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Communicating a Positive Message About Executive Pay

Presented by Integrated Healthcare Strategies
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Outrage! That's the only way to describe the public's reaction to big bonuses and perquisites paid to Wall Street executives after their financial institutions accepted government bailouts to avoid collapse. Healthcare's turn under the spotlight has already begun. Healthcare reform is bringing the same kind of negative media attention to executive pay in hospitals and health systems that federal bailouts brought to the financial sector. Legislators, unions and regulators have been commenting publicly that they believe executive pay in healthcare is too high. National and local media outlets have picked up on their comments, and healthcare organizations across the country – children's hospitals included - are being called on to defend their executive pay.

In truth, children's hospitals are paying executives fairly and competitively, not excessively. Most hospital boards have adopted best practices in compensation governance, and have little to worry about from regulators. But few hospitals have developed strategies for talking about executive pay with medical staff, donors, and the local media. If your hospital is overlooking the importance of communicating a positive message to these constituents, you are taking a risk that others will set the tone for the public conversation, a tone that will be designed to suit their purposes, not yours.

This article will discuss steps your hospital can take to manage the message about executive pay in an era of increased media scrutiny and potential public backlash.

The challenge for children's hospitals

The general public has a bias toward believing that all executives are overpaid, and nowhere is this bias more acute than in pediatric organizations. Most people tend to think that working in a children's hospital is a public service calling, and they expect those working there to be willing to accept lower pay than their peers in other institutions out of concern for the children.

It's not surprising that casual observers may feel children's hospital executives are overpaid: they are often paid more than executives in adult hospitals of the same size, and they are more likely to receive bonuses. In a year when many hospitals froze executive pay and cancelled incentive plan payouts, children's hospitals saw average salary increases of four-to-five percent or more [see figure 1]. Many children's hospitals are performing well and will be paying bonuses.

The reasons why children's hospital executives are paid so well stem from the unique characteristics of pediatric institutions. Their patients are very likely to have chronic illnesses that require expensive, high-tech resources. They face severe reimbursement challenges, with half their revenues coming from Medicaid. They are often part of academic health systems, where executive pay tends to be higher. They have sophisticated boards populated by people from the corporate world who bring a business orientation to their board service. They have high performance expectations, and their boards are accustomed to the richer pay arrangements in public companies. Because of these factors, children's hospitals usually have strong, sophisticated, performance-oriented leaders. And leaders of their caliber can command big pay packages in any competitive marketplace.

In the past, boards were able to keep quiet about executive pay: they were required to report executive pay annually on IRS form 990, but only for a few executives, and the rules about what to report were lax enough that they could avoid providing a clear, concise enumeration. But the rules changed beginning with fiscal year 2008. Form 990 reporting is now required for all officers and directors, all key employees earning \$150,000 or more, and the top five most-highly-compensated employees earning \$100,000 or more. Pay for these individuals is broken down into categories that will make comparisons easier.

Your hospital must assume that the local media will have access to this information, and that they will be able to compare pay at your organization to other hospitals and businesses in the area. You must also assume that physicians, employees, and union representatives will have access to the information. You have a choice – you can play defense, or you can use the opportunity to deliver a positive message about the quality of your hospital, the value it brings to the community, and the importance of having a strong, stable management team in place to assure that it continues to be true to its mission of bringing health and healing to children.

Crafting a positive message

To prepare a comprehensive communications strategy, it is helpful to assemble a group of people including the board and compensation committee chairs, your public relations staff, and your compensation consultant. The communications strategy will take shape as the group discusses these questions:

- How transparent do you want to be? Do you want to focus only on responding to media inquiries, or do you want to proactively communicate with medical staff, donors, faculty, and employees?
- Who should be the spokesperson for answering media inquiries? Consider that choosing the board chair as spokesperson signals the board's ultimate responsibility for executive pay.
- What are the mission and vision of your hospital? What are its proudest achievements? What values and benefits does it bring to the community? Consider not only the medical services offered and the charity care provided, but also the number of medical students trained, the size of the workforce, and the annual payroll.
- What is the senior leadership's role in achieving your mission and vision? Is the quality of leadership important? Is stability of the executive team important?
- What is the board's process for determining executive pay? What committee makes the compensation decisions? Are committee members free of conflicts of interest? Are their decisions based on data provided by an independent expert?
- What peer group is used for measuring the competitiveness of executive pay? How did you choose the peer group? How do you position pay at your institution in comparison to peers?
- How does your executive pay compare to that of other hospitals in your local community? Has your pay been moving faster than theirs?
- What portion of executive pay is based on performance? What performance goals are you rewarding through the incentive plan, and how successful has the hospital been in achieving those goals?
- How does the executive compensation philosophy compare to the compensation philosophy for other employees? Are they different? If so, why? Do you offer performance-based pay to other employee groups?

The answers to these questions will tell you what you need to include in your positive message about executive pay, and will help you decide how to deliver your message to the media and constituent groups. Consider putting your message in writing, publishing it in the employee newsletter, and posting it on your website.

Prepare your spokesperson with talking points for discussions with the media. Some organizations prepare their spokesperson by conducting mock media interviews. Make sure all members of the board and the executive team know to refer inquiries to the designated spokesperson, rather than answering questions themselves.

Fitting the message to the audience

Once you have crafted a message for the general public, you can think about the special challenges posed by certain constituent groups. The board and the individuals for whom pay is reported on form 990 will need more information than others, and they may need coaching on how to respond to questions from coworkers, physicians, or subordinates. Physicians are likely to want more information than the general statement provides, and they are the group most likely to challenge executive pay levels. Communications to each of these groups may be customized to meet their needs and interests.

Board communications

The entire board should understand the total compensation philosophy underlying executive pay and the peer group for pay comparisons; they should see actual salary levels for the CEO and other key executives; they should know about incentive awards and performance against incentive plan objectives; they should be told about deferred compensation distributions or other special payments that may inflate the numbers. Tally sheets are a useful tool for consolidating this information for review by the board. The full board should review compensation information reported on form 990 before it is published.

Communications with individuals included on form 990

All affected employees should be given a copy of the schedule showing their information. They should be coached to explain that an independent committee of the board makes pay decisions, and that the committee relies on market data provided by an outside consultant as the basis for decisions. They should be told to direct media inquiries to the organization's designated spokesperson.

Communications with physicians

Discussions should emphasize that there are differences in labor markets for executives and physicians, just as there are differences in labor markets for different medical specialties. Explain that the board makes executive pay decisions by following a rigorous process, and by obtaining objective data and recommendations from an independent consultant who is under the control of the board, not the executives.

Summary

Communicating about executive pay isn't really about executive pay at all – it's about what your hospital stands for, what it is doing well today, and what its vision is for the future. The mission and vision, after all, form the foundation of the work that the executive team is doing.

The key to delivering a positive message about executive pay is preparation. Hospitals need to assume that the media and other constituents will have access to detailed information about executive pay. A positive message about the value the hospital brings to the community and the

importance of a strong, stable executive team in achieving the mission frames the discussion in a proper context.

Figure 1
Children’s Hospitals
Same-Incumbent Salary Increases in 2009

Position	Median Salary Increase	Average Salary Increase	% that Froze pay
CEO	4.6%	4.6%	22.2%
COO	3.5%	5.4%	18.8%
CFO	6.0%	7.6%	13.6%
CIO	5.0%	6.1%	18.2%
Patient Care	5.8%	6.1%	22.2%
Professional Services	4.6%	4.3%	15.4%
Human Resources	4.8%	6.7%	19.2%
Average:	4.9%	5.8%	18.5%

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