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Evolving Executive Talent and Reward Strategies in Pediatric Healthcare

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Turnover of key executive positions in pediatric hospitals and the increasing complexity of healthcare operations have made attracting and retaining effective leaders more challenging than ever. In fact, 43 of the 50 organizations that ranked in more than five specialties on the 2019–2020 *U.S. News and World Report's Best Children's Hospitals* list saw turnover in CEO and/or C-suite positions in the past 42 months. Among the 31 independent pediatric organizations, nine CEOs (29 percent) have left or announced departures in the past year. (See **Exhibit 1** on the following page.) In addition, an aging executive workforce is contributing to a shortage of qualified senior leaders.

SullivanCotter's experience and research indicates that healthcare organizations are recognizing the importance of leadership continuity in the current environment. Boards and senior leaders are working collaboratively to develop talent and reward strategies focused on identifying and developing future leaders, recruiting talent for emerging roles, and retaining senior executives who can successfully lead the transformation efforts of pediatric organizations.

Key Board Takeaways

Pediatric hospitals continue to experience record-high leadership turnover, driven by aging executives, new talent needs, and increased competition for senior leaders with the competencies to manage change. Boards should:

- Partner with senior management to align talent and compensation strategies.
- Ensure their organizations are focusing on succession planning, reexamining executive roles and organization structures, providing enhanced compensation to key executives, and revisiting compensation philosophies to ensure they can best hold on to the talent that can successfully achieve strategic imperatives.
- Consider that average base salary increases provided to senior leadership within pediatric organizations have outpaced salary increase budget projections. This trend is expected to continue.

Questions for pediatric hospitals to consider include:

- How will we build, hire, and retain leadership talent for the organization of the future?
- What mechanisms are in place to retain our best leadership talent?
- Is our executive compensation philosophy aligned with our leadership talent strategy and the environment?
- Is the program's cost sustainable and being optimized with compensation directed to the appropriate leaders?

Salary Movement

Turnover and the supply/demand imbalance for senior leadership positions within pediatric hospitals have noticeably contributed to compensation increases that outpaced salary increase budget projections. An analysis of SullivanCotter's 2019 Pediatric Survey[1] indicates that the average base salary increase for CEOs and C-suite executives in pediatric hospitals in 2018 was 4.8 percent. This is moderately higher than the general healthcare market, which

1 SullivanCotter's 2019 *Manager and Executive Compensation in Hospitals and Health Systems Survey* and SullivanCotter's 2019 *Manager and Executive Compensation in Pediatric Organizations Survey* (includes only pediatric hospitals/health systems).

Exhibit 1: Pediatric Hospitals with Leadership Departures

Position	Pediatric Hospitals with Leadership Departures[1]	
	Number of Hospitals	Percent of Sample
Chief Executive Officer	18	36%
Chief Operating Officer	12	24%
Chief Financial Officer	12	24%
Chief Human Resources Officer	23	46%

1 Over the past 42 months (i.e., January 2016 through July 2019) based on SullivanCotter's research of publicly available data from organization Web sites and press releases; among 50 organizations that ranked in more than five specialties on the 2019–2020 *U.S. News and World Report's Best Children's Hospitals* list.

was 4.2 percent. These findings are based on the review of year-over-year changes for organizations that participated in both the 2018 and 2019 Pediatric Surveys, although not necessarily the same individual executive if turnover occurred.

While the base salary increase for many pediatric executives was consistent with projected salary increase budgets (i.e., 3 percent), the higher average increase noted above reflects an upward pressure on base salaries. Higher-than-projected increases are often provided to top performers and to better align the pay of newer executives if below their desired market position. In addition, targeted higher pay increases are being provided to prevent the exodus of highly seasoned and experienced leaders, "heir apparent" leaders who are being actively recruited, and successor candidates whose pay is being transitioned as part of a planned promotion. SullivanCotter anticipates that base salary increases in excess of projected budgets will continue, especially for the senior-most positions.

New and Emerging Roles

The evolving market has produced new areas of leadership focus and competencies needed to support organization transformation. SullivanCotter has monitored and incorporated these new roles into its surveys to reflect this trend (e.g., innovation, population health, informatics, international health, diversity, information security, and analytics). Further, the 2019 Pediatric Survey reported several emerging positions with an increase of at least 20 percent in the number of executives reported over the past three years, including Chief of Staff, Strategy Officer, Top Innovation Executive, Top Facilities/Planning and Construction Executive, Top Quality Executive (M.D.), and Top Compliance Executive.

These emerging positions align with healthcare transformation priorities such as growth (e.g., strategy, planning and construction, and international health), care delivery (e.g., innovation, quality, and population health), and technology (e.g., information security, informatics, and analytics). When turnover occurs or new roles are needed, organizations are taking the opportunity to assess the effectiveness of the current leadership structure and reorganize, as needed.

Performance-Based and Retention Incentives

Annual executive incentive plans continue to be used by most pediatric hospitals (94 percent).[2] Over the last three years, there has been limited change in opportunity levels (as a percent of base salary) and most organizations select a balanced set of performance measures that hold leaders accountable for driving meaningful operational improvement and provide rewards aligned with strategic priorities. In our experience, pediatric hospitals as well as the general healthcare market, are aligning selected performance measures (e.g., quality, patient experience, access, and cost effectiveness) in support of collaboration and transformation.

2 *Ibid.*

Pediatric organizations, like others in the healthcare industry, are examining talent and compensation strategies in order to support the retention, recruitment, and development of leaders.

While long-term incentives remain a minority practice among pediatrics (i.e., 12 percent), SullivanCotter has observed an increased use of targeted retention programs. A retention incentive provides a reward outside of standard program elements that is provided to retain a key, high-performing executive. They are commonly used in times of senior leadership transition or restructuring to ensure team stability and support leadership continuity during key initiatives or projects.

Based on data submitted to SullivanCotter's 2019 Pediatric Survey, approximately 20 percent of the independent pediatric organizations reported the use of a retention incentive for at least one executive position, with the retention period falling between one and five years (with two being the most common). In SullivanCotter's experience, the annualized value delivered by retention incentives typically ranges between 15 percent and 25 percent of base salary. Actual practice varies widely based on factors such as retention period, role criticality, organizational level, "flight risk," and market demand. These compensation arrangements have contributed to upward pressure on pay levels within the market.

Increased Flexibility

Pediatric organizations, like others in the healthcare industry, are examining talent and compensation strategies in order to support the retention, recruitment, and development of leaders. Given market demands and continued increases in executive compensation that may result in a "chasing the market" scenario, pediatric organizations may wish to review their executive compensation philosophy and program components to determine appropriateness and sustainability with an eye toward varied business segments and talent strategies.

Specifically, some organizations are moving away from a "one-size-fits-all" approach to one that has greater flexibility such as targeting a range (e.g., the third quartile), focusing resources on key talent, and supporting alternative peer groups (e.g., health plans, managed care, and general industry) for selected roles. The objective is to reduce the rigidity of defined target market positioning (e.g., market 50th percentile) and allow for more individualized compensation decisions to compete in broader markets, distinguish high performers, respond to retention considerations and evolving position responsibilities, and/or support succession planning efforts.

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