Currently, Memorial Hermann Healthcare System is in good financial standing. However, reform at both the federal and state level has forced the system to take a proactive approach and evaluate improvement opportunities to prepare for possible financial uncertainty.

Before the evaluation took place, every facility generated their own Truven Health ActionOI® data and created their own reports. As a result, there was a lack of consistency throughout the health system. To address the problem, the health system standardized its cost centers, charge master, coding, and statistical measurements. Departmental statistical measurements were also standardized by adopting the national benchmarking measurements in ActionOI.

With these changes, the health system had better continuity and integrity in its data. Labor productivity emerged as a good candidate for improvement, so Memorial Hermann reviewed national benchmarks using ActionOI and identified cost centers where the greatest labor improvements could be made. Once the departments had been identified, an action plan was developed to drive improvement.

**Course of Action**
Memorial Hermann implemented a major labor cost-reduction initiative in the middle of fiscal year 2011. It incorporated strategies for both short-term and long-term labor cost-savings. The short-term strategy entailed a reduction in labor force, and the long-term strategy incorporated a staffing model based on volume. The ultimate goal was to increase productivity and financial viability.
The health system targeted the following “worked hours” benchmarks from ActionOI and gave facilities 18 months to reach the goals:
1. If your department is running <=25th percentile, the goal was to maintain it
2. If you are running >25th percentile, but <= 35th percentile, the goal was to bring it down to the 25th percentile
3. If you are running >35th percentile, but <= 50th percentile, the goal was to bring it down to the 35th percentile
4. If you are running >50th percentile, the goal was to bring it down to the 50th percentile

To hit these targets, Memorial Hermann focused on maintaining or reducing overtime hours and minimizing contract labor. The health system also put a plan in place to control job positions and tracked each facility’s productivity to identify and monitor improvement opportunities.

In addition to ActionOI national benchmarking, Memorial Hermann incorporated internal benchmarking to control labor cost. By using these tools, the system was able to monitor the overall labor performances within its organization.

**Results**
The labor cost-reduction initiative made an impact. Prior to implementation in 2010, the labor cost as a percentage of net operating revenue (NOR) was 40.6 percent. In the middle of fiscal year 2011, it declined to 39.0 percent, and in 2012, it dropped to 36.0 percent. Overall, Memorial Hermann had a savings of 4.6 percent in its labor cost.

Additionally, the health system saw a decrease in overtime hours as a percentage of worked hours from 4.3 percent in 2010 to 3.8 percent in 2012. The contract labor hours number was also reduced from 0.5 percent in 2010 to 0.3 percent in 2012.

“ActionOI is the largest benchmarking database in the country. It provides global cross-peer comparisons and added perspective on labor management. Without this external benchmarking, you’re essentially throwing darts at a target with a blindfold on.”

Kenneth Hurr, MBA
Senior Business Analyst
Memorial Hermann