

Individual Pay-for-Performance in Canadian Healthcare Organizations



COMMENTARY

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ABSTRACT

Pink et al. discuss some of the issues related to pay-for-performance for individual and organizational healthcare providers. This commentary addresses key success factors for the implementation of individual pay-for-performance in publicly financed Canadian healthcare organizations. Publicly financed healthcare organizations in Canada have been relatively slow to adopt performance-pay programs as compared with private sector organizations; and those that have been developed have been, for the most part, rather crude. In many cases, they have become an additional mechanism for delivering base pay, rather than a true variable-pay program that motivates and differentiates performance. In light of the many issues that need to be addressed, we feel that pay-for-performance should be introduced gradually, beginning at the most senior levels of the organization. Above all, it is critical for publicly financed healthcare organizations to recognize that introducing pay-for-performance involves not only a set of structures and processes, but also likely a profound change in organizational values and behaviours.

PINK ET AL. discuss some of the issues related to pay-for-performance for individual and organizational healthcare providers. This commentary addresses key success factors for the implementation of individual pay-for-performance in publicly financed Canadian healthcare organizations.

In a previous article, we discussed the various forms of pay-for-performance and suggested that Canadian healthcare organizations would continue to experiment with various approaches to linking pay and performance (Greengarten 1999). However, pay-for-performance programs geared toward healthcare practitioners and employees of publicly financed healthcare organizations are still relatively rare in Canada. According to recent Hay Group surveys of healthcare compensation practices, only approximately one-quarter of Canadian healthcare organizations have some form of performance-pay system in place, usually at the executive level of the organization. Most commonly, these programs take the form of “merit pay” systems, in which employees achieving higher performance levels receive a higher base pay adjustment than employees whose performance levels are at or below expectations. Less than 10% of organizations report having an incentive or bonus program in which employees are eligible to receive lump-sum payments based on criteria related to the achievement of specific individual, team and/or organization performance goals. The prevalence of performance-pay is much higher among the very large Ontario academic health science centres and Western Canadian health regions.

Key Success Factors for Implementing Pay-for-Performance

In the private sector, performance-pay has

proven to be an extremely valuable tool for motivating individual employee behaviour. However, a number of factors are critical to ensuring that an incentive pay program achieves the desired results:

1. Small Number of Critical Goals Aligned with Organization’s Strategy

Healthcare organizations have difficulty setting a small number of high-priority goals. In our work with clients, it is not uncommon to find individual managers having 10 to 15 or more annual goals, and “everything is a priority.” As a result, the attention of individual managers and employees is diluted.

Performance-pay systems are most effective when they focus the attention of employees on a small number of goals (ideally, 3 to 5) aligned with the organization’s business strategy and critical to the success of the organization in achieving its strategic objectives. These are not the ongoing accountabilities that are part and parcel of individual employees’ job responsibilities; rather, they are the activities that will truly make a difference in the organization’s ability to achieve success.

2. Measurable Goals

Goals should be measurable, rather than subjectively based. We regularly find that goals have been developed without sufficient thought being given to how success or failure in achieving these goals will be measured. It is impossible to link pay and performance if criteria to measure performance have not been clearly articulated and agreed upon in advance.

Measurable goals are also important in order to ensure that performance compensation is awarded fairly and objectively. In many organizations with pay-for-performance, employees feel that some executives/

managers are more generous than others in recognizing and rewarding performance achievements. In order to build and ensure continuing confidence in the performance-pay system, healthcare practitioners and employees must feel that the system is being administered in a fair and transparent manner.

3. Sufficient Amount of Performance-Linked Pay

The amount of the performance-pay component needs to be sufficiently large to incent the desired activity. If it is not large enough, employees may feel that the additional reward is not worth the effort.

According to Hay Group surveys of healthcare organizations across Canada, the average amount of compensation that is available in merit-pay systems to reward “above average” performance is about 1–2% of base salary. In bonus or incentive systems, the maximum amount of the bonus opportunity is typically in the range of 5–10% of base. On the basis of our experience with similar systems in the private sector, these amounts may not be sufficient to cause individuals to change their behaviours and/or refocus their attention.

Facing ongoing fiscal constraints, publicly financed healthcare organizations often find it difficult to designate funds for the purpose of rewarding performance. Careful planning is required in order to ensure that adequate funds are set aside, not only in the first year of the program but on an ongoing basis. This requires long-term planning for the allocation of financial resources.

4. Alignment of Organizational Values

It is essential that the organization be receptive to a performance-pay system. If it is not, employees will resent it and

find ways to undermine it rather than see it as a means of facilitating organizational improvement and change. The values of publicly financed healthcare organizations are often not aligned with pay-for-performance. Healthcare providers typically feel that their efforts to achieve quality outcomes on behalf of their patients are grounded in their professional identification; they maintain that they do their utmost to achieve positive patient outcomes regardless of compensation.

Healthcare managers and executives, who have usually risen through the organizational ranks, will often share these values.

In most cases, it is therefore necessary to prepare the organization for pay-for-performance through some form of change management process. Employees who will be included in the program should be involved in its development. Pay-for-performance is not intended to increase the commitment of employees to quality outcomes or professional values. Rather, it is intended to change the behaviour of individual providers by focusing their attention on the achievement of specific outcomes deemed critical to organizational success, but that would otherwise not be top of mind from day to day.

5. Rigorous Performance Management Systems

Pay-for-performance also requires a rigorous performance management system that establishes clear objectives and criteria for measuring success or failure. Many Canadian healthcare organizations lack adequate systems for evaluating individual employee performance. One of the key missing elements is that these systems often do not adequately differentiate degrees of performance, an essential component of pay-for-performance. When

pay is awarded differentially based on a system in which employees lack confidence, the entire pay-for-performance structure is undermined.

In addition, information must be made available to participants on a timely basis to enable them to track their performance against targets. Much like the budgeting process, pay-for-performance needs to be tracked by participants so that they can modify their behaviours and take corrective action if required.

More importantly, many organizations do not provide their managers with adequate training for the implementation and ongoing maintenance of the performance management program. As a result, we commonly observe that performance management is not conducted regularly, or that it is not effective. Managers often avoid performance-related discussions because they lack the necessary training in these types of conversations with their staff.

6. Time and Attention Given to Performance-Pay Systems

Publicly financed healthcare organizations are busy places with many competing priorities. In many organizations, executives and managers do not have (or make) the time to sit down with their employees to discuss performance-related issues.

The development and implementation of performance-pay systems requires a considerable, and ongoing, commitment of time and attention; it is not an activity that takes place once and is then complete. Time must be spent on developing the system initially, adjusting it annually, and making more substantial changes every few years. Time is also required to meet with participating employees in order to conduct performance reviews, and to discuss annual targets and related bonuses;

and again at the end of the bonus period (usually annually) to discuss whether and to what extent targets have been met and the actual amounts of payouts.

Accountability Agreements

In Ontario, the new “accountability agreements,” defined in the *Commitment to the Future of Medicare Act 2004* (Ontario 2004), may provide a sound basis and an ideal opportunity for establishing performance-pay programs. The accountability agreements set out performance measures for healthcare organizations in areas such as service quality, accessibility and financial standards. The challenge will be to integrate these measures into individual employee and provider performance agreements.

On the other hand, the *Act* sets out financial penalties against chief executive officers for the failure of an organization to comply with the Minister’s orders, including “holding back, reducing or varying the compensation package provided to or on behalf of a chief executive officer.” It is unlikely that such penalties will have the effect of incenting performance. As Pink et al. point out, financial penalties should be used only with extreme caution.

A Note on Physician Pay-for-Performance

An increasing number of physician leaders in Canadian hospitals and health regions are receiving stipends for carrying out various administrative responsibilities (Vounasis and Dubinsky 2005). According to Hay Group surveys, not only is the number of physicians receiving such payments increasing, but also the amount of these payments is growing. However, only about 10% of organizations participating in these Hay Group surveys report having introduced pay-for-performance

systems for any of their physician leadership positions.

More problematic is that only about 20% of organizations have formal position descriptions, letters of agreement and performance management processes in place for their physician leaders. These basic human resources management systems should be in place before introducing pay-for-performance.

Conclusion


Publicly financed healthcare organizations in Canada have been relatively slow to adopt performance-pay programs compared with private sector organizations; and those that have been developed have been, for the most part, rather crude. In many cases, they have become an additional mechanism for delivering base pay, rather than a true variable-pay program that motivates and differentiates performance.

In light of the many issues that need to be addressed, we feel that pay-for-performance should be introduced gradually, beginning at the most senior levels of the organization. Above all, it is critical for publicly financed healthcare organizations to recognize that introducing pay-for-performance involves not only a set of structures and processes, but also likely a profound change in organizational values and behaviours.


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