

# How one hospital engaged employees and saved \$6M in one year

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Despite a concerted focus on reducing labor costs, many hospital and health system executives report diminishing returns from their current efforts.

Our Medicare Breakeven team recently spoke with these executives and discovered their new challenge is to move beyond one-time cost cuts—like reducing the number of staff or freezing wages—and implement strategies that deliver continuous cost savings without jeopardizing the operational efficiency and staff morale.

Instead of viewing staff as merely a cost category, one organization utilized its employee base as a source of innovation.

IU Health Goshen, a 123-bed hospital in Goshen, Indiana engaged its staff in a hospital-wide cost reduction initiative that saved the hospital **\$6.3M in just one year**. And more importantly, rather than rely on reducing wages to reduce costs, IU Health-Goshen provided financial compensation to employees for identifying and implementing cost savings ideas.

## Putting all employees at risk

Many organizations already have frontline bonuses and penalties for executives, but IU Health-Goshen introduced both upside and downside performance risk for all employees.

They developed a hospital-wide, merit-based compensation schedule, which tied compensation to organizational performance and to participation in the organization's cost reduction initiative. To receive a bonus or annual wage increase, employees must achieve the minimum required amount of participation in the initiative.

### Bonuses, Merit Increases Tied to Performance Improvement

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**Case in Brief:**  
**IU Health-Goshen**

- 123-bed hospital located in Goshen, Indiana
- Awards merit-based wage increases according to individual contribution to hospital-wide performance improvement initiative
- Staff earn points for participation in initiatives; must meet minimum requirement of points per year
- Review weighted to reflect employee's ability to influence goal
- Additional gainshare incentive depends on savings accrued from initiative, capped at \$2,000 per idea

**Annual Review Tied to Contribution to Organizational Performance Improvement**

Performance Categories	Weight
 Organizational Goals	35%
 Departmental Goals	25%
 Team Management	20%
 Individual Development	20%

Staff who do not participate do not receive bonuses, wage increases

## A platform for employee-driven innovation

Employees can participate in this cost savings initiative as an individual or with a group.

1. **“Just Do It,”** or JDI, initiatives are smaller, easy-to-fix items like changing printing patterns. If a staff member identifies a simple problem, he or she is empowered to tackle it right away.
2. **“Do It Groups,”** or DIGs, require more structure to address larger issues which typically span multiple departments and require attention from different individuals.

## Getting involved

Since DIGs require cross-departmental participation, a formal submission process ensures that administrators remain informed of DIG proposals and progress.

The person who submits a cost-saving idea also chairs the corresponding DIG. DIG chairs are responsible for developing a strategy, recruiting participants, and coordinating across relevant departments throughout implementation.

### A Structured Approach to Bottom-Up Performance Improvement

From Proposal to Implementation in Four Weeks



## Earning points for participation

All full-time staff at the hospital must earn 16 points across a year in order receive a merit increase. Each activity has an associated point value:

- Implementing JDI: 1 point
- Leading DIG team as chair: 8 points
- Joining DIG team: 4 points
- Submitting DIG proposal: 1 point

## Shared incentives—and savings—for all

To encourage employees' engagement and develop innovative ideas, IU Health-Goshen offers DIG chairs a share of any savings, up to \$2,000 per initiative, from their projects as a performance bonus.

As a result, any employee—no matter how junior—can earn substantial bonus compensation for helping the hospital innovate on its

current operational processes.

This revamped compensation structure has fostered near-universal engagement in the effort. In one year, staff generated \$6.3M in cost savings, and IU-Goshen distributed over \$100,000 back to its employees.

## Successful Implementation Generates Additional Bonus

### Additional Bonus for Completion of DIG<sup>1</sup>



Successful implementation of DIG proposal



Process improvement improves operations, generates hospital-wide savings



DIG chair receives share of financial savings, capped at \$2,000 per initiative



## Learn More

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Health Care Advisory Board members can learn more about this strategy and other cost reduction tactics by reading our recent publication, [\*The Sustainable Acute Care Enterprise\*](#).

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