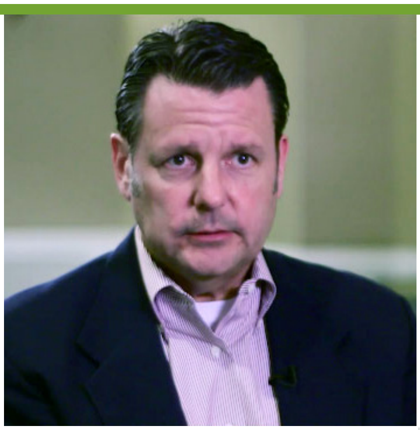
Yes, You Can Balance Personal Motivators and Financial Incentives for Healthcare Executives

Pearl Meyer

Ask the Expert.

Steve Sullivan and Ed Steinhoff, *Managing Directors*



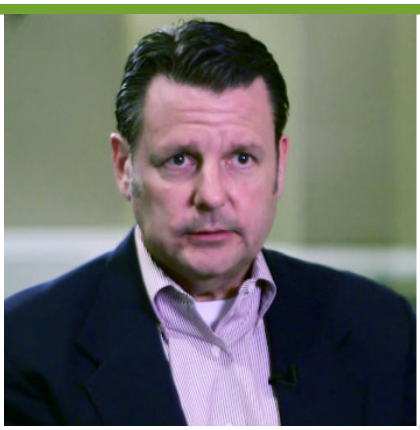
Healthcare providers and insurers with a not-for-profit operating model are competing with multiple industries—and often public companies—for the executive talent that's needed to fulfill their complex objectives. Steve Sullivan and Ed Steinhoff discuss how their provider and insurer clients are learning to balance intrinsic and extrinsic motivations and rewards.

Q. You have mentioned several concerns that some not-for-profit entities have expressed when deciding if and how to implement pay-for-performance-based executive compensation plans. What are those concerns?

A: Steve: It's often a concern over intrinsic versus extrinsic motivation; are the members of the leadership team driven by opportunities for greater compensation—or by something else, possibly more personal? For the compensation committee, the question is usually along the lines of "Does a variable pay plan make sense in our situation?" What if a combination of those motives, spurred by incentive plans that speak to each, result in combined efforts that bring about an organization that is more effective at achieving healthier patient outcomes? In that case, it would make sense that the effort required to develop such a compensation plan is well worth it.

Beyond the C-suite, we are also seeing that boards and specifically compensation committees are intentionally recruiting members from ranks beyond healthcare. They bring valuable insight to the table from the for-profit world. However, they themselves may feel that "now we're saving human lives and that's a different thing." So there's some reticence to deploy incentive programs that they've seen work well at public or for-profit organizations in a mission-based environment.

A: Ed: While there certainly is a notion that executives work for a not-for-profit in order to drive the mission of the organization rather than to be paid competitively with for-profit companies, not-for-profits often do compete for executive talent with for-profit companies, and compensation levels need to recognize that labor market for talent to some extent. Performance-based pay programs enable not-for-profits to pay more competitively while at the same time not adding to their fixed compensation costs (which would be the case if base salaries were merely increased) and also reinforce key aspects of the organization's mission. Where I see the interplay between intrinsic and extrinsic motivation is during the initial recruiting process (in other words, what are the characteristics of an individual who would be interested in our mission, and how do we find those individuals) and in the ability to pay somewhat below for-profit levels in many instances. I think everyone would acknowledge that incentive pay does not "force" people to do the right things, but it does reward them when they do.



Q. Are there ways incentive programs could be implemented that address both ends of the spectrum?

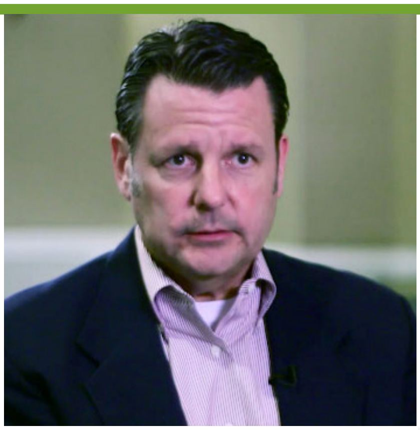
A: Steve: We've been helping organizations modify their approach to executive compensation as they've gone through the changes in how they do business. Many must perform simultaneously in the fee-for-service world and the fee-for-outcome world. We often create short-term incentive plans to focus their immediate efforts on a short list of financial, clinical, and service goals, and longer-term arrangements which build value as they demonstrate improvement in certain areas such as growth and population health. To the extent that immediate and long-range metrics correlate with the positive welfare of patients, we believe that the stars will still align for those executives whose motivation is intrinsically based. Those on the other end of spectrum will engage as long as the financial opportunity is compelling.

A: Ed: Most of my healthcare clients take a "balanced scorecard" approach to incentive compensation which reflects multiple aspects of performance—financial, strategic, operational, mission-based, community involvement, etc. In this regard, many not-for-profit organizations have incentive plans that are much more complex than for-profit company incentive plans which tend to focus more narrowly on the financials. Non-financial indicators, when properly selected, can be just as measurable as financial measures—for example, membership growth, member satisfaction, and quality of service. You may also see performance for incentive plans measured at an individual level to drive specific behaviors and outcomes.

Q. Many not-for-profits may be uncomfortable with adopting what they see as for-profit-type executive pay plans. How can they reconcile this?

A: Steve: When the ACA first came about, many in the industry knew there would be a total transformation of the healthcare delivery system, maybe over five to ten years. We know now it's going to take a lot longer. It seems this concept of balancing the old way of doing things with moving to a new model is going to be with us for a while and it applies to everyone. Boards are starting to understand that this applies to compensation and that pay programs have a role to play in helping execute the change. When you look at healthcare, regardless of financial structure, everyone has one foot on either side of the fence.

A: Ed: Ultimately, the insurer organization has to balance an operational budget and fund growth objectives. It serves the C-suite and the board very well to think of balancing the career goals and financial needs of the leadership team with the job they've been brought on board to do, which is to advance the mission of the organization. This is not about maximizing profitability, it's about optimization, so the budget is available to grow the insured base, improve infrastructure, offer new services, improve quality, and generally reinvest in the community they serve. I had a CEO tell me recently, "No margin, no mission" so financial objectives certainly make sense in all types of organizations. You need a professional, diversely skilled team to help the organization achieve its mission, and incentive compensation programs can facilitate attraction and retention of this team.



About Steve Sullivan

Steve Sullivan, a managing director in Pearl Meyer's Houston 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. Mr. Sullivan also advises clients in the areas of sales and performance incentives, recruitment, motivation and retention, strategic compensation program design and implementation, and organizational change. He has experience in the financial services, manufacturing, and information technology industries.

About Ed Steinhoff

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 New York, Atlanta, Boston, Charlotte, Chicago, Houston, London, Los Angeles, and San Jose.

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