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Compensation Efficiency

Presented by Integrated Healthcare Strategies
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Over the last several months, many healthcare organizations have been forced to find unique ways to reduce costs. Since human capital and the related compensation is the largest expense, many hospitals and health systems have shifted their focus to reduction in payroll costs. The complexity of compensation systems and the unique cultural dynamics in healthcare create an environment, in which over time, can result in overspending without a corresponding return in value, similar to the challenges of supplies and inventories. This 'inefficiency' of cost to value can result in a significant financial hit to many organizations. Even if the compensation system causes an overspending of one percent more than it needs to achieve the recruitment, retention and employee relations goals, the run rate costs can be in the millions.

Although hospital leadership has gone through the difficult process of assessing and modifying their practices in supply inventories, or making significant change in their reimbursement practices, very few organizations have gone through the same process to find efficiencies in their compensation systems to reduce payroll costs without the devastating impact of lay-offs or service reduction.

Case study: ABC Health System started an open heart program five years ago. In an effort to recruit the best nursing talent for the program from surrounding hospitals, they offered a fifteen percent specialty differential for all open heart nurses. Fast forward to 2009, the hospital is having some minor financial issues and needs to reduce costs. Through an analysis of the compensation system, the human resource team discovered that the hospital is essentially paying all open heart nurses fifteen percent above its competitors in the region due to the pay practice created in 2004. Through further analysis, it was determined that eliminating this practice for new hires and grandfathering current RNs could save this specific department over \$200,000 in the next year.

This example of maintaining compensation policies past their necessity is common in many hospitals. This situation is just the tip of the iceberg; there are a number of other 'efficiencies' in compensation systems that may be discovered.

Other pay practice and policies that could be reviewed include: the overtime policy; pay for specific indicator jobs; pay differentials; premium pay; job titling; application ratios; and call pay. One of the roadblocks to developing a higher level of efficiency in compensation practices and systems is the concern of employee relations issues outweighing the financial gain. MSA HR Capital consultants have found that those hospitals and health systems that are successful in creating a more efficient system, do so by developing an effective employee relations strategy and communication plan. A sophisticated and strategic approach, aimed at both short and long term improvements, can be implemented if planned properly. Gaining knowledge about the capacity for the employees to change, including the overall employee relations environment, as well as to understanding the process to implement change, is critical to any plan. It is important for hospitals and health systems to develop a more efficient compensation system, and also create implementation strategies and approaches that minimize the employee relations impact. By focusing in on the reasons behind the change and developing reasonable and effective implementation, a more efficient compensation program can be developed.

Summary

During these critical economic and financial times, it is imperative that healthcare organizations evaluate all components of their balanced scorecard, including finances; operational efficiencies; quality improvement opportunities; and employee, leader, physician, patient and community satisfaction. Identifying efficiencies in the organization's compensation program, processes and policies is a key step into an overall plan to provide the highest quality of care in the most efficient manner.

About MSA HR Capital

Integrated Healthcare Strategies provides clients with the most comprehensive array of healthcare-specific consulting services available through our five integrated specialty practices. Our MSA HR Capital practice helps clients develop a human resources organization that supports their strategic goals. MSA HR Capital provides comparative data from over 1,000 hospital organizations to tailor solutions for your specific work environment to ensure that you reach objectives by integrating your management, compensation, labor relations and employee engagement goals into one seamlessly operating strategy. Our process is simple - turn data into information which helps develop more knowledge and better decisions and positive actions. For more information, visit www.IHStrategies.com.

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