

Evolving the Rewards Focus from Entitlement to Results At



Within the past decade, remarkable innovations in reward systems have taken place across all industries, in many cases unleashing powerful discretionary effort and strategic results that were previously unimaginable. Some industries, such as start-up technology companies, were natural incubators for rapid innovation in variable pay, and many valuable lessons were gained in employee stock options, team pay, and other incentives. However, more mature industries, such as healthcare, which built their very success on more traditional pay practices, faced the quite different obstacle of changing reward systems at exactly the right pace. The case study of Baptist Health System, Inc., in Birmingham, Alabama, shows how a series of smaller successes in reward systems can evolve a mature culture toward a pay-for-results philosophy.

An Overview of Baptist Health System

Baptist Health System (BHS), a not-for-profit company, is Alabama's largest integrated healthcare delivery system, providing quality healthcare to Alabamians through its 11 hospitals, primary care network, Birmingham-based Health Partners Southeast HMO, wellness/exercise facilities, and senior living communities. BHS was recently ranked in the top 50 of the *Integrated Health Care 100 Directory*. This listing was developed in cooperation with *Hospitals and Health Networks* magazine (March 20, 1998) to identify the top U.S. healthcare enterprises that are pioneering change and have gone the furthest in developing services for the coming millennium by building organizations that boast coordinated systems of care. Factors considered in the listing were types of managed care contracts for each system, whether management is centralized, the status of information technology innovations, and other markers of integration. BHS traces its beginnings back to 1922, when a group of local Baptist congregations acquired a small infirmary in Birmingham's thriving West End. On the site of that original, historic facility is today's Princeton campus of Birmingham Baptist Medical Center (BMC).

The center is complemented on Birmingham's east by its sister flagship hospital, Montclair Baptist Medical Center, and on the south by Shelby Baptist Medical Center, which is located in Shelby County and has experienced a 300% growth rate over the last 30 years. Corporate offices include centralized system wide functions such as laundry operations, accounting, information technologies, compensation, an employee benefits service center, and patient accounting. Eight additional hospitals provide healthcare to smaller communities in north and north-central Alabama. Baptist Health System's growth through acquisitions in Alabama has been breathtaking, with the system's size doubling since 1993. However, rapid growth has not compromised quality, with BHS recently

being awarded the Alabama Quality Award, which is modeled after the Malcolm Baldrige National Quality Award.

BHS is also recognized as an “employer of choice,” earning the Wellness Council of America’s highest honor, the Gold Well Workplace Award, and being named Employer of the Year in 1997 by the Alabama Career Development Association for its commitment to career development, literacy training, and family-friendly employment practices. These practices genuinely flow from BHS’s long-standing mission values of compassionate care, innovation, performance, and teamwork. One example of a recent BHS acquisition illustrates the importance of BHS’s cultural values.

In 1995, BHS acquired a 267-bed hospital facility in Walker County, 75 miles from Birmingham. BHS inherited a hospital that had been unionized in Licensed Practical Nurse (LPN) and lower-wage-level jobs for more than 20 years, in a county whose labor force was historically dominated by the United Mine Workers and other unions. BHS immediately implemented its compensation, benefit, and other HR practices for the non-bargaining RN and professional/management jobs. Within two years, by virtue of union employees seeing the fair treatment of the non-bargaining group, and through competitive total compensation practices, the hospital union employees moved to hold an election to decertify the union, voting unanimously to do so in 1997.

BHS, along with virtually every other healthcare system in the United States, faces unprecedented challenges to its business mission from multiple pressure points, including extreme Medicare reimbursement cuts by Congress and the President, continually declining inpatient utilization, intense competitive pressure, and a turbulent managed care environment. BHS is now in the fourth and by far most aggressive year of reengineering its operations through consolidation of services, cost cutting, and rightsizing. The latter, remarkably, has taken place thus far by When the ROICs for incentive plans are this eye-popping, skepticisms to a direct cause and effect relationship is understandable, but the fact that the right results are happening is more important than proof of their multiple causes.

One must remember that often other parameters are changing concurrently when redesigning incentive plans. Through an entirely new way of working together in patient accounting, and focusing greater discretionary effort on quality, days in accounts receivable were dropped from 90 to 46 days over a two-year period. This compares to a national average of 60 gross days in accounts receivable, which most healthcare providers are happy to maintain. Employee turnover, which was at 20%, has been cut in half to 10%. Anecdotal evidence may be more compelling, as the Birmingham patient accounts department now holds two to three site visits per month, hosting consultants and healthcare providers from across the United States who are interested in exactly how BHS achieved industry-leading performance measures.

Mitzi Winters, Vice President of Patient Accounting, observed that one recent visitor commented that “BHS should charge admission for the site visits.” This plan has placed patient accounting above national averages in days in accounts receivable, customer

satisfaction, and bad debt collection. Yet proper courtesy and billing collection methods are ensured so that organizational values of compassionate care do not suffer. In fact, customer satisfaction survey scores for patient accounting increased after the incentive plan installation. The efficiencies from accelerating collectible sources also benefit the community BHS serves in the form of the availability of greater resources to provide care to the more needy patients.

Teamwork has taken root as finger-pointing over errors between areas has disappeared and has been replaced by pride in quality. With quality at an impressive 98%, there are too few errors to even cause the “blame game.” Employees understand their personal impact on days in accounts receivable and quality measures. For example, failing to verify insurance coverage of patients up front may disqualify the team from the quarterly payout.

Veteran employees now help out new hires to teach fundamentals, ensure quality, and solve problems together. The plan has paid out consistently, days in accounts receivable and bad debt expense are still continuing to decrease, and patient satisfaction continues to improve. The ROCI and the success of plans such as this clearly helped set the stage for broader-based pay-at-risk plans.

The Medical Transcriptionists Incentive Plan

A second incentive plan, which has been highly successful, is the Medical Transcriptionist Plan. The purpose of this plan is to reward each transcriptionist to develop productivity to peak levels of quality and quantity, thereby benefiting them as well as the hospital. Currently, medical transcriptionists are compensated under a mix of base and incentive pay designed to attract and retain peak performers, while encouraging low-performing candidates to “self-deselect” in the interview process. The incentive is paid out biweekly to ensure maximum reward immediacy, because the measurements lend themselves to this frequency.

Transcriptionists are paid \$0.05 per line for each line in excess of 520 lines. BHS transcriptionists in the plan are performing at an average production of 1,700 lines per day, which is 70% above national average production, which has allowed BHS to achieve lower than national average staffing ratios. In addition to the number of lines, quality measures ensure coding, medical records, and physician information is accurate. Although the basic incentive design pay for the transcriptionist plan is fairly common in the industry, recent plan innovations include moving transcriptionists to a pure production pay model concurrent with a time telecommuting implementation.

Complements to Variable Pay Strategies

BHS is in the second year of its telecommuting work option and is within six months of having all transcriptionists working out of their homes. The concept of telecommuting

has created a flexible work option for employees that are superior to local competition, thereby dramatically reducing turnover. At a time of unprecedented short labor supply, qualified talent is actually seeking out BHS as an employer of choice due to its telecommuting policy. Continuous improvement in the areas of information technology has made this possible.

Telecommuting has been a win-win strategy—improving productivity, creating fewer discipline problems, increasing employee morale, and relieving pressure on pay systems as base salary fixed costs were dropped in favor of a “100% at risk” pay model. The new plan is designed based on number of lines typed per day with quality as a modifier. It is graduated so that as the number of lines produced increases, the cents per line accelerates.

The outcome has been slightly reduced compensation for underperformers and increased compensation for the very highest producers, but with a cost-neutral transition that has thus far caused zero turnover.

A Balanced Performance Scorecard for Health Partners Southeast HMO Member Services

The critical service link between any HMO or insurance provider and its members is a well-run member services area. The health insurance industry has faced particular challenges in rapidly training service center representatives to master systems, group plan benefits, provider networks, and other member information, let alone deliver accurate, timely answers to members with consistent quality. Health Partners Southeast HMO member services department was no exception. The 1996 performance baselines painted a bleak picture—14% member call abandonment rate, 35% staff turnover rate (with most being lost to local competitors), and low member satisfaction scores.

There was minimal teamwork, with training of new member services representatives left largely to their manager. Design team of corporate compensation and member services Management introduced an incentive plan with a monthly target payout opportunity of 8% of pay, which was aimed at driving individual performance levels higher while promoting new collaborative behaviors. The performance matrix established individual goals for productivity (calls per week) and quality (assessment of a sample of recorded calls for accuracy, courtesy, and other skills), weighting individual goals 60%. The performance scorecard was then balanced with 40% weighted team goals, including the month’s call-abandonment rate and member satisfaction scores. Special care was given in communicating the plan mechanics, emphasizing the new behaviors that would create teamwork. Of equal importance were special celebrations that were held for monthly payouts so that incentives extended beyond mere financial to psychosocial rewards.

The first-year results (1997) for the member services incentive plan posted a 4.6 to 1 return on the incentive investment (refer back to the table) through increased productivity and quality. Perhaps the most unexpected outcome was the dramatic reduction of member services turnover from 35% to 5%, with the associated operational stability and improved

quality. Other benefits include reduced pressure on management to train, as the 40% weighted team goals have created collaboration. Employees are working to bring a new hire rapidly up the learning curve as they share system shortcuts, communication skills, and coach fellow team members on Health Partners Southeast's service values. Employees feel a personal stake in sharing their best practices.

When Payouts Are Meaningful

It's all too easy for executives and compensation practitioners to become cynical about the size of incentive payouts and at what level they become meaningful. BHS has learned that payout size or meaningfulness is often in the eyes of the beholder. Jane, an accounts receivable employee, received a quarterly incentive payout of \$205 for two successive quarters, which according to reward and motivational theory would be considered "under-motivating" as a reward. Some incentive plan designers would abandon such a plan's very implementation. But the truth was that both the recognition for performing and the reward were special to Jane. She said, "Every Monday night I thank God for BHS's incentive plan. For the past five years, I always had to go to the Laundromat to wash clothes and never got to spend time with my husband, with the first two incentive checks, I was able to buy a washer and dryer, and now my husband and I look forward to Monday nights." The limited purchasing power that often exists with today's worker might help explain why even modest lump sum rewards can be motivational, producing better performance and stronger commitment to the organization.

The Foundation for a Results-Based Rewards Future

*"An invasion of armies can be resisted,
but not an idea whose time has come."*

- Victor Hugo *Histoire d'un Crime*, 1852

The three illustrated variable pay plans discussed in this case study, as well as five additional targeted variable pay plans that followed at BHS, have served as a springboard to an even broader based pay for results philosophy. There was clear business risk in each plan's implementation, including perceived inequity by employees in adjacent areas who were not incentive eligible, and the risk that if performance improvements were not achieved, the incentive plan designers might be viewed as "throwing good money after bad." Perhaps the greatest risk was the possibility of a failed pilot program.

Had these plans shown a disappointing return on the compensation investment, it might have signaled the commitment to a base-only pay strategy for years to come, despite national trends to greater pay at risk in every industry. Even in a faith-based organization, seeing is believing. It is difficult to argue the ROCI on each plan, and the minimal internal inequity that is attributable to using a targeted approach is offset by each plan's success in retaining staff in what were historically high turnover areas.

These variable pay successes have intersected in time with unprecedented business financial challenges. Even if it were desirable, healthcare organizations can no longer afford to protect employees from the company's financial variability. This is witnessed in the industry's shrinking, barely-at-inflation merit increase budgets, in the aggressive management of benefit plan utilization, and in unprecedented lean staffing. Yet organizational values and objectives remain the same: to provide faith-based, not for-profit healthcare of the highest quality to the communities entrusted to BHS. Reward systems are now understood properly for their role in driving peak performance toward results that are critical to the business.

In recently approving a system wide gainsharing plan, senior management has taken a bold step to create a sense of ownership and caring among employees at every level of the organization. Basic plan design will provide for system-level funding of a pool from financial gains over budgeted net income from operations. To drive intense focus on patient satisfaction, quality will be a gain-sharing plan facility-level threshold. Finally, operating margin will be the performance modifier at each facility, focusing team efforts toward controllable expense reduction and continual process improvement.

Despite an annual payout frequency, reward immediacy will be achieved through intensive communication of progress toward goals, recognition of key successes, and lively measurement feedback displays. Bob Roeder, of William M. Mercer, Inc., observes: "It is my opinion from working with healthcare systems that it is more a question of when than if they will adopt broad-based reward strategies such as gain-sharing plans, because of the great potential to harness and focus efforts on the right results."

Heading Boldly Into an Uncertain Future

The healthcare industry in the United States is arguably the industry facing the greatest degree of uncertainty in the next millennium. BHS and other leading healthcare organizations are nonetheless confidently building reward systems that will help forge working America's "new deal," which rewards results that are important to the business and shares the gains created. It is precisely this reward strategy that will make business-critical measures relevant so that entitlement rapidly gives way to results.