

Excellent Care For All.

Performance Based Compensation and the Quality Improvement Plan: 2012-13

This marks the second year of the *Excellent Care for All Act* (ECFAA) implementation and the link between performance-based compensation and your hospital quality improvement plan (QIP). To progress the quality agenda further and drive towards a more transparent and efficient healthcare system, movement from compliance to performance improvement will be the focus of performance based compensation in this second year of ECFAA. What that means for your hospital and for performance-based compensation specifically is explained below.

As you know, ECFAA requires the compensation of CEOs and other executives to be linked to the achievement of performance improvement targets laid out in the QIP of every hospital in Ontario. As executive compensation is to be tied to the QIP, organizations are required to include a performance based compensation component as part of the QIP every fiscal year.

The purpose of performance based compensation related to ECFAA is to drive accountability for the delivery of quality improvement plans. By linking achievement of targets to compensation, organizations can increase the motivation to achieve both long and short term goals. Performance based compensation will enable organizations to ensure consistency in the application of performance incentives and drive transparency in the performance incentive process.

A description of the manner in and extent to which executive compensation is to be tied to performance must be included in the QIP and available to the public. Along with assisting organizations in describing the manner in and extent to which they are tying executive compensation to targets set out in their QIPs, this document will provide examples as well as outline how to improve on this process for 2012/13.

This document should not be relied on as legal advice and hospitals should consult with their legal, governance and other relevant advisors as appropriate.

What is Required for ECFAA Compliance

Executives accountable to performance based compensation

As per [regulations](#), compensation for the following executives is to be linked to their organization's achievement of quality improvement targets set out in their annual Quality Improvement Plans:

- CEO (Administrator)
- Chief of Staff
- Chief Nursing Executive
- Senior Management reporting directly to CEO (or person with position equivalent to CEO)

Organizations should clarify which individuals make up the senior management team. One way to do this is by establishing formal terms of reference for the senior management team. This is important so that it is clear which individuals are defined as "executives" with respect to performance-based compensation.

Describing Manner to Which Compensation is Linked to Performance

The legislation and regulations do not include specific requirements regarding the percentage of salary that should be subject to performance based compensation, the number of targets that should be tied to executive compensation, weighting of these targets, or what the targets should be. A clear link between QIP indicators and performance based compensation fulfills the requirements of ECFAA. Performance based compensation should be something that is led by the individual organization to drive performance improvement on organization-designated priorities. Best practice suggests that organizations should consider from 5% to 15% of their executives compensation be linked to quality. As noted below, last year the average percentage linked to the QIP was 4%. The government has the opportunity to mandate a specific percentage at any time.

Recommendations based on lessons learned from 2011-2012 QIPs:

1. Provide a clearer link between performance-based compensation and QIP indicators

As hospitals vary in size and organizational structure, flexibility is encouraged in the development or re-evaluation of a QIP performance based compensation strategy. However, as flexibility is supported, QIPs must provide a clear link to performance targets and compensation, with appropriate delineations for CEOs and other executives. Hospitals should generate a summary or concluding statement that adequately summarizes the performance based compensation strategy. An example of this is provided in Example #1.

2. Provide performance based compensation as a percentage of annual salary

To ensure that this section of the QIP is completed adequately and clearly, hospitals should not be providing performance based compensation as a dollar amount. Assigning static monetary values to non-static quality indicators produces an unclear determination of annual performance based compensation. This is emphasized further by the difficulty in determining executives' salary for the reporting year. Hospitals utilizing a dollar amount for executive compensation should move towards allocating a percentage of annual compensation linked to QIP and clearly state this for each member of the executive team.

3. Set aggressive executive compensation targets to drive hospital performance

The percentage range of QIP-based performance compensation for Year 1 was 1-15%. This variance is ratified by a lack of a mandated minimum for the portion of annual compensation to be variable and linked to QIP. As the second year of QIP reporting is currently free from a mandated minimum, a shift from primary compliance to the legislation to higher performance will be expected, and hospital allocations for performance based pay should reflect this. Moreover, the government has the opportunity to mandate a specific percentage at any time.

4. Expansion of ECFAA to Senior Management

Members of the senior management team who do not fall under the definition of "executive" as listed in the regulations (i.e. those not reporting directly to the CEO) may also be included in performance-based compensation, at the discretion of the organization. Although this is not a requirement of ECFAA, the expansion of performance based compensation to other members of senior management may enhance performance of QIP indicators while increasing accountability, transparency and driving sustainable improvement in this second year of ECFAA.

5. Develop a system for Monitoring

Organizations should monitor target-setting vs. actual payouts, to help determine whether the incentive plan design was in fact effective. If over a few years executives are reaching maximum performance on all their quality improvement targets, this may signal that targets need to be re-calibrated going forward.

6. Seek consultation with the appropriate organizations if experiencing difficulty

There are several organizations that have been involved in QIP support development however, it is important to contact the appropriate stakeholder should you have questions or concerns. This may alleviate any potential issues that organizations may have regarding legislative compliance and best practice.

Organization	Role in Performance-based Compensation
Health Quality Ontario	Receives QIP submission including perf-based comp portion. Does not provide advice related to completion of perf-based comp.
Ministry of Health and Long-Term Care	Primary point of contact re: questions about perf-based comp. Provides guidance and best-practice advice
Local Health Integration Network	Provides collaborative assistance with QIP completion as a whole.
Ontario Hospital Association	Point of contact for OHA member hospitals; provides guidance for QIP

7. Continue to tailor compensation strategy to structure of organization and management

Designing an appropriate performance based compensation strategy that aligns with requirements in the ECFAA and with the operational structure of the organization is crucial to long-term success. As no two hospitals are the same, a high level of flexibility in determining an appropriate compensation strategy has been suggested. Organizations should re-evaluate their performance based compensation strategy and ensure that an emphasis on quality improvement over basic compliance is made clear by examining the percentage of annual salary tied directly to QIP performance.

Examples of linking compensation to the QIP

Under the ECFAA, organizations are required to ensure that the payment of compensation is linked to the achievement of the performance improvement targets set out in the QIP.

A description of the manner in and extent to which executive compensation is tied to performance must be included in the QIP and available to the public. This can be described in the QIP in a number of ways, however the percentage of annual compensation linked specifically to the QIP must be explicitly stated. The examples below were derived by reviewing best practices in the field. Hospitals are not limited to using the formats provided.

Example 1: This example shows a simple structure for salary at risk for each individual executive, and the particular set of targets the individual is accountable for achieving

Our executives' compensation, including the percentage of salary at risk and targets that the executive team is accountable for achieving is linked to performance in the following way:

Senior Management Team

- President and CEO – **5%** of annual base salary is linked to achieving 100% of the targets set out in our QIP (see below)
- Chief Nursing Executive – **5%** of annual base salary is linked to achieving 100% of the targets set out in our QIP on the below targets
- Clinical VPs – **5%** of annual base salary is linked to achieving 100% of the targets set out in our QIP on the below targets
- Chief of Staff – **5%** of annual base salary is linked to achieving 100% of the targets set out in our QIP on the below targets
- Physician-in-Chief – **5%** of annual base salary is linked to achieving 100% of the targets set out in our QIP on the below targets

Targets

Quality Dimension	Indicator
Safety	Hand hygiene compliance: improve to 80% or above
Effectiveness	Improve Total Margin by 1%
Access	Reduce ED wait times by 5%
Patient-centered	Patient satisfaction (recommendation to friends and family) > 80%
Integrated	Reduce CHF readmissions to 12%

Terms

- The five Outcome Measures/Indicators are equally weighted
- Achievement of all targets would result in 100% payout, partial achievement of targets will result in partial payout, as determined by the Board of Directors

Summary: Performance based compensation accounts for 25% of an executives' annual compensation. The five Quality Improvement Plan targets listed above account for 20% of performance based compensation. Thus, for our senior management team, **5%** of annual compensation is linked to achievement of the five above QIP targets.

Example 2: This example shows the unique weighting of each target in the QIP. It also provides specific values that must be reached to obtain the available incentive.

Our executives' compensation, including the percentage of salary at risk and targets that the executive team is accountable for achieving is linked to performance in the following way:

Performance-based Compensation as a Percentage of Annual Salary	CEO Compensation	Senior Mgmt* Compensation
Total variable pay linked to achieving QIP targets	15%	10%

*Senior Management: Physician-in-Chief, Chief of Nursing, EVPs of Corporate Services and Redevelopment, VPs of Research, Communications and Community Engagement and Education

The below performance allocation plan is used to determine the magnitude of allocation:

Quality Dimension	Objective	Current Performance	Target	Weighting	100%	50%
Safety	Improve provider hand hygiene compliance	850 audits	1000 audits	40%	1000 audits	750 audits
	Medication Reconciliation	85%	90%		90%	80 to 89.9%
Effectiveness	Improve organization financial health	2.41%	0.52%	15%	Revenues exceed costs by 0.52% or equal costs	Revenues exceed or are below costs by 0.26%
Access	Reduce wait times in ED	35 Minutes	30 Minutes	15%	30 Minutes	31 to 40 Minutes
Patient-centered	Patients asked the following question upon discharge: "Would you come back to this hospital?"	76.69%	77%	15%	77%	75% to 76.9%
Integrated	Reduce readmissions	12.5%	11.5%	15%	11.5%	12% to 11.6%

Terms

- Complete attainment of the target improvement will result in a full payment. Greater than 50% attainment but less than complete will result in 50% of the payment. Less than 50% attainment will result in zero payment. Level of attainment will be determined by the Board.

Summary: Performance based compensation accounts for 30% of an executives' annual compensation. The five Quality Improvement Plan objectives listed above account for 50% of performance based compensation for our CEO, and 30 % of performance based compensation for other senior management. Thus, annual compensation linked to achievement of the five above QIP targets is 15% for our CEO and 10% for our senior management team.