



How the Transformation across Healthcare is Impacting Executive Compensation, Search and Relationships

An Interview with [Mark Wade](#), Senior Vice President at Integrated Healthcare Strategies.

As healthcare reform continues to materialize, it is going to significantly alter the healthcare landscape. How do you see this impacting executive pay and corporate governance, and what are you seeing as the most wide-spread issues healthcare organizations are facing throughout the country?

With healthcare reform and the recent economic conditions, we have seen increased scrutiny of executive compensation levels and the process by which Boards determine market competitive compensation programs. This increased scrutiny has been especially apparent in the not-for-profit sector where the IRS has stepped up the number of audits around compensation reasonableness and the increased number of unfavorable articles written about executive compensation. These



conditions are causing Boards to tighten their governance processes, and we are seeing more diligence in areas such as incentive compensation and metric development.

Also, we will continue to see more consolidation with hospitals merging or being acquired and with health systems acquiring physician practices. Both consolidation and acquisition will impact not only pay programs but also the entire human capital element of running a healthcare organization.

Finally, I see our hospitals and health systems placing greater emphasis on physician alignment and attainment of common goals for executives and physicians. Without the cooperation of the physicians, it will be virtually impossible for healthcare systems to compete in this new era of healthcare and Medicare reimbursement reform.

With respect to incentives for both senior executives and throughout the organization, what changes do you anticipate? And on the flip-side, what pitfalls do you think executives should avoid?

Mark Wade

Mark Wade is a Senior Vice President in the Executive Compensation and Governance practice of Integrated Healthcare Strategies, and works out of the firm's Dallas office location.

Mr. Wade has over 20 years of consulting and human resource industry experience. He has assisted hospital boards, equity investors, and executive committees with overall compensation strategy including the design, evaluation, and financial impact of not-for-profit reasonableness opinions, market competitive base and incentive compensation, stock and other long-term incentive programs, executive contracts, change-in-control and parachute programs, stay bonus and retention programs, supplemental executive retirement programs, and perquisites.

Prior to joining Integrated Healthcare Strategies, Mr. Wade worked with two national consulting firms and most recently was Vice President of Total Rewards for Baylor Healthcare System in Dallas, TX. He received a BBA in Management with an emphasis in Human Resources from Baylor University and is a Certified Compensation Professional through World at Work.



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Regarding short-term incentives, I think you will see a greater emphasis on quality and patient satisfaction. Financial metrics, such as net operating revenue and days cash on hand, will always be a critical measure of a hospital's stability but financial metrics will shift from profitability to cost-effectiveness. Additionally, with the changes to Medicare and Medicaid reimbursement strategies moving from volume to value, healthcare systems are going to have to focus on clinical process and patient experience to maximize reimbursement levels.

I think you will also see organizations including longer-term metrics in their incentive programs with items like formation of an ACO, physician alignment strategies, and market penetration, which could include an acquisition strategy. Success in these areas will take three to five years to completely realize. Of course, there will be a delicate balance between managing short-term imperatives such as cost-effectiveness, quality and satisfaction and moving an organization in the direction to be competitive, long term, in the changing healthcare environment.

As for things to avoid, we are seeing less emphasis on unusual benefits and perquisites. Especially in the not-for-profit world with the new 990 reporting, organizations are eliminating or changing programs that could potentially draw unfavorable attention.

You mentioned consolidation throughout the industry, what do you see as the impact on executives and employees and what should an organization's leadership be concerned with as they contemplate a merger or acquisition?

There is no doubt that there will continue to be consolidation in the healthcare industry. According to HealthLeaders Media, approximately \$7.3 billion was spent in the second quarter of 2011 on M&A activity with hospitals, managed care, long-term care, and physician practices. This amount is significantly up from the Q1 2011. There are many reasons for consolidations: building an ACO, gaining market share, leveraging technology, or trying to gain synergies in the market. That said, the one common denominator of every healthcare transaction is people. Regardless of the reason to do a deal, you must have people at the bedside delivering care. Unfortunately, this is typically one of the last elements looked at in a transaction.

We have helped our clients through this process in four main areas:

- Identifying what potential liabilities exist that could cause a compliance issue, purchase price reduction or barrier to integration
- Evaluating the pay and benefit plans, programs and initiatives of both organizations to maximize cost and efficiencies
- Developing a proactive integration strategy to realize the synergies that were originally anticipated. It is a tremendous challenge successfully integrating two organizations with different histories, cultures, values and programs. Often, it is difficult to find the time to do it right
- Developing a proactive communication strategy that will keep people focused on patient care and not the rumor mill about their jobs.

A critical element of success in any transaction is getting involved early.

The economy is still struggling and the recovery is weak, at best. What are hospitals doing to address the broader employee population?

It's true that the recovery is not moving as quickly as we would have hoped; however, we still work in an industry where talent is in very high demand. There are some areas, take the medical center in Houston, TX, for example, where a clinical practitioner can change organizations and literally park in the same spot. Employee turnover costs organizations not only financially (we estimate that depending on where you are in the country, losing a Registered Nurse can cost an organization between \$50,000 and \$65,000) but also a loss in care continuity and productivity.

Best in class healthcare organizations are paying more attention to employee engagement. An engaged employee is loyal, has a high emotional commitment to the organization, is willing to do what it takes to keep a patient safe and make them comfortable. This is not a "touchy-feely" side of human resources and is not limited to nurses and direct care givers, but includes everyone from the person that cleans the room to the person who files paperwork. An engaged employee reduces hard dollar turnover costs, increases quality scores, and increases patient satisfaction. With labor in short supply,



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engaged employees can become ambassadors in the recruiting and retention process. The goal is to make the organization a place where people want to work and physicians want to practice.

Organizations are looking at reward systems, leadership styles, span of control levels, communication techniques, “onboarding”, mentoring, and other methods to help new employees feel important to the success of the organization and drive the strategies and goals of the hospital.

And finally, in today’s evolving healthcare environment, what gives you the most cause for concern? And conversely, what are you most optimistic about?

I would not characterize it as a concern, but I think one of the greatest challenges is the uncertainty. While the future of healthcare care reform may not exist in the current state, there will have to be a fundamental shift in the way we deliver care. Additionally, from all current indicators, it is clear that reimbursements are not going to increase. This means the pie is going to get smaller while there will be a greater need to retain and attract executive talent and work with physician groups, which will require a very prudent discipline of managing capital. The concern is that many hospitals and healthcare systems are waiting on the outcome to begin to prepare. Waiting will put them way behind the curve.

What I am optimistic about is that there are healthcare systems that are not waiting on regulations to change the way they deliver care. As I mentioned earlier, healthcare reform is going to involve many groups and present many challenges, but I have never been more excited about the opportunities that face our industry and working with executive teams to try to solve these complex issues.

