



Leverage a Human Capital Value Chain Approach to Achieve Desired Workforce Efficiencies and Cost Control

This brief describes GE's Human Capital Value Chain Model and a collaborative approach to optimize healthcare workforce development and management to achieve desired workforce efficiencies and cost control.

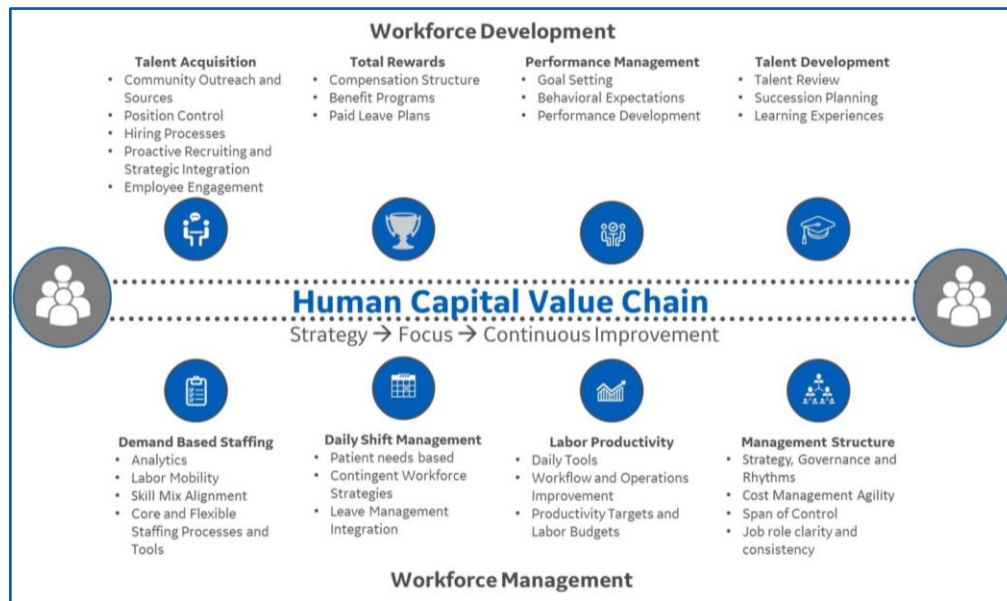
Background and Challenge

A healthcare organization's workforce can consume as much as 50% of net operating revenue. Optimizing workforce efficiency is a major priority for healthcare leaders. However, identifying effective workforce development and cost control strategies is complex. As any hospital executive knows, there is a big difference between potential improvements and true hard-dollar gains.

Consider the following scenario: A hospital finance team identifies an opportunity to reduce excessive premium pay in the nursing division, potentially saving \$20 million per year. They invest in a series of initiatives aimed at improving flexible staffing strategies. However, for a variety of reasons, the organization is unable to hire key roles in a timely manner or consistently retain staff. This forces unit managers to increase agency nurse utilization, overtime pay, and shift bonuses, while undercutting projected savings. At year-end, cost-per-unit of service has actually increased.

Labor cost reduction can be like squeezing a balloon—applying pressure to one area can make weaknesses in another area expand. In the example above, the flexible staffing initiative faltered because recruiting and retention did not meet the organization's needs. But these shortfalls are often driven by a series of complex interactions between factors like compensation, professional development, staffing, and management structures.

A healthcare workforce is a complex system. It has multiple components, and each component drives costs and outcomes throughout the organization. To manage human capital effectively, healthcare leaders need a conceptual, integrated model to balance workforce investments and labor cost savings.



Introducing the Human Capital Value Chain

The purpose of every function in a healthcare organization is to deliver excellent patient care with the most effective use of resources. The Human Capital Value Chain is a conceptual model that identifies the potential value created by the various labor management functions in a healthcare organization (see image, above). More importantly, it shows how these functions must work together to optimize results.

The top of the model consists of workforce development components, which can be thought of as traditional human resources functions. These include talent acquisition (recruiting), total rewards (compensation and benefits), performance management, and talent development. The bottom of the model covers workforce management functions, including demand-based staffing, daily shift management, and labor productivity.

As a conceptual tool, the Human Capital Value Chain can be used to guide efforts in three areas:

1. Improving performance within each component;
2. Strengthening linkages between components; and
3. Balancing investments and cost saving opportunities across the model to yield net savings.

To illustrate the model in action, let's return to the previously described scenario. A finance team determines that its hospital can achieve substantial savings by reducing excessive premium pay. Guided by the Human Capital Value Chain, the team undertakes a series of initiatives across the entire model:

Talent acquisition | Step one is to improve collaboration between hiring managers and the recruiting team and strengthen recruiting processes. These changes accelerate hiring of high-quality team members, reducing vacancies and premium labor associated with vacant positions. *Savings: \$2 million.*

Total rewards | A key element of recruiting qualified staff and reducing avoidable turnover is bringing compensation up to market levels, requiring a \$10 million investment in salary, benefits, and paid leave. This cost is slightly offset by eliminating premium pay used to compensate for the below-market wages. *Net cost: \$6 million.*

Performance Management / Talent Development | Without strong management support systems, productivity initiatives are just a set of targets. To ensure efficiency gains, the hospital invests in change management, manager development, succession planning, etc. *Cost: \$4 million.*

Demand-Based Staffing | Investments in information systems and analytic expertise help create an effective system of core and flex staff. *Cost: \$3 million.*

Daily Shift Management | Processes to manage and monitor staffing levels, skill mix, and work assignments ensure daily schedules are aligned to patient needs and staff is working at top of license. *Savings: \$8 million.*

Labor Productivity | A strong new-hire pipeline, within a culture of continuous productivity improvement, sets the stage for more efficient staffing levels. *Savings: \$12 million.*

This scenario illustrates a critical point about the healthcare workforce. The typical hospital or health system can achieve labor cost savings, but those savings are not to be found in any one component of the model. Appropriate investments across the Human Capital Value Chain (HCVC) are key to realizing total cost savings. In this scenario, the HCVC cost-saving balance equation yields \$9M in net savings [$\$2M + (\$6M) + (\$4M) + (\$3M) + 8M + 12M = \$9M$].

If there is one word that describes the heart of this conceptual model it is *balance*. To get the most out of the Human Capital Value Chain, healthcare leaders must manage workforce investments and savings opportunities holistically. A comprehensive approach to improving performance and building links between components is the key to sustainable overall cost savings. Ultimately, achieving the right balance will also improve employee satisfaction and improve patient outcomes.

Management Enablers Are Key

The eighth component of the Human Capital Value Chain is management enablers. In most hospitals, the various workforce development and management functions operate in silos. However, as illustrated above, the only way to achieve workforce cost savings and performance improvements is to coordinate the entire value chain. For this reason, hospital leaders should bring all components of the Human Capital Value Chain together under a unified governance structure.

Minimally, the organization should designate a senior-level executive to exercise oversight across the entire value chain, encompassing key stakeholders in finance, information systems, operations, and human resources. This individual should be empowered to coordinate all workforce functions and bring critical workforce issues to the executive committee. He or she should also establish formal links between functional components to ensure communication of needs and alignment of activities.

It is also important to invest in information systems to capture robust workforce data and analytic expertise to derive high-value insights. Appropriate technology and business support are essential to providing leaders with visibility across the entire Human Capital Value Chain model. This allows the key stakeholders to manage a complex healthcare workforce in an agile and holistic manner.

Consulting Solutions: A Collaborative Approach

GE Healthcare Partners' approach to human capital is collaborative from the assessment and roadmap development phase to the implementation phase. The overarching theme is to create a human capital roadmap that is linked to the organization's overall strategic plan while staging projects and initiatives to drive positive cash flow and ROI early in the roadmap timeline.

During the assessment and roadmap development phase, the Human Capital Value Chain Model is used as a framework for due diligence—along with a survey and leadership interviews. The resulting assessment findings are then translated into a human capital roadmap that captures and stages GE Healthcare and client-recommended projects and initiatives.

During the implementation phase, GE Healthcare Partners

leverages a combination of subject-matter experts and robust project and change management to drive results with client leadership and staff.

GE Healthcare Partner possesses experience to work within and across any component of the Human Capital Value Chain to achieve desired workforce efficiencies and cost control.

Results

GE Healthcare Partners has assisted numerous hospitals and health systems with human capital challenges and optimization. Examples of these results are provided in the table below:

Organization Type	U.S. Region	Human Capital Focus	Implemented Annual Savings/Revenue
Multi-hospital health system	Southeast	Talent Acquisition	\$3.6M
Multi-state large hospital system	West Coast	Pay Practices Optimization	\$6.5M
Multi-state academic health system	Northeast	Paid Leave Redesign	\$7.3M
Multi-hospital health system	Southeast	Management and Talent Systems	\$15M
Multi-hospital health system	Central	Performance Enablers	\$10M
Multi-hospital health system	Southeast	Demand-based Staffing, Daily Shift Management, Pay Practices	\$5M
Large Academic Health System	Northeast	Workforce Management	\$50M
Two Hospital System (Heavily Unionized)	Northwest	Workforce Management	\$4.5M
Major Academic Hospital	Northwest	Demand-based Staffing / Daily Shift Management in Nursing	\$3.7M
Multi-hospital health system	Central	Performance Enablers	\$10M
Multi-hospital health system	Southeast	Demand-based Staffing, Daily Shift Management, Pay Practices	\$5M
Large Academic Health System	Northeast	Workforce Management	\$50M
Small Rural Critical Access	Northwest	Labor Productivity	\$5.3M
Mid-sized Hospital	West	Labor Productivity (2 years)	\$12.0M