Pearl Meyer

ADVISOR BLOG

Three Healthcare Compensation Trends That Are More Important Than Ever

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In February 2020 Pearl Meyer published an article outlining what we felt at that time to be the top five emerging trends related to the compensation committee's responsibilities in healthcare companies. While the world has changed dramatically in so many ways since that time, several of our trends—discretion, mission-based metrics, and leadership assessment—are just as relevant, if not even more so, today given the significant challenges facing the healthcare industry in the midst of the COVID-19 pandemic.

In our February article we discussed the need for healthcare organization compensation committees to have the flexibility to use discretion in determining appropriate executive incentive payouts in light of industry uncertainties as healthcare systems transitioned from a traditional inpatient, fee-for-service model to one focused on patient outcomes/satisfaction and population health. In this transition context, healthcare boards have been adopting structured and balanced annual and long-term incentive plans to facilitate the recruitment and retention of high performing executive teams and to drive higher levels of financial and nonfinancial performance. The profound impact of the pandemic on the financials of most providers undoubtedly will disqualify their leaders from the opportunity to earn incentives based on financial results, and will require boards to exercise some level of discretion in order to achieve that desired balance between performance-based compensation and executive retention.

As the US economy transitions through the COVID-19 pandemic and businesses start to gradually reopen, direct healthcare delivery will undoubtedly look different, and system performance outcomes will continue to be exceedingly difficult to predict. It is quite likely that healthcare leaders will need to continue to make the types of proactive but difficult decisions observed during the current pandemic such as cutting executive pay and furloughing and laying off significant numbers of employees. At the end of 2020, compensation committees seeking to exercise prudent discretion in identifying appropriate incentive awards in the absence of expected results may well be establishing a hybrid approach for the future.

Our February article also discussed the increased use of mission-based metrics, in addition to financial goals, and how these types of measures serve healthcare organizations well, either as the basis for formulaically calculated bonuses or as the basis for applying discretion to reward executive teams. The most common mission-based measures have clear ties to healthcare's "Triple Aim" and address clinical quality, patient experience, and efficiency/affordability of care.

Compensation committees may be well served by evaluating current performance against their preestablished metrics with clear ties to the Triple Aim. Modest bonus payments may be appropriate if there is consensus that the executive team was able to maintain organizational viability via efforts to maximize efficiency and provide high quality treatment when and where it was needed the most and at a reasonable price point. As these bonus payments may be made in the absence of expected financial projections, they may be appropriate based on the premise that the use of discretion in administering variable compensation arrangements should be limited to those situations best described as "unprecedented." 2020 will undoubtedly qualify.

In fact, this will be a year in which compensation committees across all industries will need to consider how best to reward executive teams for extraordinary behaviors and actions in 2020 that may or may not translate into strong financial results. The payment of bonuses on a discretionary basis or the use of less traditional mission- or strategy-based measures may be appropriate, although serious consideration will need to be given to how the payment of any bonuses for senior executives may be perceived internally and externally in light of broader workforce actions the organization may have had to take throughout the year.

Pearl Meyer also outlined the emerging criticality of leadership assessment by the compensation committee in our February article. As the fallout from COVID-19 continues, has there ever been a more important time for boards to take a step back from the day-to-day challenges to identify the leadership qualities that will position the organization to succeed long-term in the post-pandemic world? As boards assess organizational strategy, they must also assess their leadership strategy. Has the board assembled a leadership team that can operate successfully in a crisis? How did the CEO and management team respond to the pandemic? If the board decides to revise the organization's long-term strategy to take advantage of the shifting marketplace, will the current executive leadership team be able to understand it and execute it? How much guidance will they require? With the apparent pending explosion of telehealth and telemedicine, boards must realize that their pre-pandemic CEO and leadership team may or may not be the organization's best bet over the next several years.

We know that the boards of the most successful healthcare providers have more frank discussions with the CEO about succession and talent. Now is the time for board members to connect with all members of the executive team to identify the knowledge and skills most in demand in the new patient care environment, and then begin to assess the skill profiles of up-and-coming future leaders. The results of these assessments may then inform focused recruitment and management development initiatives, which shouldn't fall by the wayside even during a crisis and may be more important than ever.

About the Author

Steve Sullivan, a managing director in Pearl Meyer's Chicago office, has more than 20 years of consulting and industry experience assisting clients in executing their strategic human resources and compensation initiatives. His focus has been in the areas of executive compensation program benchmarking, design, and oversight in the healthcare industry and for tax-exempt businesses.

Ed Steinhoff, a managing director in Pearl Meyer's Chicago office, has more than 25 years of experience in executive compensation. He works with the boards of directors and senior management teams of public and private companies, ranging from small and middle-market firms to multi-billion dollar corporations, to design pay programs that drive business performance and value creation, secure high-performing executive talent, and withstand external scrutiny.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management on the alignment of executive compensation with business and leadership strategy, making pay programs a powerful catalyst for value creation and competitive advantage. Pearl Meyer's global clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private companies to the Fortune 500 and FTSE 350. The firm has offices in Atlanta, Baltimore, Boston, Charlotte, Chicago, Houston, London, Los Angeles, New York, Raleigh, and San Jose.

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