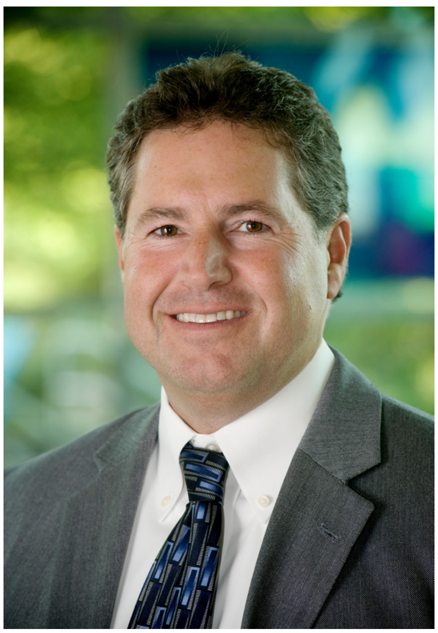
Washington Healthcare News®

wahcnews.com

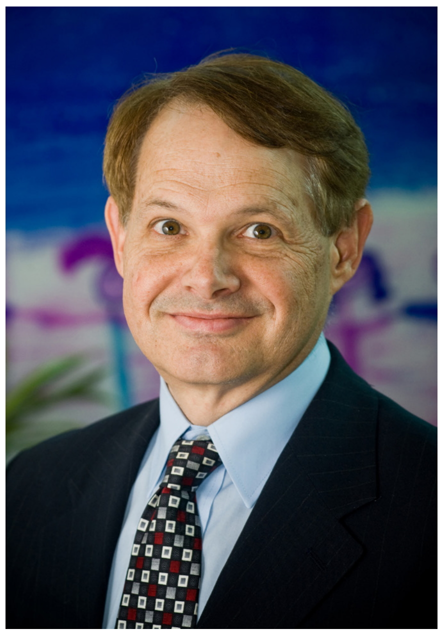
Articles, Interviews and Statistics for the Healthcare Executive

Seattle Children's Linking Pay with Performance

By Steven Hurwitz
Vice President, Shared Services
Seattle Children's



By Tom Stoeckle
Director, Compensation & Benefits
Seattle Children's



This is an update to an article focusing on Seattle Children's move to a pay-for-performance system that was first published in July 2011.

Background

As part of an initiative to update and revise its compensation practices, Seattle Children's moved to a pay-for-performance plan in 2009 covering more than 4,000 employees. This plan provided our managers with better tools to recognize and reward individual performance and included the following:

- Replaced the three-point rating scale (exceeds, meets and needs improvement) to a five-point rating scale (non-performer, developing performer, solid performer; leading performer and top performer).

- Simplified job descriptions.

- Formalized salary ranges with robust salary survey data (93 percent of jobs matched to survey data).

- Implemented a merit matrix providing individual salary increases ranging from 1.5 percent to 6 percent, depending on performance rating and compa-ratio, – which measures an employee's pay as a percentage of their respective pay grade's midpoint.

Continuous Performance Improvement

The pay-for-performance system was developed in collaboration with a 24-manager focus group and from survey input from more than 300 leaders. Children's has obtained input each year to continually improve the process. Recent improvements include:

- Streamlining job descriptions and evaluation forms.

- Implementing new templates to expedite and standardize obtaining peer and customer/ stakeholder feedback.

- Updates to the leadership SharePoint site and development of a leadership virtual "toolkit"

– a single source for obtaining tools, forms and background materials for completing performance evaluations.

- Development and implementation of a two-hour "pay-for-performance" training for leaders.

- Provided employees with online access to all job descriptions, salary ranges, compensation philosophy, salary increase guidelines and performance definitions.

Results

Ratings consistency

Under the former three-point scale, 58 percent of employees were at the highest rating, "exceeds." When we implemented the new five-point rating scale, Children's adopted rating distribution guidelines and implemented "calibration sessions" at the vice president level to ensure that managers and directors were applying the rating criteria consistently across the organization. For the past three years, employee ratings have been relatively consistent and close to what we expected.

Employee Rating Distribution 2009 - 2011					
Rating Year	Non Performer	Developing Performer	Solid Performer	Leading Performer	Top Performer
2011	0.2%	6.8%	50.3%	30.5%	12.1%
2010	0.3%	5.5%	46.3%	32.9%	11.1%
2009	0.9%	7.5%	54.9%	29.7%	7.0%
Expected	1%-2%	5%-7%	45%-55%	24%-30%	10%-15%

Salary Increases

The pay-for-performance plan provides employees with salary increases ranging between 1.5 percent and 6 percent. Distribution of salary increase dollars has been consistent during all three years. Between 2009 and 2011, the median salary increases granted ranged between 3.3 percent and 3.4 percent.

Compensation Competitiveness

Children's compensation philosophy sets and maintains base salaries and salary ranges to be competitive with organizations having similar size and complexity as Seattle Children's and with those organizations that Children's is likely to recruit from. Midpoints of each salary range approximate the 50th percentile of labor market data, and the minimum and maximum of each grade represents the 10th and 90th percentiles of competitive practice, respectively. More than 93 percent of Children's jobs are assigned to their salary grade by benchmarking against more than 80,000 individual survey data points. Salary ranges and grade assignments are reviewed and updated annually.

The combination of individual salary increases and annual range adjustments results in Children's maintaining its overall base compensation at target level – defined as aggregate base compensation equal to 100% of the market. During the past three years, Children's aggregate base compensation has met this objective.

Pay-for-performance effectiveness

A major cornerstone of Children's strategic plan is to attract and retain highly qualified and engaged staff to care for our patients, conduct research and oversee hospital operations.

A review of employees who were evaluated in 2009 under the five-point rating scale reveals that Children's is identifying and retaining its talent. In fact, more than 85 percent of employees who were rated as leading or top performers in 2009 are still employed by Children's in 2012. Conversely, more than 57 percent of developing performers and 16 percent of non-performers are still employed as of July 2012.

In 2012, Children's changed its annual employee engagement survey, which is used to measure employee morale and satisfaction. Part of this change included the addition of a question "My pay is fair compared to other healthcare employers in this area." On a five-point scale, 1 equates to "strongly disagree" to 5 to "strongly agree," Children's employees rated this question a 3.5 overall. This result was 25 percent above the national Children's Hospital Healthcare Average and 36 percent above the National Healthcare average score for this question. Children's score ranked one of the highest among the 50 children's hospitals and 350 acute care hospitals included in the survey.

Between 2009 and 2011, a total of 951 employees voluntarily terminated their employment with Children's. Only 17 (1.7 percent) of these employees listed "leaving for position with better pay" as their reason for leaving the organization.

Future Plans

In 2013, Children's will launch a paperless evaluation system that will expedite the evaluation process, implement quality control and, more importantly, minimize managers' time required to complete forms. This will help maximize the time managers can spend evaluating, coaching, recognizing and rewarding their employees.

About the Authors

Steven Hurwitz is currently the Vice President of Shared Services for Seattle Children's. Steven joined Children's as Vice President, Human Resources in March, 2008. Steven currently has overall responsibility for Human Resources, Supply Chain Management, and Marketing & Communications supporting the Hospital, Research Institute and Foundation. Steven ensures strategic alignment with his executive counterparts to ensure that integrated and leveraged solutions are realized throughout the organization.

Prior to joining Children's, Steven worked at Starbucks Coffee for 9 years with his last role being Vice President, Human Resources. Steven also brings diverse HR experience from working at Macromedia Corporation, Nabisco Biscuit Company, and Harris Corporation. In these previous roles, Steven led major projects in the areas of Performance management, Succession planning, HR strategic planning, Global compensation, Organization development and Employee/union relations.

Steven earned a Bachelor's degree in Psychology from Hofstra University and both an MBA in General Business and Master's degree in Organization Development from the Florida Institute of Technology. He served on the board of Big Brothers Big Sisters for many years and supports numerous charitable organizations.

Prior to joining Seattle Children's Tom worked at Swedish Health Services for 9 years as Director of Executive HR & Retirement Services. Tom's experience includes Administrator of Neurology, Neurosurgery and Internal Medicine for the Menninger Clinic, Chief Financial Officer for Catholic Charities, and HR/Compensation experience with Mercy Hospital Miami, United Technologies and with the Menninger Clinic. Tom's expertise in total compensation includes development of variable pay plans, self-funded medical plans, and defined benefit, defined contribution and non-qualified retirement plans. Tom Has an MBA from Florida Atlantic University.