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How to Conduct a Pay-for-Performance Analysis of your Executive Compensation Program



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As a result of industry shifts, healthcare provider organizations are now adopting more sophisticated approaches to variable compensation in order to properly align business strategy, organizational performance, and executive pay. These complex incentive programs typically have more moving pieces than the industry's traditional "salary and bonus" approach and often include both annual and long-term incentive plans, in addition to base salary. These programs present new challenges in calibrating pay to performance, providing market-competitive yet reasonable total direct compensation, and managing overall compensation cost. A carefully designed executive compensation program can provide a powerful connection between the executive team and the board's vision for the organization.

As stewards of investor, donor, and taxpayer dollars, compensation committees and boards are held accountable by the healthcare organization, the community, regulators, and the press for designing and administering executive compensation programs which reflect organizational culture and the right balance of risk and reward. Variable compensation programs can be very effective, but only if they are regularly evaluated and modified to maintain alignment with the organization's business strategy and annual and longer-term business goals.

As an organization completes its annual performance cycle, the compensation committee should utilize pay-for-performance analytics to evaluate the effectiveness of the variable compensation program and use the findings of these analyses to inform the identification of performance measures and goals for the measures for the forthcoming performance cycle. A well-designed analysis should also allow the committee to determine whether award opportunity levels are properly calibrated by level and job with the market, to evaluate whether performance goals are being established with an acceptable likelihood of achievement.

About the Author

Ed Steinhoff is a managing director and consulting team leader at Pearl Meyer. In his management

role, he oversees a team of senior compensation consultants in the execution of the firm's growth strategy and in the development of consultants at various stages in their careers. With more than 25 years' experience in executive compensation, Ed works with the boards of directors and senior management teams of public and private companies, ranging from small and middle-market firms to multibillion-dollar corporations, to design pay programs that drive business performance and value creation, secure high-performing executive talent, and meet both regulatory standards and stakeholder expectations.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.