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Spotlight on Executive Incentives
A Structured Approach to Assessing Your Plan

Presented by Integrated Healthcare Strategies
as Authored by Kevin Talbot

It is hard to pick up the newspaper these days without reading about executive pay. In the first half of 2009, executive compensation has come under increasing scrutiny, with much of the attention on executive bonuses. While most of the debate on executive bonuses has revolved around publicly-traded companies, not-for-profit hospitals and health systems have not been immune to the scrutiny.

In the past six months, the boards and compensation committees of not-for-profit hospitals and health systems have become increasingly cautious about executive incentives. Some of this caution is the result of the financial challenges facing their organizations, and some of it is the result of the increased scrutiny of executive compensation. Regardless, boards and committees are asking some hard questions about executive incentives:

- Does the incentive plan need to be modified? Do incentive opportunities need to be reduced, or even eliminated?
- If executives earned awards in the most recent plan cycle, should the awards be paid in full despite the current economy and heightened scrutiny on executive bonuses?
- Does the plan reward executives for performance in the right areas?
- Is performance really high enough to justify the size of awards being paid?
- How can we be confident that the plan is really supporting the mission and priorities of the organization?

These questions can often be answered by using a structured approach to evaluating the executive incentive plan. A comprehensive assessment of the plan should always be a part of the annual review process for executive compensation.

Here are five key elements to include in an assessment of the executive incentive plan that will help answer the questions above:

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1. Confirm that the incentive opportunities provided by the plan are consistent with the board-approved compensation philosophy. If they are not, then either the opportunities or the philosophy need to be modified.
2. Ensure that the plan has the right funding trigger(s) and that the triggers are set correctly. Used appropriately, funding triggers are an objective way of determining whether or not awards should be paid in any given year.
3. Evaluate the plan's performance criteria every year, and reconfirm or modify as needed. Measure what is most important, not just what is easiest or what was measured last year.
4. Validate that the goals are set appropriately. Effective goal-setting is the hardest part of the incentive plan process, and the most important. An incentive plan is only as good as the goals in it. Set expectations high enough to drive performance, but not so high that achievement is unrealistic within the required timeframe.
5. Dedicate the time necessary to fully understand the plan and shape it to meet the objectives of the organization. Consider committing one full meeting each year to the incentive plan and scheduling time during at least two other meetings. Engage experts -- management, other committees, outside consultants -- to get the supporting data necessary to fully debate the issues and to make informed decisions.

Incorporating these five elements into a structured approach to evaluating the incentive plan every year will help ensure that the plan is effective and that it rewards the right amount to the right people and for the right reasons.

About Integrated Healthcare Strategies

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