



## VIEWPOINT

# How to Take Control of the Compensation Conversation

BY DAVID A. BJORK AND SUSAN O'HARE

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.

Now executive pay in hospitals and health systems is under the same level of scrutiny. Legislators, unions and regulators have been commenting publicly that they believe executive pay in health care is too high. Media outlets have picked up on their comments, and health care organizations across the country are being asked to defend their executive pay.

In truth, hospitals are generally paying executives fairly and competitively. Most 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 media. If an organization isn't prepared to communicate a positive message to these constituents, you are taking a risk that others will set the tone for the public conversation.

### **New Requirements for Disclosure**

The general public has a tendency to believe that all executives are overpaid, and nowhere is this bias more acute than in nonprofit hospitals. Many people think that working in a hospital is a public service calling, and they expect those working there to accept lower pay than their peers in other industries out of concern for the public welfare.

It's not surprising that casual observers may feel hospital executives are overpaid: The hospital is often the largest employer in town, and its executives are often the

best-paid people in town. Although the public expects doctors to be well-paid, they don't understand what executives do or why they should make as much as, or more than, physicians.

In the past, boards were able to keep quiet about executive pay: They were required to report pay for a few executives annually on IRS Form 990 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 will be able to compare pay at your organization to other hospitals and businesses in the area. Physicians, employees and union representatives will also be able to access it. You have a choice: You can play defense, or you can use the opportunity to discuss the quality of care your organization provides, the value it brings to the community, and the importance of having a strong, stable management team in place.

### **Crafting a Strategy**

To prepare a comprehensive communications strategy, assemble a team that includes the board and compensation committee chairs, public relations staff and your compensation consultant. The communications strategy will take shape as the group discusses these questions:

- How transparent should the hospital

be? Do you want to focus only on responding to media inquiries, or do you want to proactively communicate with medical staff and employees?

- Who will respond to media inquiries? Choosing the board chair as spokesperson signals the board's ultimate responsibility for executive pay.

- What are the hospital's mission and vision? What are its proudest achievements? What values and benefits does it bring to the community? Consider not only medical services offered and charity care provided but also the number of medical students trained, the size of the workforce and annual payroll.

- What is senior leadership's role in achieving 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 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 competitiveness of executive pay? How is pay at your institution positioned in comparison to peers?

- How does the organization's executive pay compare to that of other hospitals in the community?

- 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 with the compensation philosophy for other employees? Are they different? If so, why?

The answers to these questions will tell you what should be included in the mes-

sage 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 the organization's Web site.

#### **Matching Message to Audience**

Once you have crafted a message for the general public, it is time to 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 physicians, co-workers 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. Communication to each of these groups may be customized to meet their needs and interests.

**Board communication:** The entire board should understand the executive

compensation philosophy 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; and they should be told about deferred compensation distributions or other special payments that may inflate the numbers. The full board should review Form 990 compensation information before it is published.

**Communication 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 designated spokesperson.

**Communication with physicians:** Discussions should emphasize that there are differences in labor markets for exec-

utives and physicians, just as there are differences in labor markets for different medical specialties. Explain that the board makes executive pay decisions using 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.

Communicating about executive pay isn't really about executive pay at all—it's about what the hospital stands for, what it is doing well today and its vision for the future. 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. **T**

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