

## How to Use Benchmarks to Make Effective Workforce Decisions

Benchmarks are one of the most powerful tools management teams can use. Utilizing benchmarks is often thought of as a cost reduction tool, but they can be utilized to do so much more than that.

In general, if your labor costs are more than 48% of your net revenue this is a red flag that there may be labor cost issues within your organization. This is not to say that if you are less than 48 % you do not have opportunities. Moving to departmental benchmarks is the first step in determining where each department fits within the range of acceptable national benchmarks based on the same type of workload.

For most departments there many sources for external benchmarks; in general no matter where the benchmarks are sourced the ranges of worked and paid hours per workload unit ratio (WH/WLU and PH/WLU) are very close to one another. In reality, it is understanding how to use the benchmarks that results in success.

If a department is above the range and working to get to the middle of the range this will usually result in a decrease in full-time equivalents (FTEs). As opportunities are identified and process changes are implemented it is important to have a detailed plan to manage the decrease in staff thorough attrition and retraining. The Human Resources department can be instrumental in helping with this.

If a department is at the low end of the range (many times referred to as “bare-bones” staffing) it may be an opportunity for justification of an increase if FTEs. In this case there needs to be a detailed plan on what type of staff will be needed, how many staff will be needed, and when they will be hired.

As budgeted volume projections are made during the annual budgeting cycle it is a simple mathematical formula to determine if there will be a need to change the FTE compliment for a given department. The new volume will be multiplied by the benchmark for an individual department to project the FTEs needed.

When a new service is being developed, obtaining benchmarks will help determine the FTEs needed to start the service. Benchmarks will also help as the service grows to incrementally step up staffing in a planned way.

Using benchmarks to create a business case for making changes in order to make improvements is also a successful tool. It may be a new piece of equipment or education time needed for staff, but the return on these investments can be justified by the increase in productivity – the ability to meet or beat a benchmark.

Many time opportunities identified may not necessarily be in FTEs – employees. For example, labor costs could be driven up by premium pay, overtime, and lack of effective time clock management.

Many times when a variance is found in a single department the factors that cause the variance are systemic issues in the organization. This can help to make improvements throughout the organization.

The realization that benchmarking brings illumination to such a wide variety of applications makes it easier to introduce benchmarking into the management culture.