“RED AND BLACK INK”

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The improvement of quality patient care, elevating margins and increased profits with a simultaneous elimination of cost is dependent on expeditious decision-making. Your number one expense could easily be your number one savings and added profits.

Healthcare executives, feeling pinches from their boards to achieve or improve margins and increase profits; can be so overwhelmed that they can lose sight of the healthcare landscape and actions needed to maintain the long-term health picture of their institutions. Frequently, organizations simply look to immediate cost cutting or cost shifting to achieve margins. This does not automatically result in improved organizational performance or maximized profitability, especially, when the result is lost revenues or redistributed costs (i.e. use of contract labor). In this scenario, resulting projected profits may be unrealistic or unattainable, especially, if the business practices have not first been optimized or, in the obverse the hospital may achieve the forecasted profit without achieving the maximum potential earnings that could have been achieved by first implementing efficient business practices and a fast decision making process. To understand this financial and decision making process conundrum, one must appreciate the healthcare horizon, especially, its labor market supply and most critically, the nursing availability as employees of the health system, juxtaposed against the cost of nurses through contract staffing agencies. It is extremely relevant to note trends in vacancy, since vacancy rates can be an early indicator of future financial pressure, due not only to staffing costs that are likely to grow, but by patient volumes that may also be affected as capacity is constrained.

The current and future nursing shortage presents the greatest operating challenge to hospitals. Nearly 85% of U.S. hospitals have reported a shortage of nurses at a time when the demand is geometrically increasing.[1] **The question facing healthcare is not, whether they are experiencing a nursing shortage, but rather how severe is that nursing shortage today and how more acute will it be tomorrow.** The attending issue then becomes gauging potential and actual financial implications. The nursing shortage is creating enormous cost inflation for hospitals and is producing uncertainty in assessing an institution’s operating future and its financial solvency and credit worthiness. An American Hospital Association’s, survey quantified the effect of workforce shortages on the hospitals. The Survey[2] indicates that the impact on hospitals is:

- Exceeding 90% census at peak
- Experienced ED overcrowding
- Reduced number of beds staffed
- Goes on Diversion
- Increased Surgical waiting times
- Cancelled Surgeries
- Reduced Out-Patient capacity

Healthcare is such a labor intensive industry, where employee salaries and benefit costs represent 47% to 56% of the total operating budget. Therefore, it is immediately apparent that it is a critical determinant for profitability.[3] The gap between nurse supply and demand, which continues to deteriorate, is expected to worsen as nurse retirements out pace replacement nurses. This will create added financial strain as institutions attempt to meet quality service demands through other staffing resources and attempt to achieve Board-mandated profitability goals through cost manipulations. To accomplish this predetermined margin through cost reduction/elimination the institution needs to effectively assess and facilitate improved decisions and decision making related to labor utilization and workforce value and ultimately reduce labor costs, especially nurse contract labor costs. To apply this model, leaders need to appreciate ROI from effective labor resource management. The institution needs to be able to:

- Predict the current and future financial impact of workforce (nursing etc.) shortages.
- Determine the value of nurses as revenue generators.
- Improve the “net-worth of the workforce (nurses etc.).
- Quantify/optimize (Inter/intra) department workloads and workflows before slicing and dicing budgets.
- Evaluate all staffing, retention and turnover initiatives to determine programmatic effectiveness, program value, and the financial implicator/justifier for maintaining that cost on the budget.
- Reduce turnover costs through investment in retention.

- Evaluate the ROI for all initiatives. When the real issue is lost revenues, monies need to be spent in order to make money. That's where the nurses come in. Nurses are revenue generators. They are also the image of the institution and as such should be used as branders. Branding can have the effect of marketing the institution coterminous to the image development of quality service delivery.

Various trends are developing in the demand for future health care services that, when combined with the diminishing supply, the retiring of nurses and the exiting of nurses from the industry; has a potential to create insurmountable staffing issues. This is further acerbated, as the baby boomer generation ages, while the demand for health care services is expected to geometrically increase. According to HHS, demand for healthcare services will climb 43% from 2000 to 2020 juxtaposed to a mere 6% growth in the supply of nurses during the same period.[4] This shortage is also occurring at the same time that nurses are aging. According to the Department of Health and Human Services Report, based on current trends in demand and improved healthcare quality and services, with improved, nursing school enrollments, the national vacancy rate which is currently 13.9%, will balloon to 29%+ by 2020[5]. Not only is the nursing population aging, the average age of today's nurse is 48 and the age of nursing students is also older to begin with. The average age of freshmen nursing students is today 31 and, if considering a BSN, by graduation that nurse would be 35. As the average age of nurses and new nurses continue to increase and nursing school enrollment capacity remain full and flat, the long term outlook worsens. A recent ANA study further concluded that even with a 40% per year increase in the schools of nursing over the next 10 years that, that would not stem the nursing shortage. This is further hampered by the aging nursing school faculty, whose average age is 50. The competition for these nurses comes from all sectors: the Pharmaceutical industry, Physician offices, the Biotech industry, Allied Healthcare Companies and the Education arena. Add to this prescription the fact that various States are following the California model to patient care quality and as such are considering legislation that mandates Staff to Patient Ratios, No Mandatory Overtime, Floating Restrictions and Licensure issues, all of which can only lead to dramatic nursing vacancies and needs during a spiraling nursing shortage; "all causing a profound effect on increasing costs to hospitals."[6]

This market dynamic and financial dependency is affecting the institutions bottom line, causing margins to evaporate. During 2004, margins dropped 19.5%, on average, to 4.3% from 5.1% in 2001, with 32% of the institutions currently being in the "red;"[7] I Further, the impact of this dramatic panorama in 2004 is causing a spiraling of nursing salaries. In 2004, depending on the region of the country, nursing salaries are projected to increase from 8.1% to 11.1%; with the nurses' median salary rising to $49,151[8]. This spiral is and has accelerated from 100% to 400% of the CPI.[9] This ever increasing expense is further burdening institutions by their continued and escalating reliance on contract labor (Travel and Temporary Agency Nurses). The reliance on nursing contract labor has dramatically increased by 18.9% from $3.7 billion in 1999 and projected to $4.4 billion in 2003.[10] This phenomenon as perceived by nurses is fueled by its lucrative nature, the freedoms and the perceived improved work and family balance afforded by contract labor agencies. The number of nurses that perform contract labor is projected to increase by 19.8% in the period of 1999 to 2003.[11] This represents 65,101 nurses in 1999 and projecting an increase to 77,990 nurses performing contract labor services in 2003.[12] When all is put together the cost of labor per staffed occupied bed in the same period has increased by 25.9%, from $273,530 to $344,365.[13] Therefore, not only reviewing the strategies around why "nurses leave" verses why "nurses stay", but also the strategies of how can an institution hire its own employees instead of relying on contract labor could be the keys to financial integrity, profitability, quality of care and retention.

The most direct quantifiable measure of the severity of an institution's nursing shortage is its contract labor (agency) spending,[14] its nurse turnover rate and the cost of that nurse turnover. Trending nurse turnover can be a leading indicator of future financial pressure, (considering that turnover can force an institution, to hire contract labor agencies, not knowing of other alternatives). When viewed from the perspective that a nurse, as a "revenue generator" has a value of $250,000 to $300,000 per annum[15] and on the flip side has a turnover cost of $94,000 to $145,000[16] per nurse, the organization that looks to budgets, the controlling of expenses for recruitment, staffing and retention approaches is an organization that is doomed to loss of market advantage, market share and market competitiveness. According to Robert Valasek, General Manager at NSI Nursing Solutions, Inc., "Management must identify contract labor costs, not view it as an "operating expense" per se, but rather view it in the aggregate with labor expenses (Salaries and benefits). It should break out contract labor costs, excess overtime expenses and turnover costs, in its income statements. This break-out and aggregation to the employee salaries and benefit cost line will not only provide insight into the actual direct expense of an institution's nursing shortage, but can indicate a road map to improved profitability."

This road map needs to look to the issues that affect an organization's future. We submit that the short term and immediate needs of the institution be addressed first; for there is no long term if one does not bridge the gap to secure that the future is there by linking the short term immediate needs of the organization to the long term goals. Healthcare, in the short term, should institute various measures to deal with the institutions immediate staffing requirements. These, from a nurse's viewpoint, includes: competitive salaries and benefits, work and family programs (day care etc.), tuition reimbursement and continuing education programs, flexible and self scheduling etc. From an institutions perspective it may include establishing in-house nursing pools to help with seasonal and occupancy fluctuations, skill mix adjustments, retention programs to reduce turnover, rapport-building with nursing schools and instituting staff forecasting systems; all coupled to immediate recruitment to minimize the vacancy rate, in order to reduce/eliminate contract nurse labor. It is here, where institutions need to appreciate the subtle difference between cost reduction and expense redeployment. Cost reduction is generally perceived as cutting the work force, supply costs, and capital expenditures on the budget. Redeployment of expenses, on the other hand, stems from optimizing current operations, avoiding inappropriately distributed workloads to interdependent departments, and removing the reasons for expenses (nurse turnover, poor staffing ratios, inappropriate mixes and work and family in-balance). The keys to margin and increased profitability rest in strategy and decisive action. The strategy of employing your nurses and the decisive action to reduce/eliminate contract staffing agencies is the road map to enhanced nurse satisfaction, improved margins and elevated profitability.

Improved margins and profitability can only be enhanced by hiring your own employees, as reflected in the fact that, contract staffing agencies are reaping the rewards of providing institutions with temporary or travel nurses. Considering that contract nurse agencies, typically cost 2½ to 3 times the cost of an employed nurse; it is no wonder that revenues at the top five contract agencies are expected to increase by 20% and earnings to balloon to 40% in 2003.[17] An employed nurse's average salary in 2003 is $49,151 per annum, while a contract nurse could cost an institution $122,877 to $147,303 per annum per nurse, thus it becomes prudent management to look to permanent employee recruitment sources.[18]

A new concept in the marketplace that offers an additional alternative to hospitals in nurse recruitment is known as "ROI-High Volume Recruitment" or "Profitability-High Volume Recruitment". These firms emphasize the conversion of contract nursing agency costs to real savings that inure to the performance of the institution, by improving the bottom line; ergo "profitability" is achieved. These are high volume recruitment firms that recruit the institution's permanent employees. These sources provide institutions with quick time-to-fill rates; that could be in the area of 55 days, have lower turnover rates, which generally range in the vicinity of 10% and have a Return-on-the-Investment (ROI) that is at least 2 times that investment[19]. It is no wonder that profitability is enhanced and quality is improved. Considering the generous ROI and the major positive impact to the bottom line, ROI-High Volume nurse Recruitment fees should never be the issue, what is the issue are the excess contract nurse agency costs. ROI-High Volume Recruitment should therefore be viewed in the context of an investment not as an expense; after all you are already spending 300% more ($147,303 vs. $49,101 per nurse) for each contract agency nurse. Institutions' need to rely on and emphasize ROI and not artificial budgets, since the conversion of Contract Labor (travel and temporary agency) nurse costs which from institution to institution can range from $500,000 to as much as $75,000,000 can transform "red ink" to "black ink".[20] Here is where the ROI and the BOTTOM LINE improvements come from. Here is where the rubber meets the road…not in artificial budgets.

As a contrast, although FitchReports continue to see institutions attempt to recruit nurses from foreign countries (i.e. Philippines, India etc.), "the trend is not expected to last over the long term**.** Eventually exporting countries are likely to compete for their nursing population in order to deal with their own shortages." Further, international recruiting, especially from the Philippines, has become more difficult. The U.S. Immigration and Naturalization Service (INS) are in the final stages of revising and revamping the immigration policies and processes. This means that it could take anywhere form 16 to 24 months to get nurses from abroad. Therefore, to accomplish Board directed margins and increased profitability, simply means that aggressive short term budget and expense redeployment be effected. According to FitchReports domestic recruiting is the fastest way to eliminate excessive costs, while still delivering patient care services with enhanced revenue capabilities and achieving those margins and thereby retain bond credibility and remaining credit worthy.

Therefore, to develop a financially successful organization that emphasizes quality services, the institution must be adequately staffed and be able to retain those nurses. To enhance retention it needs to eliminate the root causes for nurse dissatisfaction and endeavor to minimize nurse contract labor and address retention and turnover by identifying the prime reasons to stay with the employer. Hospitals can improve the net worth of the workforce by:

- Analyzing labor utilization, by estimating the value that can be assigned for work service and productivity and benchmark total revenue per FTE with other organizations in a defined peer group. Trending this data will identify internal and external factors impacting the nurse workforce
- Simplifying and standardizing work processes, utilizing job mapping processes and job enlargement and enrichment techniques.

- Training and building competencies enhance profit margins. According to an American Society for Training and Development (ASTD) Study, organizations in the top quarter of the study, as measured by average per-employee (nurse) expenditures realized higher profit margins by 24% and elevated income per employee (nurse) by 21%, than organizations in the bottom quarter.[21]
- Providing incentives and rewards, by focusing on the value of your workforce (nurses) will pay off.

This leads to high retention, low turnover and minimized contract nurse labor costs, thus the institutions opportunistic revenues and profitability are enhanced.

The outlook is clear…there is no relief to the current nursing shortage that has deficit expectations. Financial stability will continue to be challenged with modest reimbursement increases and rising expenses in other areas, such as: contract nurse labor agencies, pension funding, health and malpractice insurance and pharmaceuticals in the short term. Improvements from favorable rate increases from managed care payers, operational efficiencies and cost reduction will be offset by labor cost inflation and escalating contract nurse labor costs, therefore improvement in margins, profitability, and credit quality will be prolonged.

CONCLUSION

Although hospital financial margins and profitability will continue to be depressed, revenue growth possibilities will increase dramatically in the coming years. Healthcare service growth and revenues will be stifled by the ever growing nursing shortage pushing: increasing nurse vacancy rates and elevated RN turnover; causing the closing of hospital beds, an inability to open expansion beds, need for diversion, elevated patient to staff ratios and declining patient, employee and physician satisfaction, all driving a spiraling of nursing labor costs, yet, the power to prevail in the short term is also all but inevitable, at least on a hospital by hospital basis. To accomplish this, institutions will need to accept new paradigms, especially the concept of "ROI or Profitability Recruitment" and to learn to maneuver the landmines of human resource resistance, nursing bureaucracy and fiscal myopia.

Human Resources will need to accept the role of "ROI/Profitability Recruitment" and develop or partner to recruit high volumes of nurse to achieve the results of full staffing and reduced contract labor agency utilization. HR will need to embrace the concept that "expenses are not always costs" and that in this context, expenses can have a positive ROI impact which can impact the bottom line. HR must also recognize that recruitment re-deployed operating expenses can cause profitability, by dropping the difference between the contract nurse agency cost and the actual nurses' salaries (plus benefits) to the bottom line. HR needs to be held accountable for assuring an elevated applicant flow that reduces time to fill, causing full staffing within 55 days or less and all accomplished within the context of "ROI/Profitability Recruitment".

Finance will need to look to a labor cost panorama and embrace the philosophy that separates and balances cost cutting and expense re-deployment. Expense re-deployment that causes bottom line impacts, irrespective of artificial line item over-budget effects should be encouraged. Finance should view contract nurse labor costs as re-deployable expenses that can generate improved bottom lines, by hiring nurses as employees, thus eliminating the triple dollar cost impact associated with contract nurse labor agencies. In accepting the concept that nurses are revenue generators and not costs, Finance should collaborate with Nursing and HR to provide the requisite dash board to measure "ROI/Profitability Recruitment" endeavors.

Nursing will need to look to retention strategies that reduce turnover and hold nurse managers accountable in their units. Nursing, like HR, must look to eliminate cost vis-à-vis expense re-deployment barriers. Nursing in collaboration with HR should measure nurse staffing future trends and problems by event horizon monitors (i.e. nurse turnover, cost of turnover, vacancy analysis, time to fill rates, cost of nurse contract labor agencies and the total aggregated cost of nurse staffing.

The Board and the CEO, adopting a "Black Ink" mentality and focus, will need to map and strategize event horizon goals (i.e. Margins & Profitability levels and their trends, Retention & Turnover ROI's, Profit enhancing Expense Re-Deployable Costs (contract agencies, insurance, pension funding etc.), Profit-ROI Opportunity Trend analyses (i.e. Vacancy Rates, since these are early indicators of future financial pressure areas, Patient Volume requirements juxtaposed to staffing forecasts. (This trends capacity constraints and cost trends)). The Board and the CEO adopting a decisive action modality should focus quick decision turnarounds and evaluate staff based upon expense re-deployment ROI and re-deployment profitability contribution.

In summary, even with all these issues besieging the industry, the institutions must look beyond convention and sail the seas of creative innovation, aggressiveness and survival of the fittest in

designing recruitment and retention strategies. Institutions must make Recruitment and Retention a Board issue. They need to view Nurse Recruitment as a Return on Investment, not a cost and make Retention a Revenue and Quality issue and not a budget item. As a whole create a culture where everyone is a participant and feels responsible for the Institution's recruitment and retention successes. For Institutions, to make their mark…they need to create or become an "Employer of Choice", a "Magnet Institution", an "Attraction Hospital" or a "TOP 100 Hospital" that is fully staffed. Resolve, creativity, perseverance and courage amid the chaos is important. Healthcare profitability rests to a large degree in the effective redeployment of contact nurse agency

ENDNOTES

[1] GAO-01-944 Report to Health Subcommittee on Health, House of Representatives, Nursing Workforce, Emerging Nurse Shortages Due to Multiple Factors, July, 2001

[2] American Hospital Association, TrendWatch, Email Newsletter, Chicago, Il, 2001

[3] Healthcare Financial Management Association, Time is Money-Labor Analysis Toolkit, 2003

[4] Op. Cit at 1

[5] ibid

[6] U.S. Business Reporter On-Line, Healthcare Facilities seeing Steady Performance, February 18, 2002

[7] The Advisory Board, Washington, DC, Hardwiring Right Retention, 2002

[8] NSI Nursing Solutions, Inc, Lancaster, Pennsylvania, A 2003 Study What are Institutions Doing to: Reduce Turnover, Stabilize Staffing, Enhance Retention and Improve the Bottom Lines, while Eliminating Costs, Marc Colosi, May 2003

[9] ibid

[10] Towers Perrin, New York, Health Cost Report, 2002

[11] ibid

[12] ibid

[13] Houlihan,Lokey, New York, Healthcare Quarterly Update, 2003 Healthcare Conference,

[14] FitchRatings, New York, Health Care Special Report, Nursing Shortage Update, June, 2001

[15] NSI Nursing Solutions, Inc, Lancaster, Pennsylvania, the Nursing Shortage…"A Clear and Present Staffing & Financial Danger." Is there a Quick Staffing and Financial Solution? Marc Colosi, 2003

[16] ibid

[17] FitchRatings, New York, 2003, Nonprofit Hospitals and Healthy Care Systems Outlook, John E. Wells, January, 2003

[18] Op. Cit. at 14

[19] JONA, Rules of Engagement for a Nursing Shortage, Marc Colosi, 2002

[20] ibid

[21] ibid

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Marc L. Colosi has 25+ years of diverse HR, Industrial Engineering and General Management experience from six industries with extensive expertise in: HR Organizational Effectiveness; HR Strategic Planning and alignment to business plans; High Volume Recruitment and Retention strategies; Talent Energizing and creative landing programs; Labor Law; HR Financial Management; Compensation and Human Value/Capital Management programs. Marc L. Colosi has improved business process through Transformation/Culture Shift Management and CQI programs including Right-sizing and Restructure programs.

Marc L. Colosi is the founding member of NSI Nursing Solutions, Inc. that is a national multimillion-dollar firm recruiting nurses and consulting in nurse retention and nurse talent energizing. He is also the founder of HR Strategic Solutions Inc., which is full service human resources consulting firm composed of seasoned senior executives from "FORTUNE 500" companies & "TOP 100" healthcare organizations.

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