

Executive Compensation in Pediatric Hospitals: Attracting and Retaining Key Talent

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In the current marketplace for talent, pediatric hospitals continue to experience challenges related to executive recruitment and retention and are growing increasingly concerned about burnout among experienced leaders, planned retirements and unanticipated resignations, greater search firm activity, employment opportunities outside the healthcare industry, and remote work presenting more non-traditional employment opportunities.

SullivanCotter recently conducted a pulse survey to help participants understand how healthcare organizations are addressing 2022 executive salary increase budgets and incentive awards for FY2021 performance. It also highlighted other actions organizations are taking to support executive recruitment and retention.

This article reflects data collected in late January 2022 from 17 independent pediatric hospitals—nearly all of which have annual revenues in excess of \$1 billion. Participants also include seven of the top 10 organizations on the U.S. News & World Report’s 2021–2022 Best Children’s Hospital Honor Roll.

Participant responses suggest a highly dynamic marketplace for executive talent and a recognition of the importance of rewarding leadership for the work they are doing in such challenging and unprecedented times. Salary increase budgets for 2022 are trending above recent norms and are being enhanced to allow for market adjustments. Annual incentive payments for plans concluding in FY2021 are projected at or above target with more than half of participants using greater business judgement and discretion in order to partially account for the current environment and reward executives for the unanticipated actions needed to address the pandemic and workforce challenges.

Due to greater pressure on recruiting and retaining executive talent, the vast majority of participants have already implemented or are considering special compensation and other programs for executives. Overall, pediatric hospitals are applying a more flexible and pragmatic approach to help ensure executives are effectively rewarded and retained.

Executive Base Salary Increase Budgets

Merit salary increase budgets for 2022 are 3 percent at the median and 5 percent at the upper end of the spectrum. Nearly 80 percent of participants are also budgeting for other market adjustments with amounts ranging from an additional 1–3 percent. Based on the responses from pediatric hospitals as well as adult health systems, actual 2022 total salary increase budgets for executives will likely be in the 4–5 percent range.

Annual Incentive Awards

Median and average payouts for annual incentive plans are projected at 110 percent and 102 percent of target, respectively. While none of the participants indicated that

→ Key Board Takeaways

Pediatric hospitals continue to experience challenges related to executive turnover, recruitment, and retention. To address these issues, boards should consider the following:

- Compensation strategy is only one aspect of executive recruitment and retention. Ensure that the executive workforce strategy includes other critical components, such as mission, culture, career growth, work-life balance, recognition, development, and health and well-being.
- Expect upward pressure on executive compensation:
 - » Healthcare executives across the U.S. will continue to face unprecedented financial, operational, and workforce challenges.
 - » Retirements, transitions, and burnout are creating an increasingly competitive market for executives.
- Apply continued flexibility in compensation decisions to balance retention, competitiveness, and cost/optics issues—while appropriately recognizing the contributions of leadership.

no awards would be paid, three noted that the annual incentive payout was unknown at this time. Nearly two-thirds (65 percent) of participants indicate that business judgment and discretion are being applied as awards are determined.

The most common actions reported are adjusting performance goals or outcomes, applying discretion/business judgement when determining final awards, and including a formal discretionary component in the incentive plan.

Recruitment and Retention

Compared to pre-pandemic norms, executive turnover has increased for 18 percent of participants with an even greater percentage experiencing an increase in recruiting efforts (35 percent). More than half (59 percent) reported that current executive turnover and recruiting efforts remain about the same as pre-pandemic levels.

The majority of participants (82 percent) have already implemented or are considering special arrangements to address recruitment and retention issues. The most common arrangements reported were more significant sign-on bonuses/relocation awards, special retention awards, remote work opportunities, and more focus on professional development opportunities.

Executive Workforce Considerations

When addressing recruitment and retention challenges in an increasingly competitive healthcare environment, pediatric hospitals should consider the following action steps:

- **Recognize that compensation strategy is only one aspect of executive recruitment and retention.** Mission, culture, career growth, work-life balance, recognition, development, and health and well-being also are critical components of an executive workforce strategy.
- **Ensure competitive compensation opportunities,** particularly base salary, given the dynamic market for experienced and resilient executives balanced against cost and optics.
- **Periodically reassess talent risk and succession plans** to ensure leadership continuity.
- **Provide opportunities for professional and personal development** to ensure a sufficient internal pipeline of future executives. Talent should be developed according to the leadership needs for the future, including transformational and non-traditional skillsets.

- **Address work-life balance and flexibility** (e.g., remote work and role sharing) and, where possible, encourage executives to take time off to recharge.
- **Differentiate benefits based on executive preferences and well-being needs** when viable.
- **Review the “holding power” of deferred compensation/executive retirement plans and explore unique approaches to reward and retain high performers.** This may include targeted retention awards, special incentives, professional growth opportunities, greater board exposure, coaching/mentoring, community board service, flexible work arrangements, and more.

Broader Employee Workforce

The challenges related to retaining executive talent are amplified in the broader employee workforce. Stress, burnout, vaccine mandates, labor shortages, increased search activities, and opportunities outside of healthcare (including remote work) are the cause of significant disruption in human capital management activities. Organizations will need to continue to look for strategies to control labor costs.

Pediatric hospitals should consider both short- and long-term responses to this human capital crisis. Shorter-term responses include utilizing highly competitive and unique pay practices to recognize and reward employees as well as addressing employee health and well-being needs. Longer-term solutions include new talent sourcing models, leadership training, greater workforce flexibility and work-life balance, re-skilling and upskilling, professional development, and educational support, and elevating the sense of purpose and community for employees.

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