A practical step toward clinical excellence

Aligning compensation practices with business goals and objectives

By Ann Bares and Teresa Daly

Developing clear business goals and objectives is important for every medical practice because they define the practice and help map its desired future. Specific, measurable, action-oriented objectives identify priorities and provide clear performance targets that can be used to evaluate a practice's overall operation.

Aligning business goals and physician pay incentives can directly improve a practice's financial performance, operations, organizational structure, and strategic direction, in addition to promoting the overall goals and mission of the practice. Developing alternative compensation programs or adding components to your existing program can seem daunting and time-consuming, but may be a necessary step toward achieving clinical excellence.

To help ensure that compensation payout rewards physicians appropriately in addition to supporting the organization's overall business objectives, ask yourself these questions:

- Are you staying focused on the overall goals of your practice and continually communicating, setting priorities, and aligning the necessary resources to execute the strategies you have adopted to reach those goals?

A careful evaluation of current compensation policy, combined with a clear understanding of your practice's mission and values, can lay the foundation for developing a comprehensive compensation policy that aligns with your business goals.

Evaluating your current compensation policy

Every practice wants to maximize its return on investment with regard to physician pay. Compensation accounts for a significant share of the costs incurred by a medical practice. For this reason, it is important to ensure that the funds are spent wisely and that they are ultimately supporting, not hindering, the behaviors and outcomes required to successfully execute your overall strategies.

At present, the resource-based relative value scale (RBRVS) is the predominant model used to determine physician compensation policies in both private practices and major the measurements used to evaluate a physician's practice is generating.

The RVU scale has proved to be a useful tool for successfully managing healthcare services and physician reimbursement. Yet, while it has helped to alleviate disparities across disciplines, it still has limitations. The element that is missing from this compensation model is the alignment of pay policies with the overall business objectives of a practice.

Achieving the results required for a successful medical practice may require the practice to develop additional compensation arrangements that go above and beyond just RVU measures. Ask yourself if your compensation program is accomplishing everything it should. For example, while the RVU metric rewards work effort, it does not reflect cost-effective and clinically appropriate care considerations or patient satisfaction levels, which may be central to the organization's mission and values.

Developing a compensation policy

It has become a standard practice in corporate America to devote a significant amount of time and effort to developing a compensation philosophy, a statement that articulates the objectives and priorities for a company's compensation program. While physician practices typically use pay policies that differ from corporate pay structures, the same considerations are important when evaluating or restructuring a compensation program. Furthermore, compensation programs based on a well-articulated philosophy and designed to support mission and values can help establish a competitive advantage.

Developing a compensation philosophy starts with an important question: What do you want your compensation program to accomplish? Your overall business objectives should reflect what you want to accomplish with your compensation program.

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five specific objectives, such as driving and rewarding growth in market share or driving and rewarding innovation in patient services; that your pay system must accomplish to support your practice’s desired direction, strategy, values, and culture.

Factors that influence design

Among the most important factors that will influence the design of your compensation policy are the structure of the practice (i.e., employed vs. shareholder physicians), the contract terms regarding patient care, the effects of physician specialties, and various types of physician contributions to the practice. The unique characteristics and values of each practice will require different considerations for and components of a practice’s compensation program.

Compensation policies for employed physicians will most likely differ from those designed for shareholder physicians. For employed physicians, compensation planning often focuses on aligning physician incentives with those of the practice and determining overall levels of funding. For shareholder physicians, compensation planning also entails distributing the equity equally, but in a manner that will help increase the equity and support other objectives.

Other considerations to take into account include the patient-care contract terms negotiated by a practice. The terms enacted should be predicated on the compensation plan structure. There is also the need to factor in physician specialties. Consider realities, such as the difference in market pay levels of heart surgeons and family practitioners and their impact on compensation.

Beyond using RVUs to determine physicians’ compensation, you may want to consider implementing other components in your compensation program to directly align your policy with your business objectives. A compensation program can directly reflect the value of employees to becoming more streamlined, increasing the amount of time physicians spend on pre- and post-encounter work. RVUs do not account for the time physicians spend when they are on call without billable services or the time spent supervising assistants, yet they are still providing a valuable service to the organization. In addition, many practices require administrative work or contributions from their physicians; the compensation policy can take those efforts into account as well.

Though many pay programs focus exclusively on individual contributions, consider whether you want your practice to reward teamwork and collaboration as well. One tactic for recognizing physician collaboration is to develop a bonus plan with at least one element that is based on a causal connection between teamwork and reward.

Implementing the plan

When implementing your final plan, be realistic and recognize the most common mistakes in plan design and implementation. Then take the necessary steps to avoid potential problems. To make your compensation planning and implementation successful:

- Avoid planning and implementing change without physician, administration, and board support and involvement. Compensation is an emotionally charged issue, so it is imperative that everyone be informed throughout the process. Giving representatives from these different stakeholders the opportunity to participate in the process can also improve the chances of implementation. Tracking the plan's effectiveness over time and making the changes necessary to keep the plan on target will help ensure long-term success.

A well-developed compensation policy helps drive the organizational behaviors needed for financial and performance success. The most successful physician practices set crystal-clear priorities and then strategically align their resources to achieve the future desired for the practice. By aligning compensation policy with your business goals and objectives, you will be able to drive the type of behaviors you want and need to achieve clinical excellence—and ambitious aspirations.

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