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### About FYA

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## Another Visit to Pay for Performance

*By Fred Lee*

**I**n the early eighties, I became acquainted with the writings of W. Edwards Deming, the father of the global quality movement who is credited, along with J.M. Juran and Peter Drucker, with teaching a bottom-up management philosophy that helped turn Japan's factories into the most productive in the world – and with the highest quality to boot! Deming's teachings assailed the traditional American management system of arbitrary individual competitive pay for performance.

Anyone with even a modicum of knowledge about the quality movement and its basic principles has heard of or seen a reenactment of Deming's famous redbead demonstration. Most people think it's a demonstration of variation, a fundamental concept in Deming's quality control. But, though it does illustrate the impact of systems variation on individual performance, most quality instructors do not know the context of his demonstration. It is found in Chapter 3 of his seminal book, *Out of the Crisis*, which launched the quality revolution in America. The title of this chapter is "Diseases and Obstacles." Here is where he spells out his "seven deadly diseases" in American management. The redbead demonstration is under the third disease, clearly stated as: "evaluation of performance, merit rating or annual review." Here he assails American management's penchant for merit pay, individual pay for performance and management by objectives. The redbead illustration shows that most employees are victims of variation in processes and do not have enough control over them to be singled out for competitive merit pay. Here is how strongly Deming spoke against the practice of the competitive-performance review and merit-pay process:

"Management by fear would be a better name, someone in Germany suggested. The effect is devastating. It nourishes short-term performance, annihilates long-term planning, builds fear, demolishes teamwork, nourishes rivalry and politics. It leaves people bitter, crushed, bruised, battered, desolate, despondent, dejected, feeling inferior, some even depressed, unfit for work for weeks after receipt of rating, unable to comprehend why they are inferior. It is unfair, as it ascribes to the people in a group differences that may be caused totally by the system that they work in...

Merit rating rewards people that do well in the system. It does not reward attempts to improve the system."

Much has been written about the success of Deming's ideas and philosophy in Japan. In the United States, however, it has not been nearly so successful, although it has been almost universally adopted. At first this discrepancy was blamed on the diversity of the American workforce. Japanese companies, it was surmised, had a homogeneous culture with an innate work ethic and discipline that American workers lacked.

But then the Japanese showed they could do the same thing in American factories with American workers. By bringing in just a few executives at the top of the organization and changing the management systems, especially eliminating pay for

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## Another Visit to Pay for Performance (Continued...)

individual performance and empowering teams, Japanese managers got the same incredible performance in America that they got in Japan. The difference, it turns out, is not in the ethnic culture, but in the management culture. Command and control structures, pay for performance and management by objectives, assailed by Deming, were too deeply embedded and fiercely defended to be changed in most American manufacturing plants.

Western managers were enamored with the statistical charts and tools to better measure quality, but they could not turn substantial power and decision making over to process teams, the very strength that fuels exceptional performance. Instead of educating workers to take ownership and think and act for themselves, they second-guessed the recommendations of teams, instilled more "carrots" and "sticks" to maintain a culture of compliance and competition, and sapped the energy of intrinsic motivation with compensation systems that made people feel resentful instead of supported. No wonder Deming had such strong words against these systems of management that stifled the potential of turned-on workers. He knew that his ideas could take root only in the rich soil of empowered teams, not the unyielding ground of compliance and autocratically administered rewards. Luckily for the world, the Japanese were willing to listen.

Pay for individual performance or merit-pay increase was an extension of the point-factor system that had been so popular with companies steeped in traditional management style. Every job in the organization was pegged to a job description that spelled out knowledge requirements, working conditions, problem-solving skills, responsibilities, etc. Points were assigned to each of these

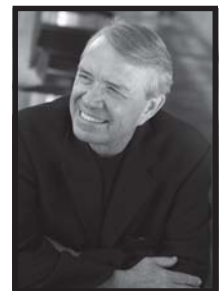
criteria, which in turn determined the base pay for every job. This point-factor base pay was linked to an annual merit increase that was determined by an individual's performance appraisal. Finally the supervisor was forced to sort and rank evaluations on a normally distributive curve so that some performers got a higher percentage of the pie at the expense of others on the team who had to get less. When performance could be objectively measured, this was not such a problem. But in areas in which performance could not be judged objectively and was based on teamwork, this system wreaked havoc on morale and overall unit performance.

The point-factor system and accompanying merit pay based on individual performance created the illusion of a perfect system by putting workers in precisely defined jobs and comparing them to other people. The arbitrariness of the system left little room for manager discretion or judgment. Unintended, of course, is the consequence that it also discourages employees from taking initiative and performing tasks outside their rigid job descriptions. This, in turn, provides little motivation for teamwork and collaboration. Workers become focused only on their own jobs instead of the quality of the product or service produced by their team, which decreases commitment, enthusiasm, and pride – all compelling motivators.

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## Compliance Oversight by Hospital Boards

By Rick Kneipper, Chief Administrative Officer and Co-Founder of PHNS

I strongly recommend that all hospital CEOs provide each member of their hospital's board of directors with a copy of The American Health Lawyers' publication entitled "New Guidance to Governing Board on Compliance Plan Oversight" (January 2007). It's a must read since corporate compliance is a huge issue for board members for both corporate and individual liability purposes. This publication very carefully spells out, in relatively non-legal terms, the various legal authorities that establish the obligations of directors of both for-profits and not-for-profits regarding corporate compliance. Some highlights:

The "Guidance" starts with an excellent summary of a director's obligations for corporate compliance under Delaware law (the so-called *Caremark* case), which generally is relied upon as the leading authority for director's obligations and fiduciary duties:

"...a director's obligation includes a duty to attempt in good faith to assure that (a) a corporate information and reporting system, which the board concludes is adequate, exists; and (b) this system is sufficient to assure that appropriate information regarding organizational compliance with applicable laws will come to the board's attention in a timely manner and in the ordinary course."

How does your hospital's corporate information system and corporate compliance plan measure up to this standard?

The "Guidance" points out that a director's failure to reasonably oversee the implementation of such a system or plan could potentially expose directors to liability. In addition, the "Guidance" notes that the 2004 Amendments to the U.S. Sentencing Guidelines require directors to be "knowledgeable about the content and operation of the...[compliance] program..." to exercise their oversight with diligence and to promote a "culture of compliance" within their organization. The "Guidance" also refers to a recent speech by the Director of the Office of Compliance of the U.S. Securities and Exchange Commission who states that the DOJ sentencing guidelines require a governing board to establish "the tone at the top" and to make it clear that the organization will be guided by a compliance-oriented philosophy. Will your hospital board members be able to meet that standard?

Further "Guidance" for directors is provided by the DOJ guidelines for prosecution of corporations regarding corporate compliance issues (the so-called McNulty Memorandum). The DOJ guidelines state that the focus of the government's inquiry

is whether the corporate compliance program is designed and implemented in an effective manner or is a mere "paper" plan. A critical factor in making that assessment is

"whether the program is adequately designed for maximum effectiveness in preventing and defeating wrongdoing by employees and whether corporate management is enforcing the program or is tacitly encouraging or pressuring employees to engage in misconduct to achieve business objectives."

Does your hospital's compliance program meet that "non-paper plan" standard?

Corporate compliance policies, procedures, reporting systems and oversight need to be carefully discussed and analyzed by the board on an ongoing basis for the benefit of the organization and the avoidance of liability of the directors of the organization. How does your hospital organization and board measure up on compliance?



I would like to hear your comments.

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### About

**TrendLeader** Connections

FYA - For Your Advantage is brought to you by TrendLeader Connections. The function of TrendLeader Connections is producing educational materials and seminars that help healthcare executives differentiate between fads and trends; and making connections with "Trend Leaders" within the healthcare industry.

We are committed to delivering new perspectives and ideas, creative and innovative healthcare solutions, provocative concepts and quality educational materials to today's healthcare leaders. We want to concentrate on "what comes after what comes next."

## Mixing Electronic and Medical Devices

If a halogen lamp causes static on a nearby radio, the problem is probably not serious. But what if a cell phone used in a hospital interferes with a blood pressure monitor or the electronic antitheft device in the department store makes a heart pacemaker malfunction?

Two reports published in the March issue of *The Mayo Clinic Proceedings* suggest that cell phones in hospitals present no danger at all, and the dangers of radio wave interference with implanted medical devices are real, but modest.

One study, of which both authors have received research financing from manufacturers of medical equipment, describes two cases in which antitheft devices, sometimes called electronic article surveillance, or E.A.S. systems, apparently caused medical devices to malfunction.

A 71-year-old man with an implanted defibrillator was shocked and staggered by an electronic antitheft system and a 76-year old woman with a pacemaker collapsed while standing near one of the devices. Seated leaning against the machine, she passed out and was revived five times before store employees moved her away from the device.

Neither person was seriously harmed. The authors said both episodes happened in spring 2006 at large retail stores, but did not identify them.

"There is no problem in having EAS systems," said Dr. J. Rod Gimbel, a co-author of the study and a cardiologist at East Tennessee Heart Consultants in Knoxville. "But it would be good practice to educate the staffs of retail stores about the problem."

Jim Vanderpool, product health and safety director for Sensormatic Electronics, the manufacturer of the surveillance machines involved in both incidents, said that the company had "no independent information regarding the two specific cases," but that the article reinforced the scientific consensus "that patients with medical implants like pacemakers and defibrillators should simply walk through electronic antitheft systems at a normal pace."

The Food and Drug Administration advised the industry in 2000 to label surveillance devices with warnings not to linger near them or lean on them. "That recommendation still holds true," said Mitchell Shein, a senior reviewer in the agency's device center. "But if a person is exposed to an E.A.S., as long as they move through at a normal pace, the likelihood of a negative outcome is very limited."

Another article in the same journal describes an experiment testing cell phones at the Mayo Clinic in Rochester, Minn., over a four-month period in 2006. The researchers used various phones and wireless handheld devices in 75 patient rooms and the intensive care unit, where patients were nearby or connected to a total of 192 medical machines of 23 types.

In 300 tests of ringing, making calls, talking on the phone and receiving data, there was not a single instance of interference with the medical apparatus. For many of the tests, the cell phones were working at lower received signal strengths – that is, showing fewer bars on the screen. The authors conclude with a recommendation to relax existing cell phone rules.

But Mr. Shein said changing hospital cell phone regulations on the basis of these findings might be premature. "I think it's dangerous for someone to go around doing ad hoc testing and conclude that it's not going to be an issue for others," he said. "There was no result, but there may have been if the circumstances had been slightly different."

Dr. David L. Hayes, the senior author and a professor of medicine at the Mayo Clinic College of Medicine, disagreed. "Cell phone technology is the same throughout the country," he said, "and hospital equipment is similar. I don't think that testing in another part of the U.S. is going to have different results.

"I'm advocating, based on this testing, that we should change the rules," Dr. Hayes continued, "and in fact many people ignore the rules anyway. In a way, the policy is already antiquated and violated de facto."