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About FYA

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Pay for Performance Is Rooted in Bureaucracy

By Fred Lee

Pay for individual performance, or merit-pay increases, are an extension of the point-factor system that has been so popular with companies steeped in traditional management styles.

In the point-factor system, every job in the organization is pegged to a job description that spells out knowledge requirements, working conditions, problem-solving skills, responsibilities and effort.

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

It is not my purpose to examine the history or the intricacies of the system, which probably determines 80 percent of American workers' pay. But I can certainly see how the system sustains a command-and-control culture. Bureaucracies grow out of top management's distrust of the ability of managers and supervisors to make decisions, including those about employee performance and compensation.

The point-factor system and accompanying merit pay based on individual performance creates the illusion of a perfect system by putting workers in precisely defined jobs and comparing them to other people. The arbitrariness of the system leaves 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.

When extrinsic rewards become the focus of an organization's attempt to motivate the work force, the result is a culture of hierarchy and compliance. It creates a work environment of competition, fear and defensiveness. No wonder the results are less than stellar and employees report a general feeling of low energy and morale.

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Pay for Performance Is Rooted in Bureaucracy (Continued...)

I believe that compliance is the weakest of all motivations because it does not tap into the power of our intrinsic desire to constantly do better. If I am spending my energies on covering my backside, not making any mistakes, or being envious of rewards given to others, there's not much left in the well for me to go to for personal growth. And this applies to managers as well.

Tom Werner was president of Florida Hospital when I worked there. One day he circulated a memo to all his direct reports and asked us to describe the characteristics we most desired in reporting to a CEO. After we had returned our answers, he compiled a list and circulated it as a performance-evaluation form for our final approval. He told us he would like our evaluations on his performance in meeting our expectations. After our final review, we began to get these annually. They were sent to the secretary of the board of directors so our boss would not know who said what. Then the board chairman would go over the composite evaluation with him. He encouraged us to be candid, because only then would they be useful for his own self-improvement.

To me this was a demonstration of servant leadership. But it was also a demonstration of intrinsic motivation to improve, because there was no compensation attached to the results. He was asking subordinates to help him improve by sharing their honest perceptions. I'm sure Tom Werner hoped all

his direct reports would follow his example and seek honest feedback from their subordinates also. But it didn't happen. Few vice presidents have the self-confidence to do it, and few corporate cultures are that open to upward evaluation without intimidation.

It is popular in many companies to do 360-degree evaluations in which managers are evaluated by their subordinates and peers, as well as their superiors. The idea sounds great. Jack Welch says he wished he had made his managers use them much sooner in his tenure as CEO of General Electric. When compensation is tied to the scores, however, honest feedback is thwarted. Managers know how to game the results. They know how, in subtle and not-so-subtle ways, to make sure employees are intimidated into giving high marks.

Since culture follows structure, we may adopt an excellent feedback tool on the one hand and have a compensation structure on the other hand that renders its real purpose (self-improvement) useless. When that happens, we have a culture of fear that measures to impress, not to improve.

Fred Lee is a highly popular speaker; and the author of "If Disney Ran Your Hospital." His book was named the 2005 book of the year by the ACHE.

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About



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Healthcare Jobs – A Changing Environment

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

The healthcare industry faces a strange paradox: On the one hand hospitals continue to experience difficulties in filling a wide variety of job positions; and on the other hand most of the fastest growing jobs in the U.S. are in the healthcare industry. What gives?

Hospitals around the country report continuing hiring difficulties, including finding experienced workers and/or finding experienced workers who will agree to move to the city or town where the hospital is located. Recently I have heard this vividly from hospital executives throughout the country who are frustrated that they can't fill open positions with qualified workers and are looking for creative new ways to obtain the experienced help that they require.

Yet seven of the 10 fastest growing U.S. jobs are in the healthcare industry according to the U.S. Bureau of Labor Statistics, including medical assistants, physician assistants, physical therapist assistants, dental assistants and home health aides.

What's going on here is an increasing competitive job market for skilled workers, increasing globalization of jobs and increased mobility of job seekers who are no longer tied to local geography as they used to be. And the U.S., particularly the U.S. healthcare industry, has not responded well to these major competitive changes. Consider the following analysis from Geoffrey Colvin in *Fortune Magazine* (July 25, 2005):

"We are not building human capital the way we used to. Our primary and secondary schools are falling behind the rest of the world. Our universities are still excellent, but the foreign students who come to them are increasingly taking their educations back home. As other nations multiply their science and engineering graduates – building the foundation for economic progress – ours are declining, in part because those fields are seen as nerdish and simply uncool. And our culture prizes cool."

Recently I heard a wonderful discussion and analysis of this critical issue by J. Mac Holladay, a highly regarded and experienced regional economic development guru who runs Market Street Services. Mac cites a plethora of wake-up call facts such as – in 2005 China had 3.3 million college graduates, India had 3.1 million and the U.S. had 1.3 million; and for math achievement among 15 year olds, Finland ranks first, South Korea second, Canada third, Hong Kong fourth

and the U.S. 28th!!! Mac persuasively quotes the following admonition:

"Rather than a world in which places compete for business (and people follow), we will increasingly live in a world where places compete for people (and businesses follow)."

("The Young and Restless in a Knowledge Economy", CEOs for Cities Report, December 2005)

If the world is indeed "flat", then U.S. businesses, particularly hospitals, must find innovative ways to compete for people by offering strong skills, career and educational opportunities, not just jobs. Citing another of Mac's great quotes from Oliver Wendell Holmes, former Chief Justice of the U.S. Supreme Court: there are "three kinds of people – those who make things happen, those who watch things happen and those who don't know what is happening." Which kind are we in healthcare?



I would like to hear your comments.

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About



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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."

Patients Give Hospitals Higher Score

Press Ganey Associates recently issued its annual report on patient satisfaction. The report examines the experiences of 2.3 million patients treated at more than 1,700 acute care hospitals in 2006.

Nationwide, hospitals averaged a rating of 84.2 percent, which placed them between "good" and "very good." The score represents a 1.2 percent improvement over the 83 percent achieved five years ago. (On the Press Ganey scale, a "very poor" score counts as zero, "poor" as 25; "fair" as 50; "good" as 75; and "very good" as 100; the scores average all responses.)

Among the perennial complaints were the food, the discharge process and hospital rooms. More than half of patients' comments about room conditions were negative, while more than a third of the comments about meals and discharge from hospitals were negative.

The top cities for patient satisfaction with hospitals were, in order, Oklahoma City, Milwaukee, New Orleans, Indianapolis and Columbus, Ohio. Many readers of the report were surprised to see New Orleans fare so well, after the havoc hurricanes Katrina and Rita wreaked on the area. Press Ganey President & CEO Melvin Hall said hospitals with big construction projects often step up communications and see satisfaction rise temporarily. Something similar may be happening in New Orleans, he said.

Some hospitals take the feedback from patients seriously and have made changes.

Baptist Health South Florida boosted its ratings by developing scripts to make sure nurses and other workers explained medical procedures to patients. The scripts directed the staff to ask patients if they had any questions. Especially at a hospital with

employees and patients from scores of countries, "we have this great opportunity for miscommunication," Chief Operating Officer Wayne Brackin told a newspaper reporter.

Wright Medical Center, a 25-bed hospital in Clarion, Iowa, circulated patient comments about individual nurses and doctors, good and bad, to all staffers. Afterwards, the facility's patient-satisfaction scores rose to more than 90 percent from between 20 percent and 50 percent. "If a doctor got a bad comment on [patient surveys] every single staff member would be reading about it," said CEO Steve Simonin. "Nobody wanted bad comments out there about themselves, so they changed their behavior."

Among the survey's other findings:

Patients feel safer if staff explain life-support options, organ donation and patient rights. Providing information on all three factors improved patients' perceptions of safety the most, the report found.

Small hospitals scored better with patients than bigger ones with satisfaction scores – 86.9 for 50-bed hospitals and 83 for those with 600 beds or more.

Patients older than 80 years old were the least satisfied age-group over all; the most satisfied were those ages 65 to 79, though the difference was small.

Hospital obstetrics and gynecology services topped the list of specialties receiving the highest patient satisfaction scores, followed by anesthesiology and intensive care units.

About 25 percent to 30 percent of patients Press Ganey contacted responded to the survey. The firm said the large sample size puts its margin of error for most questions below one percent. The rolling survey included patients at more than 1,700 hospitals.