



ALIGNING THE CONTINUUM:

“Optimizing Performance Management Programs to Achieve Strategic Goals”

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ASHHRA

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Agenda

Will cover following . . .

- Performance management landscape
- Best practice alignment tools and criteria
- Best practices for aligning continuum using refined tools
 - ◆ Executives
 - ◆ Middle Management
 - ◆ Medical Directors
 - ◆ Staff
- Lessons learned

Performance Management Landscape

National Healthcare Trends

- Ongoing financial pressures – continual need to improve efficiency
- Aging and high expectation population – increased demand for services and improvement in service
- Increasing recruitment challenges – need for high performance
- Role of healthcare organizations as a corporate citizen and demand for transparency
- Engaging today's mix of healthcare employees – the relationship of employee to organizations is transforming

Performance Management Landscape

Healthcare Compensation Issues

Rising cost of living a concern

- (Price of gasoline, energy - polarizing issue)

“Merit Pay” decline of past years reversing

Rising cost of keeping up with market “hot jobs”

- “Best Places to Work” winning talent war

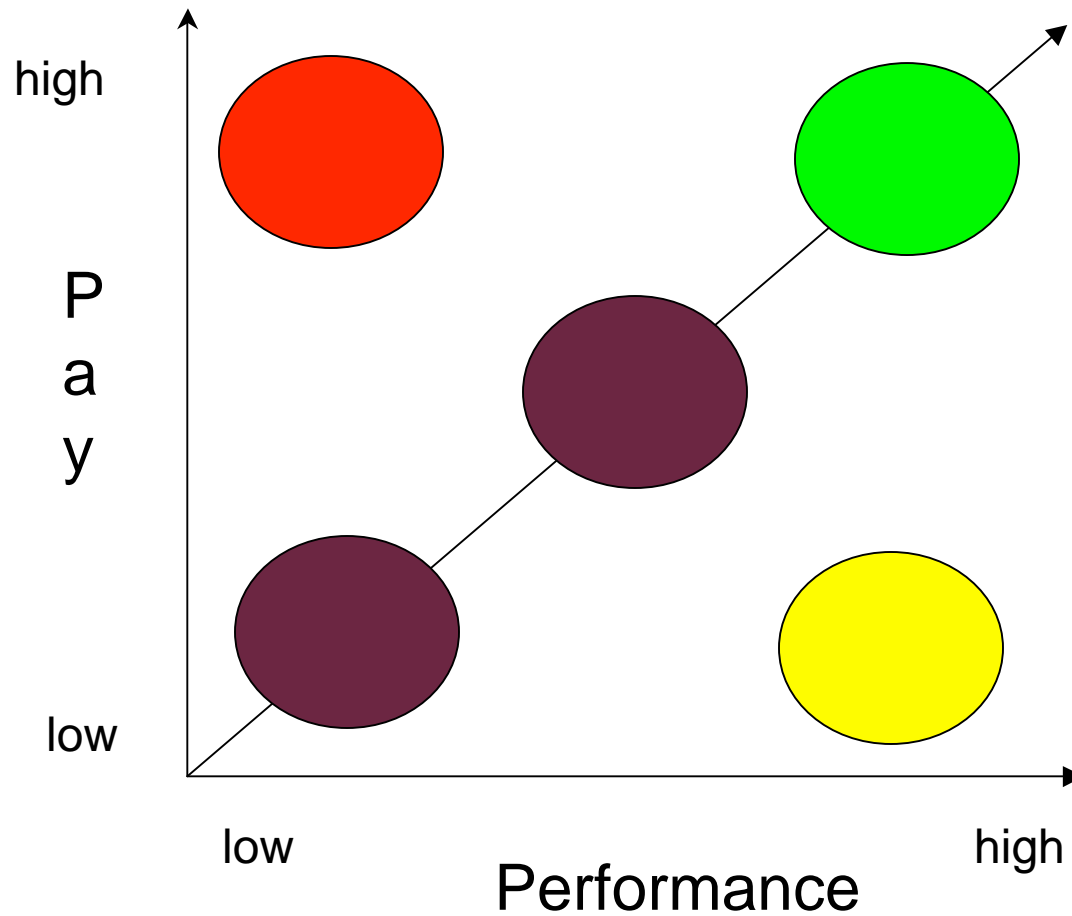
More focus on

- high performers (not just more \$)
- dealing with low performers - calling employees out to accountability
- recognition and honor programs
- creating a positive working environment
- transformational vs. transactional leadership

Gain/risk-share programs regain popularity

Performance Management Landscape

Reconciling Pay with Performance



Performance Management Landscape



Best Practice Performance Management Criteria

Indicators of High-Performing Organizations

High percentage of engaged employees

Knowledge and congruence of organizational direction and objectives

Widely-held culture of professional adult relationship

Employees are partners in running organization

Focus on patient service and care while understanding need for financial performance

Effectively managing outcome of recognizing high performers

Best Practice Performance Management Criteria

Goals of Performance Management

Create Performance Management and Pay for Performance System That:

Aligns and Supports Organizational Goals

Is Fairly And Systematically Deployed

Links Employee & Organizational Performance

Supports A Positive Work Culture

Promotes Productive, Ongoing Two-way Communication

Defines And Recognizes Excellence

Creates A Dynamic Process Of Development

Best Practice Performance Management Criteria

Necessary Performance Management Tools Exist

- **Incentive Plans** – Provide cash payouts on a quarterly to three-year cycle based on pre-determined outcomes. Increasingly common for middle management, physicians and staff.
- **Recognition and Reward Programs** – Provide reinforcement for achievement of team outcomes or individual contributions to team outcomes (spot recognition, high performer bonuses). Typically used for lower-level employees.
- **Performance Reviews** – Annual feedback tool used for “coaching” for core behaviors, job responsibilities, and individual development. Increasingly common to use even for physicians.

Best Practice Alignment Criteria

Are Your Process and Tools Aligned???

- **Thorough planning process defined, and followed**
- **CEO and executive goals *few, limited, tied to strategic plan* – approved as part of budget and planning process**
- **Middle management goals deliberated with VP, but approved jointly by executive team (executive retreat) and communicated within first month of fiscal year**
 - ◆ **Primary missing link, since only recently has emphasis been on middle management as “senior leaders” (odd since link between top and staff)**
- **Medical Director goals developed in concert with CEO, Board, and possibly senior management and approved within first month of fiscal year**
 - ◆ **Leaders communicate goals to medical staff consistently throughout year**
- **Staff behaviors aligned through establishment of team goals consistent with middle management goals and defined supporting individual contributions**
 - ◆ **Approved by human resources and CEO to ensure consistency**

Best Practice Alignment Criteria

Are Your Process and Tools Aligned???

- **Staff recognition and reward goals communicated regularly**
 - ◆ **Published and distributed to all employees within first month of year**
 - ◆ **Relative performance discussed quarterly, if not monthly**
 - ◆ **Department managers celebrate and communicate successes and challenges throughout year**
 - **Employee meetings**
 - **Internal newsletter**
 - **VPs and/or CEO included regularly**

- **Performance reviews include organizational and department objectives and mission, with managers specifically identifying relationship between job responsibilities and “big picture” strategies**

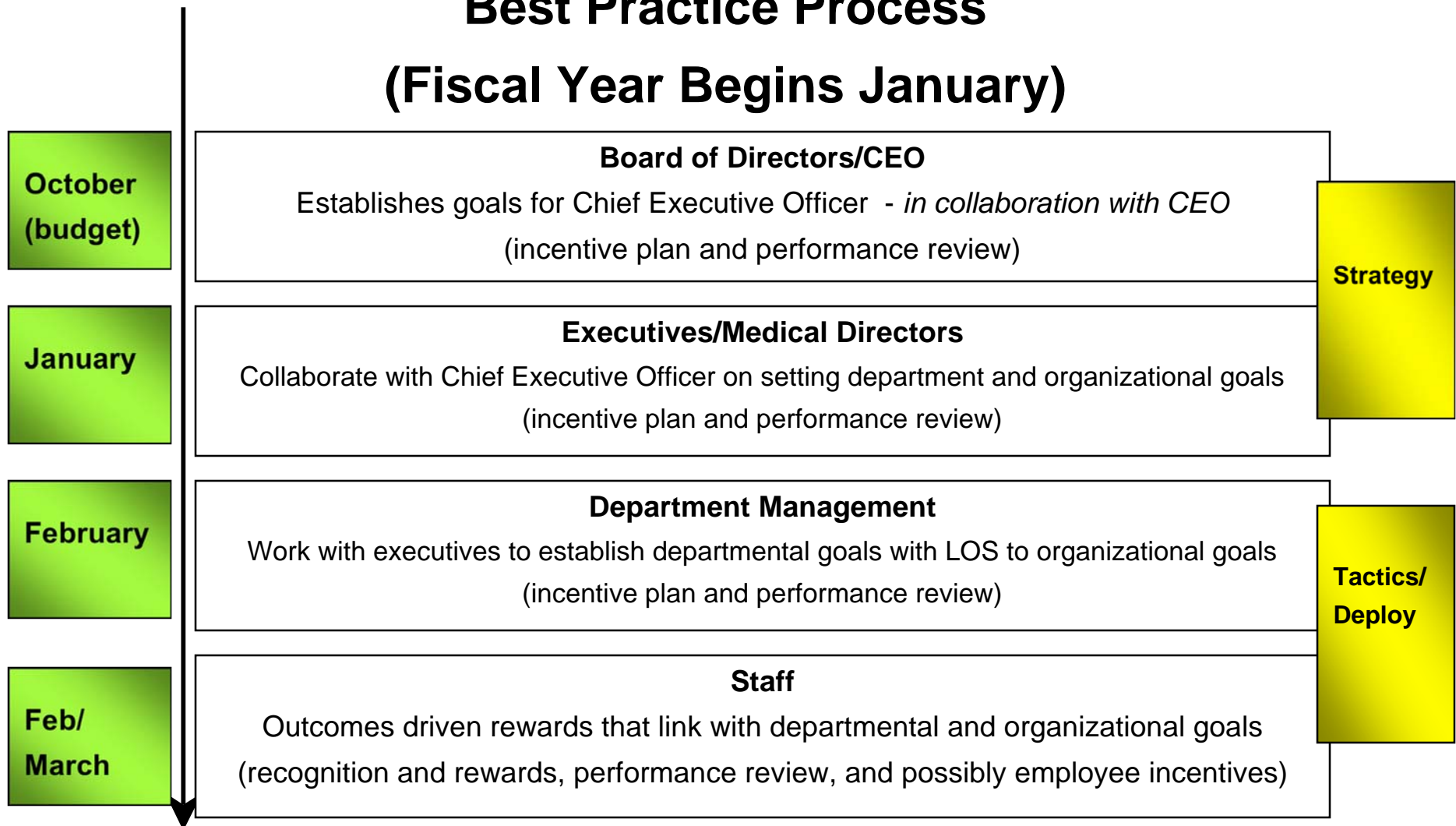
Best Practice Alignment Process

Which way is out???



Best Practice Alignment Process

Best Practice Process (Fiscal Year Begins January)



Outcomes Are Everything

All organizational or team goals expressed as defined outcome –
Challenge is line of sight from executives to staff

STRATEGY

- ◆ Implement an effective diversity program

OUTCOMES

- ◆ 20% of professional and managerial jobs filled by non-Caucasian employees
- ◆ 15% of discretionary spending to minority vendors

STRATEGY

- ◆ Become the pre-eminent tertiary hospital in the region

OUTCOMES

- ◆ 20% increase in specialty referrals from outside the primary service area
- ◆ \$10 million increase in grant funding to support clinical research

Outcomes Are Everything

Everything can be measured - using either internal or external benchmarks

INTERNAL BENCHMARKS

- ◆ Achievement of the current year budget or operating plan
- ◆ Performance improvement over prior year

Examples:

- Exceed budgeted inpatient surgery volume by 10%
- Exceed FY2005 adjusted discharges by 5%

EXTERNAL BENCHMARKS

- ◆ Performance relative to external standards
- ◆ Performance relative to an industry peer group

Examples:

- ◆ Achieve operating margin equal to or above median of A rated hospitals
- ◆ Earn Top 10 ranking in 4 key service lines
- ◆ Exceed average clinical quality score for teaching hospitals
- ◆ Exceed average FTEs/Bed for region

Common Outcomes and Measures

- Incentive and reward programs almost always have outcomes and measures in following categories – “THE BALANCED SCORECARD” . . .
 - ◆ Financial management
 - ◆ Resource/expense management
 - ◆ Revenue enhancement
 - ◆ Cash management/liquidity
 - ◆ Volume/market share
 - ◆ Customer satisfaction
 - ◆ Patient safety/quality
 - ◆ Human resources management
 - ◆ Program/project milestones
 - ◆ Strategic milestones

Common Outcomes and Measures

Typical Category	Market Practices
Strategic Milestones	<ul style="list-style-type: none"> Expansion through joint ventures, contracting, new facilities
Projects; Programs	<ul style="list-style-type: none"> Completion of clinical systems initiative Completion of facilities development initiative Fund development
Financial Management	<ul style="list-style-type: none"> Revenue over expenses Operating margin Credit rating standards
Resource Management; Cost Reduction	<ul style="list-style-type: none"> Cost per discharge Cost per patient day FTEs per patient day
Volume; Market Share	<ul style="list-style-type: none"> Total growth or service line(s) growth in revenue Total growth or target growth in market share

Common Outcomes and Measures

Typical Category	Market Practices
Revenue Enhancement	<ul style="list-style-type: none"> • Revenue per discharge • Revenue per patient day • Revenue per FTE
Cash Management	<ul style="list-style-type: none"> • Days cash on hand • Debt service coverage
Customer Satisfaction	<ul style="list-style-type: none"> • Patient/physician satisfaction survey
Patient Safety; Quality	<ul style="list-style-type: none"> • Performance relative to internal or external quality standards
Human Resources Management	<ul style="list-style-type: none"> • Turnover rate • Vacancy rate • Employee satisfaction survey

Common Outcomes and Measures

- Some examples of specific team department performance . . .
 - ◆ Finance: Days in accounts receivable
 - ◆ Human Resources: Benefits cost per FTE
 - ◆ Patient Care: Nursing hours per adjusted patient day
 - ◆ Development: Annual campaign contributions
 - ◆ Medical Affairs: Average length of stay
 - ◆ Materials Management: Supply cost per adjusted patient day
 - ◆ Environmental Services: Patient satisfaction with room cleanliness

Incentive Plan Parameters

Structure and design of performance program is linked to purpose and intent

- Build teamwork and align goals across team
- Build a performance oriented culture
- Reinforce strategic plan
- Reinforce quality improvement initiatives
- Promote sustained performance year after year
- Promote strong sense of individual accountability
- Move more of pay to variable from fixed costs
- Simpler is better- particularly if plan is new

Incentive Plan Parameters

Performance measures – “Best practices”

- Limit organizational measures to three to six
- Limit department measures to one to three
- Try to find ways to measure strategic success, growth, quality, and community benefits
- Use same goals for incentive plan as in strategic plan
- Measure what’s important to achieve, not just what’s easiest to measure
- Performance measures should match mission and rhetoric – “Put your money where your mouth is”

Regulatory Compliance for Executive and Physician Pay

Executive and physician compensation must be reasonable to be in compliance with regulatory guidelines

Medicare Fraud and Abuse/Stark: To avoid the appearance of prohibited payments for Medicare patient referrals for designated health services, the consideration paid for physician compensation must be considered reasonable. Those guilty of fraud and abuse or paying for ancillary referrals lose the ability to participate in Medicare reimbursements and expose themselves to civil and criminal penalties.

Private Inurement: There are two penalties which can be imposed under Private Inurement. Through an IRS Audit Closing Agreement, a penalty can be imposed whereby the organization agrees to pay a fine calculated over a designated period of time as if the organization had been a taxpayer in order to avoid losing its tax exempt status. Alternatively, the IRS can revoke the exempt status of an organization whose assets inure to the benefit of a private individual.

Intermediate Sanctions: On January 10, 2001, the IRS published long-awaited regulations implementing Section 4958 for tax-exempt organizations. Section 4958 imposes excise taxes on “Excess Benefit Transactions” between a tax-exempt organization and a “disqualified person” (anyone in a position to exercise substantial influence over the affairs of the organization).

***Medical Director Performance Plans should not link pay to financial performance of Service Line/Department to avoid the risk of the plan rewarding physicians for referrals or for denying/withholding care.*

Regulatory Compliance for Executive and Physician Pay

Organizations may reduce the risk of intermediate sanctions by establishing a “rebuttable presumption of reasonableness” for transactions involving disqualified persons.

Presumption of Reasonableness:

- ◆ The arrangement is approved by the organization’s governing board composed wholly of disinterested persons;
- ◆ The board relied on objective data supporting the notion that the proposed arrangement is reasonable;
- ◆ There are minutes or other records that reflect the board’s deliberative processes and reliance on the objective data.

Typical Executive Incentive Plan Structure

Awards tied to performance relative to following criteria . . .

System CEO		VP Patient Care	
Measure	Weighting	Measure	Weighting
Organizational Measures			
Net Operating Margin	20%	Net Operating Margin	10%
Total Market Share	20%	Total Market Share	10%
Hospital Operating Margin	15%	Hospital Operating Margin	10%
Compliance for Key Quality Indicators	15%	Compliance for Key Quality Indicators	15%
Patient Satisfaction	15%	Patient Satisfaction	15%
Associate Satisfaction	15%	Associate Satisfaction	10%
Departmental Measures			
		RN Turnover	10%
		Nursing Expense per Adjusted Patient Day	10%

Medical Directors

Industry trends and medical director positions

- Successful healthcare institutions have developed strong working relationships with their physicians
 - ◆ Shared vision
 - ◆ Strong physician leaders
- Majority of hospitals are still dominated by a private medical staffs
 - ◆ Renewed interest in physician employment
- Majority of hospitals have medical director positions to help manage key lines of service and hospital based departments (e.g. cardiology, cancer, orthopaedics, anesthesia, pathology, etc.)
- Hospital reliance on medical director positions is projected to increase
- Majority of medical director positions are part-time and receive a fixed payment

Sample Medical Director Plan

Large Academic Medical Center

- Chairman, Department of Orthopaedic Surgery
- Base salary of \$500,000
- Performance bonus up to \$100,000
- Institutional trigger - \$18million unfavorable to budget

Financial Measures	Hospital Measures	School Measures	Chair/Department Measures
10%	10%	10%	70%
25% if -\$7 to -18m to budget	Improvement of core measures	Improvement in NIH ranking	Department budget
100% if at budget (+/- \$7m)	LOS improvement	Grant spending	Faculty productivity
110% if \$7 to 18m to budget		Clinical revenue growth	Philanthropy
120% if > \$18m to budget			Total Grants

Cascade to Middle Management Incentive Plan

Prevalence of incentives for middle management has increased to 60% to 70%, cascaded as follows . . .

Hospital VP Patient Care		Director Surgical Services	
Measure	Weighting	Measure	Weighting
Organizational Measures			
Net Operating Margin	10%	Net Operating Margin	7.5%
Total Market Share	10%	Total Market Share	7.5%
Hospital Operating Margin	10%	Hospital Operating Margin	7.5%
Compliance for Key Quality Indicators	15%	Compliance for Key Quality Indicators	15%
Patient Satisfaction	15%	Patient Satisfaction	15%
Associate Satisfaction	10%	Associate Satisfaction	7.5%
Departmental Measures			
RN Turnover	20%	Department Patient Satisfaction	20%
Nursing Expense per Adjusted Patient Day	10%	Decrease Supply Expense	20%

Cascade to Middle Management Incentive Plan

Increasing use of middle management incentive plan intended to address leadership opportunities/support

- Powerful tool that addresses following . . .
 - ◆ Leadership development – communicates role in and expectations for strategic success
 - ◆ Forces collaboration with executive staff and other peer managers on potential integration
 - ◆ Goals represent “message” to reporting staff and link between executive and staff objectives

Cascade to Staff Recognition and Rewards Program

Recognition and rewards programs used to . . .

- Create high performance environment
- Demonstrate value of employees and teams
- Celebrating teams and individuals
- Improve employee morale, productivity, and work quality
- Fill performance management gaps between organizational strategies, performance evaluation, and incentive goals (if any)

Not used to address competitiveness of pay . . .

- Addressed through salary, sometimes incentive/gainsharing pay, and benefits

Cascade to Staff Recognition and Rewards Program

Successful programs have following characteristics . . .

- Understood
 - ◆ Employee/team knows what they need to do and what they did

- Valued
 - ◆ Recognition/reward means something to recipient

- Timely
 - ◆ Desired behavior reinforced closely to action

- Enjoyable
 - ◆ Program is fun

Cascade to Staff Recognition and Rewards Program

Multiple components to recognize all worthy achievements, differentiate performance levels, and extend line of sight . . .

- Team component
 - ◆ Recognition/rewards for team
 - Meeting/exceeding key team outcomes (defined measures or programmatic implementation)

- Individual component
 - ◆ Recognition/rewards for individual (staff or front-line manager)
 - Meeting/exceeding core job accountabilities
 - Outstanding contributions to key team goals or projects

Increasingly common for organizations to expand program to organization as a whole (rather than select departments)

Cascade to Staff Recognition and Rewards Program

Provided for meeting and exceeding defined *performance criteria* . . .

- Criteria typically include individual behaviors and performance that
 - ◆ Support organizational mission and strategy
 - ◆ Support team objectives
 - ◆ Support teamwork
 - ◆ Are outside the scope of responsibility or expectations

- Commonly recognized actions are
 - ◆ Learning a new skill
 - ◆ Pitching in to help new coworker
 - ◆ Volunteering for less desirable work
 - ◆ Giving extra patient/customer attention
 - ◆ Improving productivity by changing current process/practice

Team Recognition and Rewards

Provided for progress towards, meeting, and exceeding team *defined outcomes* – Should be consistent with department director/manager goals

- Recognition/rewards tied to achievement of 1 to 3 targeted outcomes, typically from the following
 - ◆ Process improvement
 - ◆ Quality improvement
 - ◆ Productivity improvement
 - ◆ Customer satisfaction
 - ◆ Programmatic completion
 - ◆ Strategic initiative (department consolidation) completion

Team Recognition and Rewards

**Provided for progress towards, meeting, and exceeding
*defined outcomes . . .***

■ Level 1 – “Progress Celebrations”

◆ Purpose

- Recognize notable periodic progress towards outcomes (requires frequent communication of overall and key focus areas for defined period)

◆ Form

- Team department head(s) communicate performance to date and “work to do”
- Informal ceremonial celebration (e.g., 1 hour lunch at favorite restaurant, after-work bowling outing)
 - ✓ Department head(s) facilitate short recognition ceremony, with opportunity for peers to recognize peer performance

◆ Frequency of recognition

- Monthly to quarterly

Team Recognition and Rewards

**Provided for progress towards, meeting, and exceeding
*defined outcomes . . .***

■ Level 2 – “Achievement Celebrations”

◆ Purpose

- Recognize achievement of outcomes (1 to 3 outcomes)

◆ Form

- Executives and team department head(s) communicate achievements, with re-cap of outstanding achievements
- Formal ceremonial celebration (typically dinner event) based on team preferences
 - ✓ Executives and department head(s) facilitate formal ceremony recognizing team and individual performance, with tie to organizational accomplishments
- Recognition Committee has discretion to provide Level 1 for teams that did not meet goal

◆ Frequency of recognition

- Annually

Individual Staff Recognition and Rewards

Provided for meeting and exceeding defined *performance criteria* . . .

- Level 1 – “Spot Recognition” – for all employees
 - ◆ Purpose
 - Immediately recognize notable daily contributions
 - ✓ Any notable contributions in support of team objectives
 - Inform employee manager of behavior
 - ◆ Form
 - Written communication of specific behavior to employee, from manager, peer, other employees, and patients
 - Direct manager presents to employee
 - ✓ Discretion to provide token award (e.g., \$5 discount coupon at cafeteria or gift shop)
 - Consideration in employee performance evaluation
 - ◆ Frequency of recognition
 - Ongoing and unlimited

Individual Staff Recognition and Rewards

Provided for meeting and exceeding defined *performance criteria* . . .

- Level 2 – “Outstanding Achievements” – for frequent level 1 recipients and others selected by direct managers
 - ◆ Purpose
 - Recognize extended outstanding performance that exceeds performance expectations of job in furtherance of team objectives
 - ◆ Form
 - Written communication to employee from direct manager
 - Flexible reward (but not time off)
 - ✓ Choice of redemption from within organization, or vendor
 - ✓ Value typically ranges from \$25 to \$100
 - Public recognition (e.g., departmental/organizational e-mail, achievement wall, symbolic award) identifying tie to responsibilities and/or organizational mission and strategy and team objectives
 - ◆ Frequency of recognition
 - Monthly to quarterly for small minority of employees

Individual Staff Recognition and Rewards

Provided for meeting and exceeding defined *performance criteria* . . .

- Level 3 – “Outstanding Achievers” – for select level 2 recipients
 - ◆ Purpose
 - Recognize highest performers
 - ◆ Form
 - Recognition Committee (made up of select directors and executives) vote on most notable level 2 recipients
 - Written communication to employee from Recognition Committee
 - Monetary award ranging from \$250 to \$1,000
 - Ceremonial public recognition (at year-end event) identifying tie to responsibilities and organizational mission and strategy and team objectives
 - ◆ Frequency of recognition
 - Annually to handful of employees

Cascade to Staff Recognition and Rewards Program

Following illustrates best practice structure . . .



Cascade to Staff Recognition and Rewards Program

Sample . . .



What About Performance Reviews?

Best practice performance reviews include annual “coaching” on all of below – all need to be on form . . .

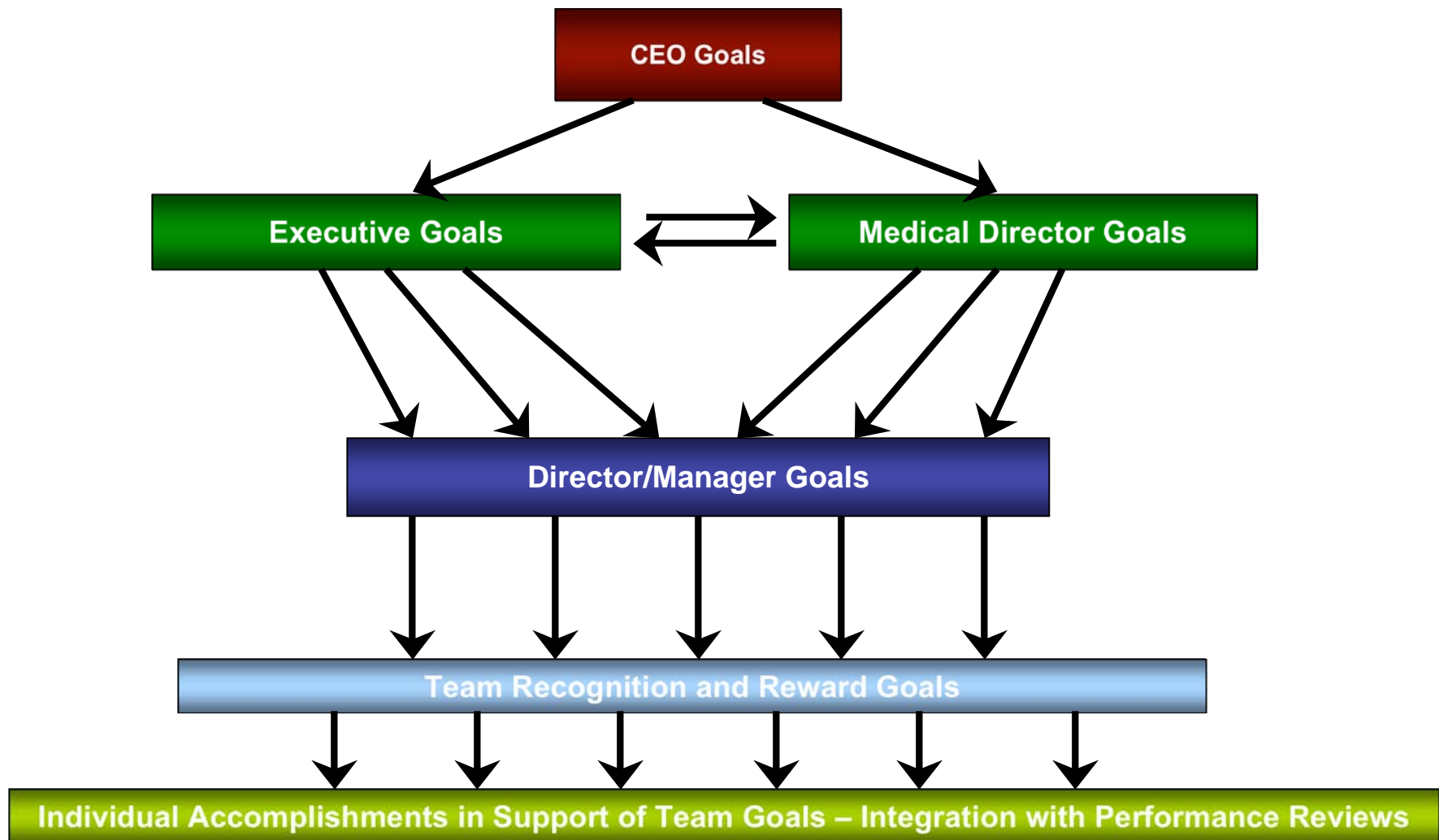
- Organizational Mission
- **Core values/behaviors – sometimes not included**
- Employee self-input
- Customer/co-worker input
- Job standards
- **Organizational goals – often not included**
- **Departmental goals – often not included**
- Growth and development

Challenge is taking beyond “job standards” and identifying and rewarding how job relates to desired behaviors and strategic outcomes

Lessons Learned

- Process, process, process
- Executive goals need to be “right” – drive goals for all other segments
- Medical Director incentives encourage alignment with medical staff as a whole
- Middle management incentives are not an exception – addresses gap between staff and executives and promotes leadership development
- Staff recognition and reward programs with team and individual components and criteria force continual communications on “line of sight” performance objectives throughout the year
 - ◆ Performance programs simply force the conversation
- Performance reviews should be integrated with performance programs as a whole, and emphasis is on “coaching” towards contributions to strategy

Lessons Learned



Q & A