



Healthcare Excellence Institute

**Doing the Unthinkable
Pay for Performance
in
Not For Profit Healthcare**

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What Gets Rewarded Gets Results

It has been demonstrated time and time again, whatever gets rewarded in an organization will get focus and results. In most hospital revenue cycles the answer to what gets rewarded, at least financially, is clear: **Attendance!**

The clock is punched upon arrival and upon departure, and the associate is paid based on the amount of time spent on the job. This situation leads to all sorts of behavioral issues that are no longer in the best interest of the overall organization, for-profit or not-for-profit. The bottom line is employees are not very motivated to actively participate in supporting organizational goals when they are compensated for just being present. Minimal effort is often the result when people are merely paid for their attendance, as this compensation model doesn't engage employees as partners in doing the work.

There is no Mission Clash in Not for Profits

Now some will argue that pay for performance is contradictory to the mission of the not-for-profit healthcare organization, but nothing could be farther from the truth. Not-for-profit implies that profits generated from the insured or cash paying patients can be utilized to provide care for the uninsured. Given this fact, it is quite evident that profitability is the very engine that keeps the hospital's charitable mission alive, and financially rewarding employees to secure those profits is not counter to the mission, it's in full support of it. Pay for performance is a great vehicle for ensuring optimal performance within not-for-profit organizations.

Success Factors in Pay for Performance

Since pay for performance will drive organizational behavior in a significant way, what gets measured and subsequently rewarded determines how successful the program will be. There are several criteria that must be met by the measures, specifically for revenue cycle pay for performance programs:

1. **The measures have to measure operational revenue cycle performance de-coupled from any accounting policy impact.** Net AR days or Cash as a Percent of Net (traditional measures) will not suffice as good pay for performance measures since accounting decisions impact these numbers as much as operational revenue cycle performance. If these numbers are used in a pay for performance program, immediate distrust will prevent success. Since an accounting decision with respect to bad debt reserves can make or break the bonus payout, associates will not feel as if they are in control of the numbers, ergo additional effort on their part will be interpreted as an effort in futility. Total cash received is just as inadequate since it depends on business generation and mix just as much as revenue cycle performance.
2. **Measures used in pay for performance must be auditable to the team and the account level.** A measure used as a guide in pay for performance should be fully 'de-constructable' such that a) It is 'real' to the associates and b) Associates can learn from specific failures. This situation is only possible vis-a-vis audit lists of underperforming accounts.
3. **There must only be a few metrics that drive pay for performance.** Every process has a core purpose and this purpose can be measured with only a few metrics. Presenting a plethora of metrics and some convoluted mechanism of rewards only inhibits the objective of focused efforts.

4. **Every metric used in the pay for performance plan will drive certain behaviors, not all of which are desirable.** Undesirable behaviors must be prevented by utilizing compensation metrics with a maximum or a minimum performance for the bonus to apply.

As previously stated, the traditional means of measuring revenue cycles are inadequate as pay for performance measures. The New Generation Revenue Cycle Metrics (see our white paper on 'The New Generation Revenue Cycle Metrics') meet all criteria of measure from which a pay for performance program can be built.

Additional factors that should be considered in the implementation of performance based pay:

1. **Revenue cycles are inherently cross-functional processes that rely on the coordination of efforts between many areas to be successful.** As such, individual pay for performance plans should not be deployed as they may lead to extreme sub-optimization and organizational losses. A better approach is to design a pay for performance plan that incorporates the cross functional, team effort of the revenue cycle. If individual performance issues are a hindrance, then they should be addressed with the assistance of Human Resources.
2. **Boundaries must be clear to all associates.** In many revenue cycles, success is not clearly defined, at least not at the account level. Whatever the specific boundary is, it must match the pay for performance limits as well. An example could be all net revenue collected by day 120. Simple rules, like this one, make success and failure clear to all associates, and not dependent on specific account details.
3. **The pay for performance limits should stretch the organization, but not to the point of impossibility.** If pay for performance is interpreted, at the associate level, as unachievable lip service, then it will do more harm than good.
4. **Leadership should prepare a business case for the pay for performance plan, and then remember it!** If properly orchestrated, the return due to increased performance is higher than most any other activity in the process. Therefore reaching pay for performance limits should be celebrated when achieved, and leadership should continuously communicate that paying out the pay for performance bonus is what the organization desires. There should never be any doubt on the part of the associates that leadership wants to pay out the bonus.

Once the pay for performance plan has been implemented, it should be supplemented with a sound management process (performance assessment and standardized corrective action plan). The management system will provide the organization with the structure needed to raise performance to the level that bonus payouts are achieved.

The Healthcare Excellence Institute has supported numerous organizations in the design and implementation of pay for performance plans that not only generated high ROIs, but also a new level of business literacy and enthusiasm among associates.