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Physician Leadership Incentive Compensation Plans

Presented by Integrated Healthcare Strategies, as authored Mary Heymans

In a recent survey of physician leaders conducted by Integrated Healthcare Strategies, survey participants reported “a lack of an incentive plan” as one of their frustrations with their current position. Many organizations have begun to respond to this concern and are implementing incentive plans for these positions. The basic concept of a Physician Leadership Incentive Compensation Plan (“Incentive Plan”) is to better align physician executive incentives with organizational goals based on the premise that better alignment of incentives should result in higher organizational performance. As participant buy-in is critical to the success of any incentive plan, Integrated Healthcare Strategies recommends a transparent process with physician leader input.

Organizations that have successfully implemented these plans have reported positive outcomes including:

- More frequent achievement of organizational goals
- Greater effort devoted to administrative roles
- More cross-departmental collaboration on organization-wide goals and initiatives
- Better alignment of effort
- Better understanding of physician leadership position expectations and roles
- A more competitive compensation plan that recognizes the performance of physicians in leadership roles
- Proactive approach to setting standard criteria for physician leadership positions (linked to position descriptions)

The first step in the Incentive Plan design process is to establish a compensation philosophy consistent with the organization’s executive and physician compensation philosophy (e.g., Where does the organization strive to position pay in the market? Which organizations comprise the organization’s peer group?). The organization must determine how much of the compensation package should be guaranteed in the form of salary versus pay at risk.

The next step in developing an Incentive Plan is to clearly articulate the organization's goals for physician leader performance management in order to define performance measures. Typical goal setting questions include:

- How will measurement information be used other than for the Incentive Plan? (e.g., feedback, quality improvement, consumer information, etc.)
- Which physician leaders will be included in the Incentive Plan and what is the rationale for including them?
- Will physician leaders be measured individually, departmentally, based on organizational performance, or a combination?
- How will compensation be tied to the Incentive Plan (i.e., how are high performing physician leaders rewarded?)
- What consequences, if any, will be imposed on lower performing physician leaders?
- Will physicians be measured on quality, cost efficiency, or other "balance scorecard" measures?
- How often will the measures be monitored?

The best practice in the industry is to select a limited number of goals (e.g., 4 to 6 goals) and develop graduated performance measures (e.g., threshold, target, and maximum levels) rather than taking an "all or nothing" approach.

Sample Measures for an Incentive Plan:

- Organizational goals (quality, long-term goals, growth, executive enterprise goals)
- Patient satisfaction
- Referring physician satisfaction
- Recruitment and retention of physician talent
- Quality of care indicators/processes
- Productivity
- Performance relative to budget
- Service measures
- Cost/efficiency measures
- Promotion of medical education and research
- Ability to execute strategy (oversee process and take an active role)
- Professional growth and development of physician staff
- Adoption of information technology

It is important that the organization tailor the plan based on the physician's scope of responsibility (e.g., size of department) and administrative FTE status. Eligibility criteria for plan participation should be determined as well as plan funding. Integrated Healthcare Strategies has found that plans are typically not successful if funded by a "carve out" from base salary. To determine the appropriate amount of potential incentive compensation, the organization should

first conduct a review of physician leaders' base pay to determine market position relative to compensation philosophy. Implementing an Incentive Plan may replace other plans or discretionary incentives, which may offset costs. However, an Incentive Plan often creates added cost for the organization. Integrated Healthcare Strategies has found that 10% to 25% of base pay is the common range for these incentive plans, although fixed amounts can be found in the industry as well.

Offering incentive pay is an important part of an effective physician leadership compensation plan. Incentive pay demonstrates appreciation and creates a sense of participation in the company's success that a base salary, no matter how large, does not accomplish. A well-designed incentive pay plan can also help pull people together, create alignment around organizational goals, and provide the focus that every organization needs in today's competitive healthcare environment.

About Integrated Healthcare Strategies

Integrated Healthcare Strategies provides not-for-profit healthcare organizations with direct access to a comprehensive array of healthcare-specific services, delivered by professionals from the industry who understand the rigors of running a healthcare organization – from the lunchroom to the Board Room. Its client list is a “who’s who” of healthcare organizations including over 1200 major healthcare providers, 1,800 hospitals and 500 physician groups.

The Physician Services practice of Integrated Healthcare Strategies helps create successful relationships between healthcare organizations and their employed and affiliated physicians by providing unique consulting services that focus on physician total compensation plan designs, assessment of reasonableness compensation (including Professional Services Agreements), organizational structure and physician leadership development. For more information, visit www.IHStrategies.com, or call 800.327.9335.

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