Implementing a Physician Leader Compensation Program at a Major Community Hospital

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Background

The roles of physician leaders in Canadian hospitals and health regions are becoming more complex and time consuming. Further, physician leaders are increasingly being seen by hospital boards and executives as key to achieving strategic and operational outcomes. Given the growing importance of these roles and the increasing performance expectations being placed on physician leaders, it is critical that organizations are able to recruit and retain individuals who demonstrate the skills required to fulfill these critical roles or commit themselves to acquiring them. Fair and competitive compensation is an important element in ensuring that capable people are in place and that desired results are achieved.

Canadian healthcare organizations tend to take a much less rigorous approach to the compensation of physician leaders than to the compensation of employees. Compensation decisions are often ad hoc, based on limited information about what is being paid for comparable positions in other organizations, and subject to individual negotiation. They typically do not reflect a rigorous analysis of the requisite skills, the complexities of the
role or the time required. Often, job or role descriptions for these positions have either not been prepared or do not fully reflect current responsibilities and expectations; this inhibits meaningful mentorship, performance evaluation and leadership development.

At the same time, healthcare organizations are committing increasing financial resources to compensating physicians for management and leadership responsibilities. For example, in Ontario, total medical staff remuneration as a percentage of total hospital spending has grown from 5.3% in 2000-2001 to over 7.5% in 2006-2007, or from just over $500 million to almost $1.2 billion annually (Ontario Ministry of Health and Long-Term Care 2007).

In the fall of 2006, York Central Hospital and Hay Group Health Care Consulting undertook a project to conduct a review of the compensation of the hospital’s physician leaders. A key priority for the hospital at that time was to increase the engagement of these individuals in a major capacity-building exercise it had undertaken. The overall project objective was to develop a structured approach to the compensation of this important group as a step toward meeting this priority. Key project deliverables included developing clearly defined position descriptions, relating compensation to roles and responsibilities, ensuring external competitiveness with the market and linking pay and performance. The project specifically addressed the compensation of the Chief of Staff, Department Chiefs (most of whom are also clinical/program directors) and various other physician leaders.

Issues
Based on preliminary discussions with key internal stakeholders, a number of issues were identified with respect to existing processes:

- Development of a formal compensation philosophy
- Evaluation of the physician leadership positions in order to establish internal relativity
- Development of role descriptions
- Implementation of a market review
- Development of the compensation structure that recognizes both leadership experience and achievement of results

Project Chronology
From the outset, the project was conducted in an open and transparent manner. The project team included the Chief of Staff and the Vice-President, Human Resources, who were involved at all stages. An initial meeting was held with the Medical Advisory Committee to provide an overview of the project, answer questions and solicit perspectives on the key issues. Physician leaders, whose compensation would be affected by the process, were asked to complete a questionnaire in which they would describe their key management responsibilities as well as the related time commitment. There were also questions concerning their views on their respective roles and compensation. At the completion of the process, a meeting was held with the physician leaders to present and discuss the project results and the implementation plan.

The Board of Directors was also involved in the process as most of the physician leadership positions are appointed by the Board. An initial meeting was held with the Board Compensation Committee to discuss the project and to gain preliminary feedback on key elements of the compensation strategy. A draft final report was presented to the Compensation Committee, and the final report was presented to the Board for approval.

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Compensation Philosophy
A compensation philosophy or strategy sets out the framework for establishing compensation within an organization. It generally includes the key principles adopted by the organization for establishing fair and appropriate compensation consistent with the mission, vision and values.

The compensation philosophy adopted for physician leaders at York Central Hospital encompasses a number of key principles. Compensation will be based on complexity of roles/responsibilities, relevant experience and training, time commitment required for the role, maintaining competitiveness with the
market and linking pay and performance. These key principles emerged out of discussions between the consultants and hospital leaders, including the Board Compensation Committee. It was important to formalize these principles as two of them, in particular, are not typically applied to the compensation of hospital physician leaders. It is fairly common to base stipends on factors such as individual experience, the time commitment required to carry out administrative duties and market competitiveness. However, physician leadership compensation is rarely related to the relative complexity of job responsibilities, and very few organizations in Canada have directly linked physician administrative pay to performance (Vounasis and Dubinsky 2005).

Establishing Relative Job Complexity

The Hay Guide Chart-Profile Method was used as the basis for establishing the relative complexity of the administrative component of physician leadership roles. With the guidance of the Chief of Staff and Vice-President, Human Resources, the consultants modified the standard Hay Guide Charts to reflect the unique contributions of physician leaders. The resulting methodology focuses on three major factors:

1. Know-How: the knowledge and skills required to perform the role
2. Problem-Solving: the planning environment and thinking challenge of the role
3. Accountability: the impact of the role on the hospital

Each incumbent completed a questionnaire designed to capture relevant information concerning the three factors. The questions elicited information concerning key areas of responsibility (e.g., planning, budget, quality, external relations), estimated time commitments and related metrics.

Using the information provided in the questionnaires, the consultants provisionally evaluated the positions. The evaluations were reviewed with the Chief of Staff and the Vice-President, Human Resources to ensure that the consultants fully understood the roles. In some cases, information was identified that had not been included in the completed questionnaires. The evaluations were then modified to reflect the additional input.

Obtaining Market Data and Developing the Compensation Structure

Market data were obtained through Hay Group's Annual Compensation Survey of Physician Leaders Compensation for each leadership position, using a representative group of comparable size community hospitals in Toronto and the Greater Toronto Area. Hay Group's survey is conducted annually on a subscription basis.

Hay Group applies a standardizing approach to physician leadership compensation based on time allocated to administrative responsibilities (usually expressed in hours or days per week). Data were analyzed according to various market percentiles.

Based on the results of the job evaluation process and the market data, a compensation structure was developed incorporating the principles of external competitiveness (as determined through the market review) and internal equity (as established through the job evaluation exercise).

Incentive Plan

In addition to the annual stipend, which is reviewed annually in relation to market, the hospital's physician leaders are also eligible to earn merit pay (or a bonus) of up to 10% of base compensation if they achieve specific goals. These goals are tied directly to the outcomes defined in the hospital's strategic plan and balanced scorecard and are formalized by way of an accountability agreement that has been developed for each physician leader. Each goal has been weighted, and a formula has been developed by the hospital to reward the physician leader for the achievement of results associated with each goal. A small portion of the bonus is discretionary to recognize effort and work in progress.

The majority of physician leaders are demonstrating a new awareness of their roles in the hospital and are more actively participating in leadership activities that extend beyond the scope of their own department or program.

Bonus payouts are recommended by the Chief of Staff to a Senior Leadership Compensation Committee that includes the President and Chief Executive Officer, the Vice-President, Programs, and the Vice-President, Human Resources. Summary results are then reported to the Board, along with other senior leadership compensation decisions. This combination of base pay and bonus results in two significant outputs for the hospital: (1) competitive cash compensation to support the hospital's recruitment and retention of physician leaders and (2) the alignment and focus of physician leaders' time and effort with the hospital's strategic goals and outcomes.

Position and Role Descriptions

A further product of this project was the development of current job descriptions, setting out the major responsibilities and accountabilities of each leadership position and identifying the key technical and behavioural competencies required for the position. These are essential elements in clarifying accountabilities (for both the organization and the incumbent) and facilitating their linkage with compensation and performance evaluation processes. Progression on the compensa-
tion grid established for physician leaders is dependent on their meeting the responsibilities outlined in their position descriptions. Subsequent to the completion of this project, the hospital has introduced a 360-degree feedback assessment tool to help ensure that the physician leaders are demonstrating the competencies needed to meet these responsibilities.

Reception of the Project
The Board Compensation Committee unanimously endorsed the final product of this project. Moreover, at both a general debriefing meeting and subsequent one-on-one sessions with the Chief of Staff, 14 of 15 physician leaders expressed appreciation for the overall scope of the project and agreed with the recommendations. Finally, at least partly due to this project, the majority of physician leaders are demonstrating a new awareness of their roles in the hospital and are more actively participating in leadership activities that extend beyond the scope of their own department or program.

Conclusion
As the expectations of hospitals on physician leaders grow and as the percentage of hospital resources allocated to compensate these roles increases, it is essential that organizations introduce more rigour into their approach to physician compensation. Establishing the relative complexity of roles and obtaining reliable market information are critical steps in establishing a sound compensation structure. Furthermore, well-designed incentive plans that focus on key deliverables are critical in focusing the attention of physician leaders and hospital medical staff on the needs of the organization and desired outcomes (Greengarten and Hundert 2006).

References

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