 16 hospitals, rehab centers, physician clinics, pharmacies, mental health centers, and home health agencies

Timeframe: 2020 - Present

Key Value Delivered:

- Exceeded a **19% decrease in Cost per Adjusted Patient Day**

About OPTIX

Impact Advisors has a variety of labor productivity reports and tools, each designed to be relevant for a specific phase in the workforce management process.

There is an important difference between reports and tools. Reports reflect **current performance**, whereas tools provide the roadmap for reaching the **desired performance** level. Both are critical for ensuring the organization is appropriately staffing to meet the needs of patients, but they need to be used strategically.

Impact Advisors' OPTIX reports track progress against a wide range of metrics at the organizational and department level to give clients an accurate and holistic view of current workforce performance. Meanwhile, our tools – which provide the roadmap to reach targeted performance levels – are dynamic and interactive, allowing front-line managers to look at how certain changes to their staffing model will impact productivity and costs given likely fluctuations in patient volume, staff turnover, and department vacancies. This enables managers to be more proactive with hiring and staffing decisions, saving money by preventing situations of the organization being caught flat-footed by (ultimately predictable) staffing shortages and then having to turn to expensive third-party agencies at the last minute to fill urgent needs.

About Impact Advisors

Impact Advisors is a leading healthcare management consulting firm committed to solving the industry's emerging and evolving challenges. Our high-performing team of clinical, financial, operations and technology experts collaborate to architect quality solutions and deliver measurable value for our clients. We are the most awarded consulting firm in healthcare, with services recognized among Best in KLAS® for 18 consecutive years and a culture designated "Best Place to Work" by Modern Healthcare for 15 years. To learn more about our service quality and innovative culture, visit impact-advisors.com.

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