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## the case for evidence-based human capital management

There are financial benefits to evidence-based recruitment, selection, development, and retention—underscoring the need for finance executives to become actively involved in initiatives to manage their organizations' talent.

### AT A GLANCE

Healthcare finance leaders should adopt seven strategies to leverage their organizations' workforces more efficiently:

- > Commit to developing a formal workforce planning program.
- > Incorporate values in appraisals of staff work requirements and competencies.
- > Appraise individual performance.
- > Assess future work requirements.
- > Assess future potential.
- > Close the developmental gap.
- > Evaluate the success of the program.

There are many things healthcare finance executives cannot control—from the state of the economy to the actions of competitors—but one proven way finance executives can help their organizations achieve better financial outcomes is by employing evidence-based approaches to more efficiently leverage their workforce.

Roughly 60 percent of hospital and health system budgets are allocated to human capital, underscoring the need for good “people stewardship” in these organizations. *People stewardship* refers to playing to an organization's strengths in human capital planning to best control costs and invest most intelligently. Human capital planning should be approached like other strategic planning and budgeting processes. Leaders should set the goals and priorities and maintain the standards for great performers.

The financial benefits of evidence-based recruitment, selection, development, and retention strategies—including the savings associated with developing and retaining the right people—are strong indicators of the need for finance executives to become involved in people stewardship.

### The Role of Finance in Workforce Retention

During HFMA's ANI: The Healthcare Finance Conference, held June 26-29 in Orlando, leaders frequently commented on the need for healthcare organizations to improve value. Evidence-based strategies for recruitment, selection, development, and retention are proven ways to enhance the value of workforce management in healthcare organizations.

Find sample strategies for creating a job profile at [www.hfma.org/hfm](http://www.hfma.org/hfm).

Healthcare finance leaders are in a unique position to help guide people stewardship in their organizations. The analytical skills that healthcare finance executives possess make them ideal go-to experts for determining the root causes of turnover, variations in performance, and dips in employee satisfaction.

The financial impact of mismanaging an organization's labor pool can be significant:

- > Hiring the wrong leader ultimately could cost the organization at least six to 10 times that individual's annual earnings (*Proven Strategies for Successful Implementation of Best Practices Among Healthcare Presidents/CEOs*, The Synergy Organization, 2003).
- > It costs less to develop and retain the right people.
- > Demographics reflect an increasingly limited pool of qualified candidates for leadership positions, underscoring the need for organizations to choose the right leaders and to retain their talent.

In evaluating an organization's workforce hiring and promotion patterns, healthcare finance executives should consider several questions.

*Does the organization have an appropriate mix of internal promotions and external hires?* Ideally, the percentage of internal promotions should be greater than the percentage of new hires to fill leadership positions. New hires could average 70 to 80 percent of an organization's internal promotions. The key thing to keep in mind with all hiring decisions is, "Is this the right person for the right job at the right time?" Although someone may have all of the attributes of a wonderful neighbor, that doesn't mean the candidate is the right fit for the job.

*If the organization is looking outside to fill a leadership position, is the external candidate stronger than the organization's internal associates?* An oft-overlooked maxim is that when someone has worked with you for a number of years, you become aware of that person's strengths and weaknesses. Yet traditional hiring practices often do not take this

Interestingly, the highest-performing individual contributors often become poor managers. Why? Because it's difficult for them to let go of work that they were trained to do and that they have done well.

balanced view; too often, we expect that outsiders will come in as perfect fits. Then, we are surprised and disappointed when reality sets in.

*How well does the organization track its average length of service?* The longer an organization's average length of service, the harder it will be for outsiders to penetrate the organization. It is often helpful to track the average length of service by department, because the outliers can supply invaluable clues about what's going on in the organization in regard to retention patterns.

*What is the organization's tolerance for risk?* Many people sincerely believe that the safest and easiest thing to do is to promote the internal candidate, regardless of how well qualified the candidate is for the job. For example, at the "lowest" ends of the career ladder, how many leaders have witnessed good staff nurses who were unintentionally "set up" for failure by being promoted without regard to whether they would be comfortable moving from direct patient care to evaluating others, disciplining, staffing, and scheduling?

In general, the larger an organization is, the greater the opportunities should be to grow talent from within the organization. It is important that healthcare organizations build in diverse growth experiences for their rising leaders as these leaders progress through the ranks.

It's also important to remain open-minded regarding who might become the right person for a given leadership position. It is not uncommon for dark horse internal candidates to surprise



healthcare administrators by surpassing heavily favored internal candidates during interviews for positions, and to go on to be successful in their new roles. Healthcare organizations that use the process of "forced choice rankings" slot their direct reports into one of three categories: *top performers*, *valued contributors*, and *employees who need improvement*. But in using these rankings, healthcare organizations should guard against the tendency to create exclusive clubs, whereby people who have previously been designated as top talent are judged more favorably than valued contributors because of "halo effects." The result is that valued contributors may be held to higher standards than those who are designated as top talent—and may receive fewer opportunities to advance than they deserve.

One of the best ways to graphically depict where employees are on the organization's succession plan is to color code them red, yellow, and green,

with green representing top talent, yellow representing valued contributors, and red representing "needs improvement" employees. This type of planning comes straight out of the management processes employed by GE and its former chairman and CEO, Jack Welch. Using forced choice rankings such as these helps organizations cleanse themselves: Employees in the "needs improvement" categories ultimately will weed themselves out as attention is focused on higher performers.

### How to Get the Most from Existing Talent

Interestingly, the highest-performing individual contributors often become poor managers. Why? Because it's difficult for them to let go of work that they were trained to do and that they have done well. In contrast, good managers have learned how to assign work to others, motivate and coach them, and measure their performance instead of putting out fires and handling the tasks themselves. Good leaders and managers have learned the need to shift from doing the work themselves to getting it done through others.

In their book *The Leadership Pipeline*, authors Ran Charan, Stephen Drotter, and James Noel explain that there are several distinct passages through which we must progress if we want to become effective leaders. An organization's succession plans should help people progress through these passages at different levels. These passages begin with managing ourselves, then move through managing others to managing managers, and so on. Each of these passages demands that leaders grow in their skills and in their work values over different time frames.

Getting the most out of existing talent also depends on the presence of four critical components.

*Objective performance expectations for each position.* There may be shared leadership competencies and values between positions, but these competencies should not have equal weightings for each position. Healthcare organizations should have precise ideas about the activities and competencies required for each job—not only for today, but

### FOUR-FACTOR THEORY FOR EVALUATING JOB CANDIDATES

	Content <i>Can the candidate do the job?</i>	Process <i>Will the candidate do the job?</i>
The Job	<b>Functional Demands</b> <ul style="list-style-type: none"> <li>&gt; Job descriptions</li> <li>&gt; Responsibilities</li> <li>&gt; Goal &amp; objectives</li> <li>&gt; Tasks</li> </ul>	<b>Required Behaviors</b> <p>Based upon:</p> <ul style="list-style-type: none"> <li>&gt; Organizational culture</li> <li>&gt; Work group norms</li> <li>&gt; Client/customer</li> <li>&gt; Supervisor</li> </ul>
The Person	<b>Attributes</b> <ul style="list-style-type: none"> <li>&gt; Education</li> <li>&gt; Experience</li> <li>&gt; Skills</li> <li>&gt; Aptitudes</li> </ul>	<b>Preferred Behavior Patterns</b> <p>Based upon individual preferences regarding:</p> <ul style="list-style-type: none"> <li>&gt; Interpersonal motives</li> <li>&gt; Career values</li> <li>&gt; Personal style</li> </ul>

Source: The Synergy Organization.

also in the future—and the types of people needed to fill each position. Otherwise, they will be unable to hire, promote, and develop the best candidates to meet their leadership needs.

**A robust performance appraisal system.** Such a system will promote three things:

- > Accurate and in-depth evaluation of individual employees
- > A framework for identifying and developing leadership talent—at all levels—on whom the organization can rely to execute future strategies
- > The creation of a leadership pipeline that will become the basis of a strong succession plan

Unfortunately, few hospitals and companies in general accomplish all of these objectives well.

**Individualized developmental plans.** These plans should answer the question, “So what?” They should encourage leaders to broaden their scope of knowledge and experiences beyond their immediate areas.

**A fluid succession-planning process.** The organization’s succession-planning process should accommodate the fluid and variable business needs of the organization over time.

### Seven Strategies for Leveraging Talent

To more effectively and efficiently leverage their workforce talent, healthcare organizations should employ seven strategies.

**Commit to creating and implementing a formal program.** To achieve maximum benefits, healthcare organizations should begin by identifying key positions as part of a formal program.

Such an approach avoids several potential pitfalls. When strategic planning is too informal and thus unplanned, job incumbents tend to identify and groom successors who are remarkably like themselves in appearance, background, and values. Leaders may pick people with whom they’re comfortable, rather than others who have better skills for the job. Moreover, left to their

## TALENT MATRIX: COMBINING THE MEASURES OF VALUES AND PERFORMANCE

ABC Hospital Values

Performance		Significant Strength	Development Needed	Improvement Needed
	High Performer	Promote/Expand	Coaching: Values	Values Improvement Needed
	Middle Performer	Coaching: Performance	Coaching: Performance and Values	Values Improvement Needed Coaching: Performance
	Low Performer	Performance Improvement Needed	Performance Improvement Coaching: Values	Fails to Meet Performance and Values

Note: All managers must be placed in one of these nine blocks.



own devices, managers all too often suppress and limit their direct reports, rather than develop them. As a result, high-potential subordinates are likely to become frustrated and leave the organization, when they might have been delighted to contribute to the hospital.

***Incorporate values in the appraisals of staff work requirements and competencies.*** Leaders often rely on staff appraisals that focus on the wrong criteria. Values clarification provides an additional, and increasingly important, dimension to strategic planning. Without it, individuals may be equipped with sound competencies, but may lack the ethical dimension that is so important to leadership in the future. Values also can be integrated with competency models to create a success profile of what requirements are essential at all organizational levels, departments, or job categories.

***Appraise individual performance.*** A real problem is that most people have never received an honest appraisal. It takes courage and emotional fortitude for those doing appraisals to be forthright. More often a manager thinks, "If I sit down and tell a staff member that he or she has a behavioral problem, the discussion will become confrontational, and I don't want to have that type of conversation." Moreover, without guidance, practice, and support, many managers will lack confidence in their objective judgments to be critical.

Appraisal systems should not be designed in a vacuum. To help employees increase their contributions to their organizations, an appraisal system should be conducted against meaningful and generic job standards, and it should focus on developmental strategies.

Interview processes also tend to be deeply flawed. Some people interview well, and some do not. A person who does not interview well may nonetheless be the best choice for the job. That's why it's so important to have effective selection practices guide internal promotions. Healthcare leaders need to know what to listen for in determining which internal candidates to promote and should

be able to obtain supplemental data to support such decisions. It takes time and effort to drill down further, but such effort is always worth the trouble.

***Assess future work requirements.*** One of the biggest shortcomings of traditional people processes is that the processes look backward, focusing on evaluating what people are accomplishing today rather than looking forward to consider the employee's potential. Linking performance plans to the organization's strategic plan—with near-, medium-, and long-term milestones—and to the organization's operating plan target, including specific financial targets, will help in predicting which employees are or will be best suited to satisfy the business needs of the organization.

***Assess future individual potential.*** A retention risk analysis looks at a person's marketability and potential for mobility, and the risk a business faces if the person leaves. If the staff member has been in an existing job too long, he or she is likely to feel blocked from moving upward and hence will be more likely to seize an opportunity to leave the organization. An effective talent depth analysis can determine whether a hospital has enough high-potential people to fill key positions. It also can assess whether there are high-potential people in the wrong jobs and whether key people will be lost if jobs are not unblocked for them.

Neither key positions nor their work requirements will remain forever static. The reason, of course, is that hospitals are constantly in flux in response to pressures exerted internally and externally. For this reason, hospitals need to identify future key positions and determine future work requirements to prepare individuals to assume those future positions. In a sense, they must cope with a moving target effect in which work requirements, key positions, and even high-potential employees are changing.

One effective way to meet this challenge is for the organization to develop its own set of success factors—i.e., past experience or personal characteristics linked to, and correlated with, successful

advancement in a hospital. To identify success factors, the organization need only ask individuals who have already achieved success—such as key position incumbents—about their most important developmental experiences and about what they did (or skills they demonstrated) in the midst of those experiences.

**Close the developmental gap.** Effective human capital planning becomes a driving force to identify justifiable employee training, education, and development needs. Training helps employees meet their current job responsibilities; employee education prepares them to advance to future responsibilities, while employee development can be a tool for individual enlightenment or organizational learning.

In formulating internal promotion policies, the organization's leaders should make it clear that the succession plan does not guarantee anyone a promotion, and that there are performance expectations that everyone will be accountable for meeting. Hospitals also should create different career paths so their employees will know how they might progress within the organization, including both clinical and finance areas. Not everyone should be a manager or a leader, but opportunities should be available for everyone to learn and grow.

Think of evidence-based succession planning as being analogous to supply chain management. Build up capacity; then give people the chance to move up and around. Keep them engaged and set the appropriate conditions so that the organization will have "just in time people" who are prepared to move into a role, rather than a critical mass of stagnated people.

**Evaluate the success of the workforce planning program.** The evaluation of succession planning and management should focus on the most meaningful criteria, such as customer satisfaction, program progress, effective placements, and organizational results.

### GE LEADERSHIP MATRIX

Performance	High Values and Low Results	High Values and High Results
	Low Values and Low Results	Low Values and High Results
		Values

### Maximizing Existing Talent—and Making Stronger Hiring Decisions

Capitalizing on a healthcare organization's existing talent through evidence-based human capital planning, and ensuring that external candidates for positions are stronger than internal talent, not only saves money, but also increases teamwork, stimulates individual excellence, and makes each person more accountable. It also saves healthcare administrators time and reduces organizational stagnation. Healthcare finance professionals should play an active role in developing strategies that capitalize on the talent of their organizations' workforce and make every employee more accountable. ■

### About the author



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