# The Impending Crisis In Healthcare

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**Citation**

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**Abstract**

The extremely small, and diminishing, labor supply pool in the healthcare sector is exposing an alarming weakness in the industry. Human capital management practices in many healthcare organizations are dangerously outdated and, if left unchecked, will do irreparable harm. There is a solution but it is not a quick fix and will require considerable investment of time, effort, and energy.

ThinkShed, Inc. is a consulting and software company that enables healthcare organizations to implement effective human capital management strategies. ThinkShed is leveraging research and methods from Berkeley, Santa Clara and Stanford Universities to build web based software that dramatically speeds and improves the execution of these strategies. Everything ThinkShed does is focused on the delivery of tangible, demonstrable return on human capital investment.
ThinkShed is the Xerox PARC of human capital management; they work at the cutting edge of theory and practice and are, without a doubt, the shape of things to come. Visit ThinkShed at www.thinkshed.com or contact Keith Jones at keith@thinkshed.com or 512 615 6580 to find out more.

"The definition of insanity: doing the same thing over and over again and expecting different results."

Benjamin Franklin, 1706-1790

## THE PROBLEM IN HEALTHCARE

Employee turnover in the healthcare sector is extremely high; so high in fact that in some US states it is more than double the national average of 15.6%. This alarming (and rapidly worsening) statistic costs healthcare systems billions of dollars every year and is a direct threat to the future of the healthcare sector.

So why is employee turnover so high? At first glance it would appear that the root cause of this problem is an extremely small talent-supply pool leading to a whirlwind of aggressive headhunting amongst competing healthcare organizations. It is ThinkShed's view, however, that the real cause of this crippling turnover is poor human capital management in the healthcare sector. Certainly, the severe shortage of talent does not help matters, but it is a compounding factor rather than the cause itself. It is also ThinkShed's view that as a compounding influence, limited talent supply is going to get worse rather than better. Although many healthcare organizations may not recognize it, high turnover will be the difference between corporate success and failure.

Data gathered by the Department of Health & Human Services in their 2000 Sample Survey of Registered Nurses provides compelling evidence of the existing problem and the impending crisis:

1. The average age of nurses is climbing rapidly

- In 1980 more than 50% of RNs were younger than 40, in 2000 that figure has dropped to 31%
- In 2000 the average age of the RN population was 45.2 years nearly 1 year older than in 1996

2. The number of nurses entering the profession is declining

- In the 4 years from 1996 & 2000 the number of RNs grew 5.4% to 2,696,540
- In the 4 years from 1992 to 1996 that figure was 14.2%

3. The average salary of Registered Nurses is not growing at an alarming rate

- The "actual" average full time salary of RN's in

2000 was $46,782

- The "real" average salary of RN's (based on 82-84 CPI) has remained flat since 1992 at $23,000

The bottom line is that not only are fewer nurses entering the profession, they are doing so later in life. A shrinking, aging, talent pool is a crisis waiting to happen if you don't manage your workforce effectively. In addition, "real" average salaries have not climbed (relative to consumer price index) since 1992 indicating that organizational loyalty is practically non-existent in this sector. Analysis of other "talent short" sectors explains this opinion – in the tech sector aggressive headhunting as a result of talent shortages has driven salary growth at an alarming rate. So why hasn't this happened in the healthcare sector? It is ThinkShed's opinion that employees are simply not "attached" enough to their current employers to make headhunting them difficult. I.e. whereas in the tech sector large salary premiums are used to attract talent from competitive organizations, in the healthcare sector it is merely the promise of a greener pasture that causes workers to make the move. Once again an indictment of existing human capital management practices in this sector.

If you still think that all of this doesn't really matter, that somehow these are soft issues that are not really connected to the corporate bottom line, think again! Studies by the DHHS clearly demonstrate the effect of RN staffing levels on both medical and surgical patient outcomes; for example, a shortage of RN staff has been found to impact patient "Length Of Stay" by up to 12%, and in surgical environments "Risk of Failure" by up to 14%. Put another way, every RN role that remains unfilled has a significant and traceable adverse impact on the bottom line.

The point that we wish to make in all of this is that the current practice of simply trying to recruit more aggressively does not address the real issue. The real issue is that most healthcare organizations are the equivalent of a badly leaking bucket; pouring more water into them does not solve the root problem. To think otherwise is pure insanity.

## THE REVOLUTION

If current healthcare hiring practices are analogous to pouring water into a bucket full of holes, let's take a look at that practice in more detail. At first glance it is an understandable exercise – if you are the person pouring the water it justifies your existence and if the holes are small and few it might even work for a while. The reality becomes all too clear, however, if the water supply becomes scarce or the holes become large – it is a guaranteed failure. It seems obvious in this context and yet the vast majority of healthcare systems continue to recruit in this manner, basing hiring decisions on ill-defined parameters, poor organizational intelligence, and high employee turnover rates. All healthcare organizations are in a situation where the water supply is low; many of them also have very large holes in their bucket. It is easier to mend the bucket than affect supply, so why aren't more of them doing so?

In practice this is a reinvention of human capital management practices and the leveraging of organizational strategy, culture, competencies, and reward systems to stem the tide of egress. The reason that more healthcare organizations are not doing this is that it takes a significant investment of time, effort, money, and above all an awareness of the connection between poor human capital management, employee turnover, and lost profits. Senior management must be aware of, not just the holes in the bucket and the rapid decline in water supply, but the astronomical costs that the wasted water is stealing from their own bottom line. If senior management have not acknowledged and understood this dynamic it will be impossible to execute an effective human capital management reinvention. Experience shows this to be true as incremental and evolutionary refinements do not solve the problem and revolutionary changes require buy in at the highest level in order to be successful.

So now that we have made that connection, how do revolutionize human capital management?

## THE FUNDAMENTALS

First of all, lets start by looking at the critical basic components of effective human capital management. ThinkShed's model is based on many years of research at Berkeley, Santa Clara, and Stanford, universities. The keys to success are three interconnected layers that must be defined and aligned at a macro and micro level with not only one another but the corporate strategy as well:

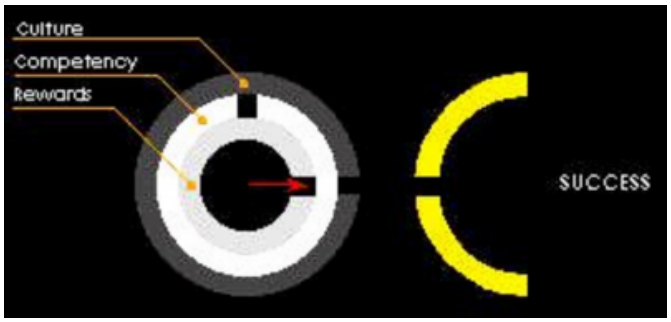
1. Organizational culture
2. Competencies/career trajectories
3. Reward system

If these layers are misaligned productivity will drop,

employee turnover will increase and operating costs will climb dramatically making it very difficult to achieve corporate objectives and/or shareholder return. Figure 1.0 and 1.1 demonstrate the concept.

**Figure 2**

Figure 1.1 – organizational alignment

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So why are these layers important and what is the significance of alignment? It is important that the significance of each layer is understood before we can consider the impact of alignment.

## 1. ORGANIZATIONAL CULTURE

An organization (or group's) culture is defined by its norms and values. Values reflect beliefs about what is really important. Norms are the widely shared and strongly held social expectations about appropriate attitudes and behaviors. From orientation toward customers to conflict resolution methods to dress codes, organizational norms directly affect a large variety of outcomes. The culture of an organization is said to be strong in organizations where norms are widely shared, i.e. if there is widespread agreement on "what's important around here" the core values and culture of the group will be very strong.

It is important to distinguish between vision and a group's actual norms and values [culture]. Vision is an aspiration; norms and values reflect the reality of the shared social expectations within the group. There is all too often a difference between the vision and the real norms and values. For example, the management team of a large hospital might espouse a vision of leadership through innovation. But, if employees in their critical care unit are asked, "What is important around here?" and do not consistently answer "innovation", their vision is nothing more than a corporate slogan that is not shared or upheld in the field.

A clear vision reflected closely by existing norms and values is a strong indicator of organizational alignment and an accurate predictor of longer-term strategic success.

## 2. COMPETENCIES/CAREER TRAJECTORIES

Competencies are descriptions of the knowledge, skills, and abilities,necessary to perform successfully in specific tasks or job functions. The ideal competencies of a job function or task are a reflection of the critical tasks that are most desirable in that job; the actual competencies of the person performing the job are an indication of the tasks they will be most effective at. Comparing the ideal competencies of a job function to the actual competencies of the person is a powerful and accurate predictor of performance.

Comparing competency profiles is not only a powerful way to predict job performance but it is also an effective tool in the management of employee development, training, and also succession planning. Using competency overlaps between one role and another it is possible to map entire career and training paths for any individual within an organization.
If a hospital does not know what competencies promote high performance in operating room Registered Nurses it will be extremely difficult for them to recruit, deploy or manage that function effectively. This in turn leads to poor "on-the-job" performance, low morale and ultimately employee turnover. A sub category of the competency layer is performance measurement. If you are unable to identify high, middle, and low, performers experience shows that human capital management success also becomes extremely difficult.

## 3. REWARD SYSTEMS

Organizations typically get what they measure and reward. For that reason, an organization's formal reward measurement and control systems must be consistent with its ideal critical tasks and culture. Too often what is measured, and therefore rewarded, is not consistent with the desired outcomes. For example, if a large hospital promotes leadership through innovation and customer service, but in fact managers say that the way to get ahead is by massaging your bosses ego and being politically sensitive there is a serious problem. The formal reward structure is actively discouraging innovation and customer service by simple virtue of the fact that "getting ahead" is achieved by far different means.

We can see that culture, competencies, and reward systems, are all critical components of organizational success. True and lasting success, however, is dependent upon the ability to integrate each of these key layers and align them to

effectively to corporate strategy and objectives.

Alignment is important for two principle reasons, 1) it acts as a focal point for human capital management activities providing a direction and purpose to the tasks at hand, and 2) it provides a benchmark against which progress and performance can be judged. For example, if our corporate strategy is to be a market leader through innovation and customer service we now have focus and a benchmark to operate from. The first step here is to analyze the existing corporate culture to see how closely it is aligned to our corporate ideal. If innovation and customer service are not found to be part of our core values we must work to evolve the culture. The reason being that, as we have discussed, the norms and values in an organization are a promoter of certain behaviors and a detractor of others. For example, teamwork would be fundamental to achieving great customer service in a hospital. Because it would be impossible to serve patients effectively without teamwork, the value of great customer service has necessitated the behavior of great teamwork!

O.k., so the team is working well together, now we need to know that each member can perform the tasks required in their role? Understanding what knowledge, skills, and abilities, each person in the team actually has and then comparing that to what KSA's they should ideally have, enables you to evaluate the ability of each individual to perform the tasks required in their role.

We can now start to see the importance of alignment between corporate strategy, culture, and competencies. Performing a task well is nothing if it is not performed in the context of the culture of the organization (and as such the corporate strategy). If I am a great RN but do not function well in a team, I will threaten the hospital's ability to realize its objective.

How can we ensure that our culture and competencies stay in alignment with the corporate strategy? The reward system is a critical lever, rewarding those norms and tasks that are consistent with corporate objectives and penalizing those that are not is of absolute importance. Reward the wrong things and all of the work you have done to this point will have been a waste of time.

## CONCLUSION

We can see how corporate alignment works and we can perhaps see how that might improve productivity and performance, but how does it relate to employee turnover? Research at Berkeley, Santa Clara, and Stanford universities has shown conclusive evidence of the impact of alignment. Across many different industries and organizations in the last 13 years they have demonstrated significant reductions in unwanted employee turnover. In high turnover sectors employee attrition was consistently reduced by up to 50%.

Why? In addition to achieving corporate objectives, alignment between the values and competencies of employee and employer is also a key indicator of motivation and satisfaction. If an employee's values and abilities are close to those defined as "core" by the hospital they are more likely to be productive, motivated, satisfied, and well rewarded - the 4 critical elements to long-term tenure.

By aligning these key layers of the organization the holes in the bucket have been sealed and in so doing the long-term survival of business is ensured.

## References

## Author Information

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