

Driving Strategic Imperatives Through Long-Term Incentives

Saila B. Srinivasan, Principal - SullivanCotter

Due to ongoing financial, operational, and workforce pressures, managing a health system is more complex than ever before. It requires highly skilled executives who can lead through challenges, manage change, and inspire transformation.

Effective leadership and accountability are necessary for an organization's long-term success -- utilizing the right pay practices and policies to reward and retain key talent is critical. Long-term incentive plans (LTIPs) can serve as an important tool to provide rewards for meeting multi-year objectives. According to SullivanCotter's Executive Compensation Pulse Survey, released in May 2024, approximately half of health systems sponsor an LTIP. LTIPs are more common among larger organizations (revenue greater than \$3B) at 64% prevalence compared to smaller organizations (revenue less than \$3B) at 33% prevalence.

While short-term incentive plans ensure progress on operational metrics and annual financial outcomes, LTIPs have evolved to focus on key transformational and strategic objectives that promote resiliency and sustainability. Identifying appropriate long-term objectives that drive progress while also supporting the advancement of short-term priorities can be challenging -- especially in light of the uncertain and volatile operating environment. Finding the right balance of incentive plan objectives and timelines for achieving these priorities requires thoughtful planning.

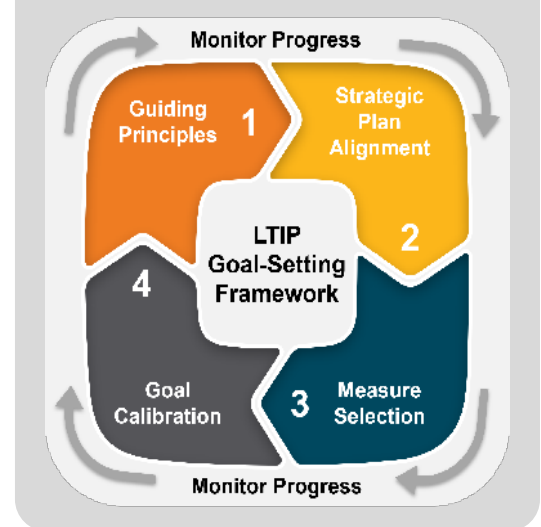
As a guide, SullivanCotter has developed the following framework for organizations to approach LTIP goal setting by identifying key objectives and setting performance levels that drive progress.

STEP 1: LTIP GUIDING PRINCIPLES

External market factors and the overall performance landscape are critical in identifying long-term priorities. These priorities fall into two main categories:

- **Tactical** – Organizations struggling to meet short-term performance objectives may utilize LTIPs with more tactical goals pursued over multiple years to accelerate performance improvement or recover towards historical performance levels.
 - **Example:** Overall Turnover – This metric is often included in annual incentive plans. However, it is better positioned as a long-term objective if an organization continues to see an increase in overall turnover and requires multi-year efforts that include financial investments, operational changes, and talent sourcing and retention initiatives that require a longer runway to implement.
- **Strategic** – Organizations looking to move beyond short-term operational objectives to achieve longer-range strategic priorities may require a defined process to achieve multi-year outcomes goals.
 - **Example:** Health Equity – For organizations early in the health equity journey, an initial step may include identifying key population disparities in selected clinical metrics (e.g., colorectal cancer screening) followed by the identification of a goal that ultimately closes the disparities in the identified populations.

Figure 1.1: LTIP Goal-Setting Framework



The following principles can be applied to identify and prioritize potential LTIP goals:

Guiding Principles for LTIP Goals:

- Align with strategic plan or 'stubborn' operational challenges
- Limit goals for increased focus
- Minimize overlapping goals among incentive plans
- Utilize metrics with the greatest impact and availability of data
- Add process measures as needed
- Consider meaningful line-of-sight for participants
- Motivate the right behaviors
- Be aware of any unintended consequences

These principles allow organizations to identify realistic and meaningful priorities that help to advance longer-term objectives.

STEP 2: STRATEGIC PLAN ALIGNMENT AND GAP ANALYSIS

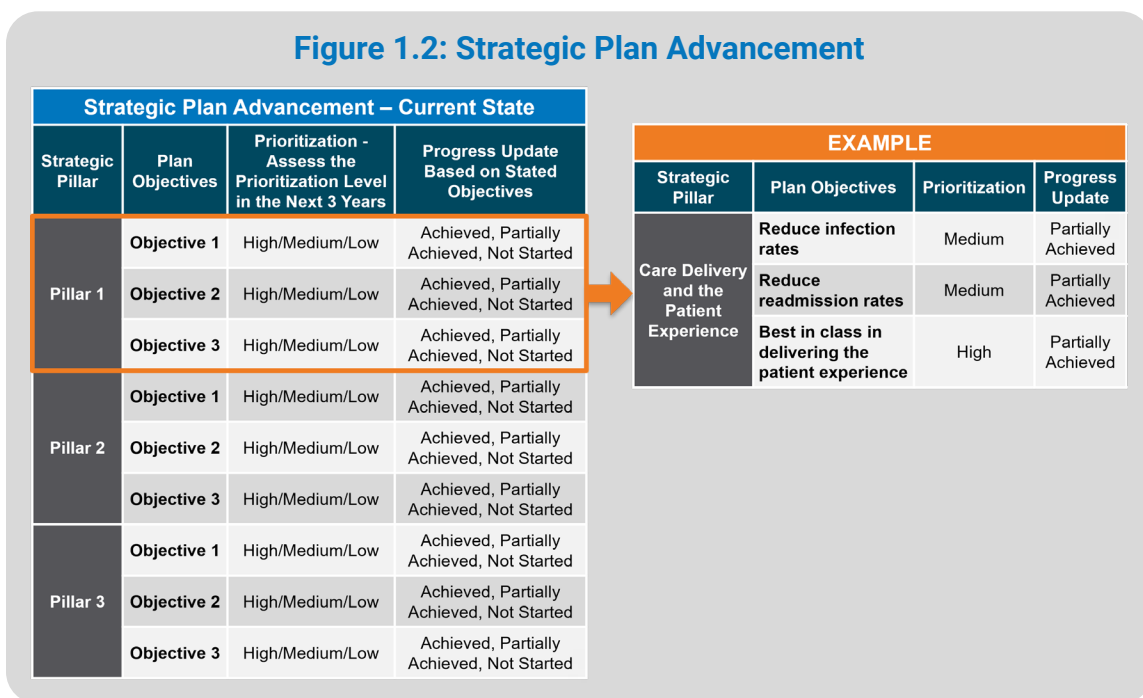
Organizations that frequently review and assess progress toward objectives outlined in the strategic plan are well-positioned to identify key priorities to include in future LTIPs. Organizations that do not regularly review progress may find it difficult to appropriately align priorities and identify key focus areas.

When identifying LTIP goals, start by reviewing the organization's strategic plan and mapping the plan's pillars to the goals included in the past and future performance cycles (if known). This will help to identify any gaps in pillar alignment within the LTIP. Next, be sure to assess the prioritization of each pillar over the length of the LTIP cycle (three years being the most prevalent) and indicate the progress on each of the plan objectives.

Figure 1.2 provides an example of a current state assessment. This gap analysis shows progress on strategic objectives and helps prioritize key objectives for future LTIP performance cycles.

STEP 3: MEASURE SELECTION

When determining LTIP priorities, organizations should consider the balance of metrics across incentive plans and the pillars within the organization's strategic plan. This approach can help to standardize how progress is measured. In addition, it can help to identify if priorities are too narrow or if they position the organization to make progress within the defined performance cycle time frame.

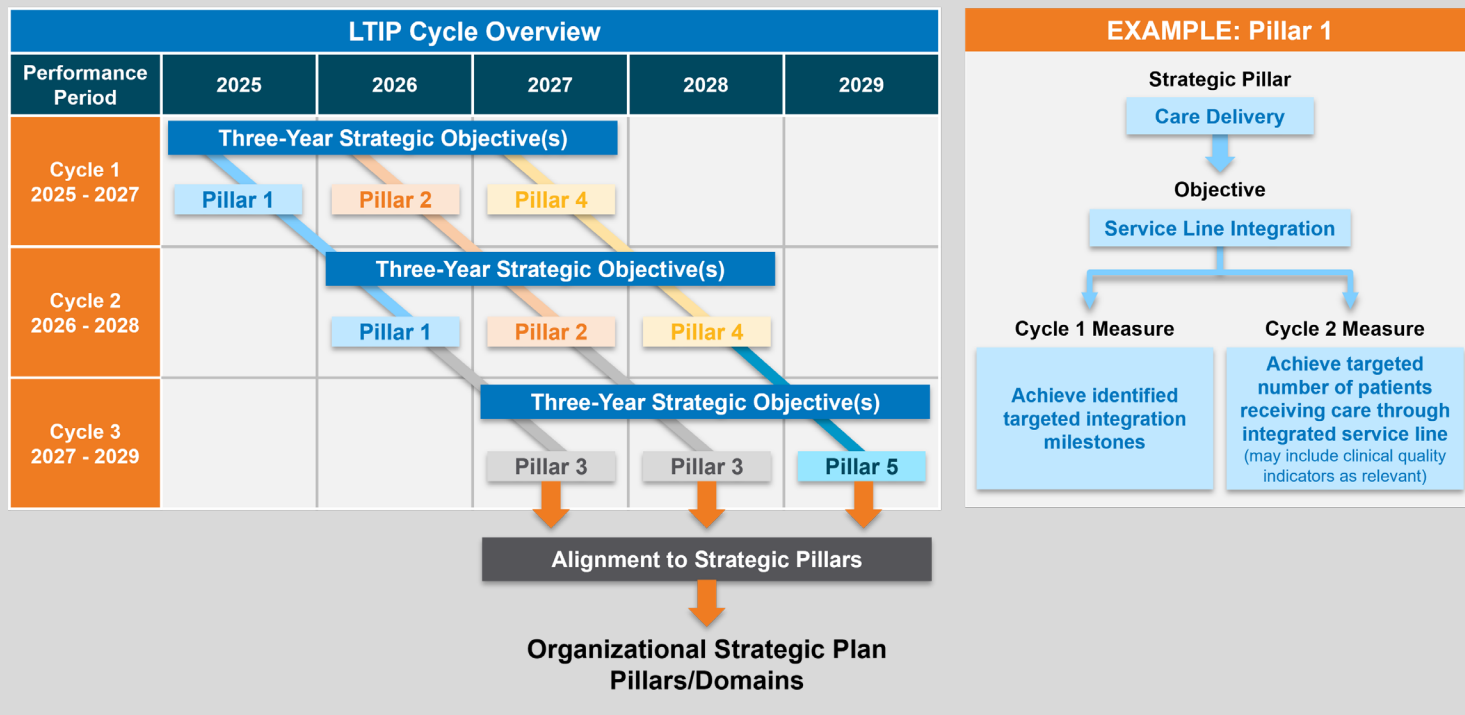


Metrics can include the following:

- **Outcomes-Based Measures** – Outcomes can be measured by an objective metric that reflects progress towards the goal. When considering outcomes, organizations should understand the performance drivers and whether they have the necessary infrastructure, resources, and ability to focus on these objectives appropriately.
 - **Example:** Improve new patient appointment access for identified specialties based on third next appointment availability within seven days. Achievement of this goal may require additional providers, infrastructure enhancements, and implementation of operational processes.
- **Transformational/Strategic Measures** – These measures often include imperatives for which the organization still needs to develop a tactical plan or is in the early stages of exploration. These may be more appropriately aligned with priorities that require disciplined and longer-term incremental progress. Some of these priorities may require the advancement of process steps in the early years.
 - **Example:** Service Line Integration
 - Year 1:** Identify key operational processes that may need to be integrated
 - Year 2:** Develop an integration plan with key milestones that need to be achieved
 - Year 3:** Achievement of defined milestones

Figure 1.3 provides a visualization of how an organization with overlapping LTIP performance cycles can map out LTIP goal priorities across multiple cycles to ensure strategic alignment.

Figure 1.3: Strategic Plan Alignment



Cycle design also influences measure selection. Given the multiple active measures across performance cycles, overlapping plans may run the risk of diluting focus. However, they can also allow for greater flexibility in goal setting since new priorities are identified more often. This allows the organization to pivot as circumstances change. With different, yet still related, measures, organizations may be more likely to make progress on the overarching objective.

End-to-end plans can include more substantial initiatives since the limited number of goals enables greater leadership focus in a single performance cycle. However, such plans require that leadership have a clear perspective on the critical goals since they are set at the start of the cycle and not revisited until the next cycle begins – typically three years later.

Regardless of the plan design, multi-year foresight into possible LTIP priorities better positions organizations to set goals more closely aligned with system-wide strategy.

STEP 4: GOAL CALIBRATION

The approach to LTIP goal calibration can vary based on the two different goal types:

- **Outcomes-Based Measures** - Historically, LTIPs have largely included objective measures that are based on a specific outcome the health system is targeting to achieve. Organizations often define long-term aspirational performance levels while considering the resource investments required to achieve the desired progress.
- **Transformational/Strategic Measures** - In recent years, organizations have been using LTIPs as tools to drive accountability for identifying and advancing key transformational and strategic measures. In our experience, successful LTIPs have a flexible calibration process to recognize that some goals initially require the achievement of milestones. This may include setting up the infrastructure to advance a key strategic measure and then identifying desired target and maximum outcomes measures during the performance cycle. This approach is effective for calibrating highly innovative goals or where the intended outcome may not yet be known.

— **Example:** Digital Innovation

Year 1: Explore clinical areas where AI technology can be implemented in patient care

Year 2: Implement the AI model(s) in identified care environments and identify relevant outcome metrics (number of patients, dollars saved) via the use of this technology

Year 3: Identify the quantifiable amount saved or number of patients that receive care via the newly implemented technology

Organizations that monitor progress and performance throughout the performance cycle can determine if a shift in focus is required by following a consistent framework for identifying LTIP goal priorities and measurement. Monitoring progress quarterly or bi-annually is more appropriate for LTIP goals, given their multi-year longitudinal focus.

CONCLUSION:

Not only are LTIPs an effective way to retain and reward key leadership talent, they also can play a critical role in advancing key strategic objectives that are not captured in the annual performance metrics that support day-to-day operations. LTIPs serve as an important tool to drive performance and system-wide results. Despite current market uncertainty and volatility, using a consistent framework – by applying key guiding principles, assessing strategic alignment, thoughtfully considering measure selection, and calibrating meaningful goals – will help ensure LTIPs focus on meaningful priorities for each performance cycle that will drive long-term success. Using this approach, LTIPs can help the organization focus on transformational efforts that meet the long-range needs of the communities they serve.

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