In January 2016, *HRO Today* produced a report sponsored by Clinical Magnet Study “HR in the ER.” The study explored the link between human resources and business outcomes in hospitals and health systems.

As a follow up to that very successful study, Clinical Magnet commissioned HRO Today to investigate the following question: What do profitable hospitals do that those struggling to maintain profitability do not? The research specifically addressed staffing levels, one of the biggest costs of any medical center. The study was conducted in July and August 2016 among 160 respondents from hospital and medical centers, and included responses from both Talent Acquisition and Finance/Accounting managers.

A distinction is made in this study between those organizations with a profitability focus and those without. That’s not the same as For-profit Hospitals or Non-Profit hospitals. Non-Profit Hospitals also have bottom line responsibilities, so the difference between these segments isn’t based upon legal structure.

**Background**

If you’re working in a hospital or medical center, ask yourself this: Is staying profitable important to our hospital/medical center? What do hospitals with a profitability focus do differently than those without? Study findings consistently illustrate that those who focus on profitability in addition to patient care have different priorities than those who do not.

Hospitals with a profitability focus:

- Have a commitment to increasing revenue through higher census; focusing on revenue as much as cost reduction.
- Are actively looking to increase census as part of organization objectives.
- Know that larger staffing budget leads to higher census and plan staffing needs accordingly.
- Overwhelmingly contend that revenue generation is as important as reducing costs.
- Maintain staffing levels approaching 90%, which leads to greater success in patient care, maximizing revenue potential, cost reduction, and meeting mandates government requirements. According to study participants, staffing should be at 85.7% of capacity for the hospital to be most profitable, very similar to the level of 88.8% needed for optimal patient care. Those from profitably hospitals indicated both of these percentages should be closer to 90%.
- Over three-quarters (78.3) of hospitals in our study have some form of Human Resources Information System (HRIS). But how those systems are employed varies. Those respondents from hospitals with a profitability focus get more out of their HRIS systems. In each of the eight features examined, those with a profitability focus were more likely to have the capability examined in the system than those without a profitability focus.

The study also separately examined two groups in hospital administration to better understand the differences in perspective: The Talent Acquisition Group, and the Accounting/Finance group. Those in the Accounting/Finance group have a better handle on the impact of staffing on hospital profitability than those in Talent Acquisition. The conclusion here is that the TA group should make it a practice to consult with Accounting/Finance when making the case for increased staffing to the C-Suite:

**Conclusion**

If you’re working in a hospital or medical center, ask yourself this: Is staying profitable important to our hospital/medical center? What do hospitals with a profitability focus do differently than those without? Study findings consistently illustrate that those who focus on profitability in addition to patient care have different priorities than those who do not. Hospitals with a profitability focus:

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• Those in finance were much more likely than those in Talent Acquisition to agree that higher occupancy increases revenue, 90.1% vs. 75.5%, respectively.
• The accounting/finance segment of respondents was more likely (84.0%) than the talent acquisition segment (73.6%) to agree that the two priorities were of equal importance.
• Accounting/finance respondents are more likely than Talent Acquisition respondents (44.9% and 37.7%, respectively) to indicate their medical centers focus more time on revenue than expenses.

Other Considerations:
Just under one half (48.6%) of hospitals have a formal model for evaluating how increasing census improves the bottom line. Those that have the model use capabilities that monitor staffing levels with metrics that can be used to avoid costly overtime expenses. These metrics often show how fixed and variable costs impact staffing decisions as well as patient care.

With approximately $2,000 per inpatient day as incoming revenue, hospitals are missing a major opportunity if they are not looking to maintain the staff necessary to accommodate a higher census.
Increasing Bed Occupancy Rate Increases Revenue

Please indicate the extent of your agreement with the following statements:

Study participants were asked if increasing the bed occupancy rate increases revenue for the hospital. Overall, 83.3% of study respondents agreed that higher occupancy rates increases revenue for the hospital.

Those respondents from hospitals with a profitability focus agreed significantly more than those without a profitability focus that a higher census increased revenue, 87.9% vs. 60.7%, respectively. The conclusion is that hospitals who focus on maintaining profitability look to increase census as part of their objectives.

Another view of the data is by made examining the findings by the respondent’s role in the organization; in this case, the distinction is between Talent Acquisition and Finance. Those in finance were much more likely than those in Talent Acquisition to agree that higher occupancy increases revenue, 90.1% vs. 75.5%, respectively.
Despite widespread agreement that increasing hospital census increases revenue, occupancy rates are actually declining. The CDC reports declining rates since 2005, from 69.3% to 64.7% in 2013, the most recent year available. (ii)

**CDC Occupancy Rate Estimates 2015**

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Occupancy Rates (All Hospitals)</td>
<td>69.3</td>
<td>66.6</td>
<td>66.5</td>
<td>65.2</td>
<td>64.7</td>
</tr>
</tbody>
</table>
Most of what’s written about managing hospital operations focuses on cost reduction, with very little on revenue generation. To see if cost reduction was the primary focus of hospitals, respondents were asked if reducing costs was as important as increasing revenue for their hospital. Well over three-quarters (79.8%) of respondents agreed that increasing revenue was as important as reducing costs.

Among those respondents with a profitability focus, 87.1% agreed that increasing revenue was as important as reducing costs.

The accounting/finance segment of respondents was more likely (84.0%) than the talent acquisition segment (73.6%) to agree that the two priorities were of equal importance.

Organizations can spend a lot of money on trying to save money, and it can lead to mixed results, according to Forbes contributor Nicole Fisher. “Reducing cost is any industry is a difficult task, but in healthcare, the difficulty is compounded by the need to maintain, or in many cases, improve the quality of care, health outcomes, and patient satisfaction,” Fisher wrote.

Hospitals throughout the country almost always focus their efforts on cutting costs and improving their bottom lines, often prodded to do so by insurers, employers and government officials.

The best hospitals also are financially sound, and that requires a balance between revenue growth and expense reduction. In the Truven Health Analytics list of 100 Top Hospitals for 2015, the top-rated hospitals had an average operating margin of 14.4%, compared with 3.6% for the peer group. The recognition is based on performance across more than a dozen measures, including financial performance.
Impact a Larger Staffing Budget Would Have On Ability to Increase Occupancy Rates

What impact would a larger staffing budget have on your organization’s ability to increase occupancy rates?

High occupancy rates are critical to maintaining hospital profitability. But higher occupancy means more staff is required. Study participants were then asked what impact a larger staffing budget has on their organization’s ability to increase occupancy rates.

Overall, three-quarters (75.4%) of study participants indicated that they believed a larger staffing budget would lead to increased occupancy rates.

However, once again, a clear distinction is made between those with a profitability focus and those without. In fact, 79.1% of those with a profitability focus felt that higher levels of staffing would increase their ability to achieve higher census, with only 57.1% of those in hospitals without profitability focus agreeing, a significant difference.

The talent acquisition and accounting/finance segments of the respondent set were similar in their assessment of the impact of a larger staffing budget on occupancy rates, with over 90% of both groups stating there would be an increase.

Impact a Larger Staffing Budget Would Have On Ability to Increase Occupancy Rates: Increase (Net)
HR in the OR
How Hospitals Can Improve the Bottom Line

Staffing Level Where Hospital is Most Profitable

At what percentage of staffing is your hospital the most profitable? Please select the range from the options below:

What is the optimal level of staffing – the level that makes a hospital the most profitable? Study respondents were asked to select a staffing range from a several options.

On average, 85.7% is the level of staffing where the hospital is the most profitable.

Again, those with a profitability focus indicated a higher level of staffing needed for optimal profitability than those without that focus, 87.0% vs. 81.0%, respectively.

The talent acquisition and accounting/finance segments of the respondent set were similar in their estimation of the level of staffing.
At what percentage of staffing is patient care optimized?

Most of this report focuses on the business side of a hospital or medical center. But such institutions fail unless they also provide compassion and care to their patients.

Study participants were asked how successful they are in maintaining optimal staffing levels to address a series of objectives. On average, 88.8% is the level of staffing where patient care is optimized, not dissimilar to the average of 85.7% noted previously where the hospital is most profitable.

Those hospitals with a profitability focus have a somewhat higher estimate for the level of staffing where patient care is optimized than those without (89.6% vs. 84.4%, respectively).

### Percent Staffing where Patient Care is Optimized

- **Total**: 88.8%
- **Profitability Focus**: 89.6%
- **No Profitability Focus**: 84.4%
- **Talent Acquisition**: 87.3%
- **Accounting/Finance**: 90.1%
Success with Maintaining Staffing Levels to Address Objectives

How successful are you in maintaining optimal staffing levels to address each of the following objectives:

Study participants were asked how successful their hospital is in maintaining staffing levels to address a series of objectives. Interestingly, those with a focus on profitability were significantly more successful in achieving all five of the objectives measured. In fact, for 4 out of 5 of the areas measured, fewer than one-half of respondents without a profitability focus considered themselves successful in achieving the stated goal.

Nearly 9 in 10 (87.8%) of those with a profitability focus felt they successfully maintained the right staffing levels to optimize patient care, vs. only about 6 in 10 of those without a profitability focus.

Meeting mandated government requirements can be a daunting task for a hospital. Again, we see a huge difference of 40 percentage points in the area between profitability-focused institutions and those with no profitability focus, 86.4 vs 46.4%, respectively. Typical requirements include massive paperwork, which often adds at least 30 minutes to every hour of patient care provided (v). HIPPA laws, Medicaid and Medicare requirements, and HCAHPS are just a few of the organizations with extensive paperwork requirements.

Maintaining the right staffing levels for revenue potential and cost reduction were both higher for hospitals with a profitability focus by nearly 30 percentage points.

There was a similar finding for other objectives as well. Successfully maintaining staffing levels correlated to success in optimizing revenue potential, cost reduction and meeting government requirements.

There were no notable differences in the success rating between Talent Acquisition and Accounting/Finance segments of the respondent set.

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Profitability Focus</th>
<th>No Profitability Focus</th>
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<tbody>
<tr>
<td>Patient Care</td>
<td>83.2%</td>
<td>87.8%</td>
<td>60.7%</td>
</tr>
<tr>
<td>Meeting mandated government requirements</td>
<td>79.8%</td>
<td>86.4%</td>
<td>46.4%</td>
</tr>
<tr>
<td>Meeting other guidelines</td>
<td>76.6%</td>
<td>85.6%</td>
<td>32.1%</td>
</tr>
<tr>
<td>Revenue potential</td>
<td>71.7%</td>
<td>76.3%</td>
<td>48.1%</td>
</tr>
<tr>
<td>Cost reduction</td>
<td>60.5%</td>
<td>65.5%</td>
<td>35.7%</td>
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Revenue generation vs. expense reduction

How would you characterize the time your organization spends focusing on revenue generation vs. expense reduction?

The belief in the importance of a balance between revenue generation and expense reduction is certainly important, but what hospitals are actually doing is also an important consideration in helping hospitals improve their financial standing. Study respondents were asked how they would characterize the time their organization spends its time. Overall, study respondents indicated they spent much more time on revenue generation (42.9%) than expenses (17.8%), with 39.3% stating they spent about the same amount of time on both.

But those medical centers with a profitability focus spend nearly three times as much time on revenue generation than expense reduction (47.1% vs. 17.4%, respectively). Those without a profitability focus spend about equal amounts of time on both.

Accounting/Finance respondents are more likely than Talent Acquisition respondents (44.9% and 37.7%, respectively) to indicate their medical centers focus more time on revenue than expenses.

![Revenue Generation vs. Expense Reduction](image_url)
Agreement: Increasing Occupancy Increases Revenue

Please indicate your agreement with this statement: Increasing census increases hospital revenue.

Overall, more than three-quarters (76.2%) of respondents agreed that increasing hospital census increases hospital revenue. Study participants from hospitals with a profitability focus (78.6%) are even more likely than those who are not (64.3%), a difference of 14.3 percentage points.

How much is a hospital day worth? The average cost per inpatient day varies greatly, but here are the averages: State/local government, $1,878, Nonprofit, $2,289, For-profit hospitals $1,791. (1) With approximately $2,000 per inpatient day as incoming revenue, hospitals which are not looking to maintain the staff necessary to accommodate a higher census are missing a major opportunity.

In 2012, there were 36.5 million hospital stays in the United States, with an average length of stay of 4.5 days and an average cost of $10,400 per stay (vi). Since much of hospitals costs are fixed, the financial implications of added patient inpatient days are very clear.
Formal Model for Evaluating Impact of Increased Census

Do you have a formal model that evaluates how increasing census improves the bottom line for the hospital?

Less than one-half of respondents indicated that their hospital or medical center had a formal model that showed the impact of increased census on the bottom line of hospitals, with another 20% of respondents not knowing if the model exists.

The implication is that over one-half of respondents are at hospitals that either don’t have a model of any level of sophistication or they personally don’t know if they have one, meaning they aren’t using it if they do have it. Most businesses of even moderate scale have a way to measure how much providing more goods or services increases profitability. Hospitals should have this basic level of analysis incorporated into the decision making process.
How Patient Census Models Work

Study respondents that worked at organizations with a formal model that evaluates how increasing patient census improves the bottom line were asked to briefly describe the model.

Some models are described simply as “estimates revenue per patient,” while others are much more comprehensive. Many of the comments also included references to system output that includes charts and trending graphs. Other comments included details around how benchmarking metrics, such as hours worked per case, are used to monitor staffing levels and avoid costly overtime expenses—as well as how fixed and variable costs impact staffing decisions as well as patient care. Other uses of the models include an examination of the tipping point, where adding staff may not be profitable even while adding patients.

Below are some of the comments:

“It determines the point at which increasing census overburdens our system and begins to reduce our efficiency and profitability.”

“The model seeks to track variable and overhead expenses based on patient count. It also attempts to capture tipping points and economies of scale.”

“We have a model that averages the patient profit versus our staffing. This helps us to see when adding staff is not profitable even when we are adding patients.”

“We chart the variables that range for daily census levels against daily profitability to demonstrate the margins.”

“Hospitals leaders can consider the use of flexible staffing, such as part-time or hourly employees, and adjust staffing based on patient census data. Leaders should also monitor the efficiency of this staffing by continuously reviewing benchmarking data such as hours worked per case. We also strive to reduce costs and waste, while assuring not to sacrifice patient care or safety. We also strive to reduce over time! After a study we realized 10% of our profit was going back out with OT costs.”

“Having more beds allows for higher new patient turn over generating new income that money transfers down to staffing and so forth.”

“Insurance companies and government funded insurance providers, such as Medicare/Medicaid largely provide the majority of revenue as we accept low-income, no income, and self-pay patients. Never turning anyone away is our key to success.”

“We open and close certain units on the hospital when we have an increased census. We pull staff to cover the floor and increase patient to staff ratios.”
**Applicant Tracking Systems**

Does your department have an Applicant Tracking System? An applicant tracking system (ATS) is a software application that enables the electronic handling of recruitment needs, such as job postings, applicants, resumes, interviews. The principal function of an ATS is to provide a central location and database for a company’s recruitment efforts.

An ATS can be a stand-alone application or part of a larger Human Resource Information System (HRIS).

Respondents in the HR area were asked if their HR department had an applicant tracking system, and given a brief description of an Applicant Tracking System.

Overall, just over two-thirds (67.8%) of HR respondents indicated that their hospital/medical centers have an ATS. An ATS is essentially the first step in monitoring the sources of applications as well as early understanding of the quality of hire from source. This leads to an understanding of where time and financial resources are getting the best return on investment in terms of new employee hires.

**Hospital HR Departments with an Applicant Tracking System**

- **67.8%** YES
- **32.2%** NO
Human Resources Information Systems (HRIS)

Does your department have a HRIS system? A Human Resources Information System (HRIS) is software or online solution that is used for data entry, data tracking and the data information requirements of an organization’s human resources (HR) management, payroll and bookkeeping operations.

Respondents in the HR area were asked if their HR department had a Human Resources Information System, and given a brief description of an HRIS.

Over three-quarters (78.3%) of HR respondents indicated that their department had an HRIS system. While system capabilities vary greatly, ideally HR would have access to the same models that Finance has as they pertain to managing staffing levels to maximize profits and patient care. An HRIS system could provide alerts when staffing levels fall below a certain range given hospital occupancy levels or forecasts. Then staffing options could be presented based upon the needs of the situation, and the appropriate contact information presented.

Support for investment in HRIS systems in the context of cost reduction isn’t a novel idea. A recent article from Becker’s Hospital CFO implores hospitals to Invest in smart technology. “Human resources software is also a good alternative for hospitals looking to automate many labor- and time-consuming processes.” (vii)
Capabilities of HRIS Hospital Systems

Those study participants who indicated they had HRIS systems were asked to identify the capabilities contained within the system. Each was shown a list of eight features.

Overall, time-sheet management, personnel tracking, and employee benefit management were most commonly used capabilities, each with over three-quarters of respondents with an HRIS system selecting the system capability.

Those respondents from hospitals with a profitability focus get more out of their HRIS systems. In each of the eight features examined, those with a profitability focus were more likely to have the capability examined in the system than those without a profitability focus.

The areas with the greatest discrepancy between the two groups are: Employee Benefit Management, Personnel Tracking, Time-Sheet Management, and ACA Reporting and Compliance. These factors are all at least 25 percentage points higher for profitability-focused hospital HRIS systems.

### Capabilities of HRIS Systems

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<tr>
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<th>Profitability Focus</th>
<th>No Profitability Focus</th>
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</thead>
<tbody>
<tr>
<td>Time-Sheet Management</td>
<td>98.1%</td>
<td>72.7%</td>
</tr>
<tr>
<td>Personnel Tracking</td>
<td>90.4%</td>
<td>63.6%</td>
</tr>
<tr>
<td>Employee Benefit Management</td>
<td>78.8%</td>
<td>45.5%</td>
</tr>
<tr>
<td>PTO/Leave Management</td>
<td>73.1%</td>
<td>72.7%</td>
</tr>
<tr>
<td>Employee Portal</td>
<td>73.1%</td>
<td>54.5%</td>
</tr>
<tr>
<td>Applicant Tracking</td>
<td>69.8%</td>
<td>63.6%</td>
</tr>
<tr>
<td>Automated Hiring/On-boarding</td>
<td>40.4%</td>
<td>36.4%</td>
</tr>
<tr>
<td>ACA Reporting and Compliance</td>
<td>34.6%</td>
<td>9.1%</td>
</tr>
</tbody>
</table>
Respondents were asked to describe the types of programs or operational changes your hospital could make if you had increased staffing. There was no shortage of ideas as to how the hospital could be improved with increased staffing.

The most frequently made comment was patient care could be improved with increased staffing. Additional programs could also be employed. Examples given of the types of programs include: Wellness programs, rehab programs, family health, family planning, and multidisciplinary treatments.

Education programs for the staff and patients as well as community focused events could be offered with more staffing.

Another area often commented on was improved employee satisfaction. One respondent stated “Less staff turnover as they wouldn’t be so overworked” among the many who cited the desire to increase employee satisfaction.

Many respondent also cited that more staffing led to “more income, more patients and bigger grants,” grants being another consideration in hospital revenue generation.

Key comments included:

“Maximize the setting for patient care: inpatient vs. outpatient. In addition, we would increase patient participation in our direct primary care model, which seeks to improve overall patient health to avoid ED visits and inpatient care through improved health.”

“We could hire more staff dedicated to the types of patients they would care for best i.e. more experienced nurses can take care of more patients, more doctors in the emergency room, and more pediatricians for the children who come in.”

“We could offer more services that aren’t currently being offered, such as educational classes for specific disease states or for certain procedures and surgeries.”

“We will be able to change shifts around to where we weren’t paying a premium rate for shifts over 8 hours or overnight shifts. This could all be adjusted and would help bring down the extra costs related to them.”

“With increased staffing, we would be able to accommodate more patients as well as start more clinical services in the ambulatory care department.”
End Notes

i Emily Rappleye, Average cost per inpatient day across 50 states, Becker’s Hospital CFO, May 2015.

ii Table 89. Hospitals, beds, and occupancy rates, by type of ownership and size of hospital: United States, selected years 1975–2013, CDC 2015.


v. “Patients or Paperwork? The Regulatory Burden Facing America’s Hospitals,” PricewaterhouseCoopers (PwC) was commissioned by the American Hospital Association AHA May 2006.


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