Managing Staff for Greater Profitability

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As rising labor costs have collided with stagnant/declining collections, leading to lower profits for many practices, the old rules of practice management simply no longer work. Here's how to manage your staff to achieve greater profits in this new environment. In the fourth quarter of 2007, many practices saw their collections decline compared to the same period of 2006 for the first time in many decades. Meanwhile, as 2008 opened, staff members repeated their annual request for standard cost of living pay raises.

Fortunately, a growing number of doctors have "gotten the message" and responded that they no longer can grant automatic pay raises while their pay declines. But the issue remains, what changes must be made to avoid that continuing decline? Below, we discuss the combination of controlling staff labor costs and motivating staff to higher performance that's required to be successful in this new environment.

Controlling Labor Costs

1. The first is effective delegation of duties. Many practices employing highly paid office managers whose primary job duties are making bank deposits and handling payroll on a weekly, or every two week, basis. Utilizing an outside payroll service can increase labor efficiency by allowing these highly paid employees to focus on more productive job duties such as new patient marketing and implementing more flexible payment arrangements to improve treatment acceptance rates. Alternatively, the practice shifting to an outside payroll service can reduce a highly paid employee's hours, or replace a full-time employee with a part-time staffer for significant savings.

2. Moreover, doctors must also do a better job of monitoring staff hours. Employees can routinely give themselves "pay raises" by coming in early and leaving late in order to boost their hours and related paycheck. Every practice should be moving to an hourly pay system and establishing a policy requiring employees to come in no sooner than 15 minutes before the first patient and leave no later than 15 minutes after the last patient is completed, to eliminate this "padding" of labor costs. Doctors must do a better job of actually recording staff hours. Many hourly pay practices have moved away from timecards to a stand-alone time clock to boost efficiency and save costs. Recently, other practices have taken advantage of improved technology to install a time clock on their computer system. Outside payroll companies have developed a computerized time clock system that automatically integrates with payroll, to eliminate manual entry and make sure that hours are properly documented for payroll as well as federal and state wage and hour laws. These systems typically cut labor costs by at least 5%, while improving efficiency and streamlining payroll operations. These systems are simpler and less expensive than the biometric scanning systems being installed by a growing number of larger businesses these days.

Stimulating Practice Growth

Doctors must do much more than just controlling labor costs to regain acceptable levels of profitability. Achieving that goal requires that doctors stimulate growth in production and collections.

In the 1990s, achieving double digit growth was relatively easy for most practices. Buoyed by a rising stock market and increasing real estate values, high growth was attainable, even with minimal effort from the doctor and staff. In the early 2000s, practices were still able to maintain modest levels of growth as long as the doctor put forth a decent effort. Since the mortgage meltdown and credit crunch begin in the third quarter of 2007, resulting in lower real estate values, practice growth has slowed considerably. Accomplishing annual growth of above 5% now requires the concentrated and dedicated efforts of the entire team (both doctor and staff).

How do you make that happen? The first step is to educate and empower and staff. This requires that the staff be told about the current state of practice economics and the need to make constructive changes to regain acceptable levels of profitability. The doctor should lay out his or her ideas and request input from the staff and them empower them to get the job done.

The next step in the process is to provide staff with a financial incentive to make things happen. Automatic staff pay raises should probably continue to be phased out in favor of frozen salary levels with annual bonuses based on reaching incentive goals. The easiest program to develop is a group incentive program where the staff's pay increases at the same percentage as practice collections. Putting the staff's incentive directly in line with the doctor's, assures that the entire team will be working together to reach a common goal. A more difficult incentive system is to establish separate goals for employees in each department and then reward them individually based on their results.

Regardless of which type of incentive compensation system you adopt, one thing is clear. Doctors must not maintain the practice management systems of yesteryear or declining practice profits will continue. It's time to face the new economic reality and make changes to assure practice growth.

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