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New research and expert opinions in the area of hospital and health system governance.

E-Briefings

Investing in Philanthropy Is Investing in the Future

By Alice Ayres, M.B.A., President and CEO, Association for Healthcare Philanthropy

Much has been written about the dire financial situation of our nation's hospitals and health systems. Historically, hospitals have averaged a 1–3 percent margin. With the erosion of revenue from the loss of elective procedures and the increased costs associated with caring for COVID-19-positive patients, there are now predictions of $1 trillion or more in losses nationwide. To stem the tide, many organizations have been forced to furlough or lay off staff at just the moment that the country needs hospitals and healthcare workers most.

With all of that as backdrop, hospital leadership is facing an even more urgent need to diversify to increase revenue right now and safeguard hospitals for the future. One tool in the toolbox must be a strong commitment to philanthropy. The revenue returns are significant:

- **Return on investment:** For every dollar invested in the philanthropy team and their work, the average return across the country is four dollars in revenue.
- **Revenue equivalency:** It takes an average of $75 to $100 in patient revenue to deliver the same net revenue as $1 raised in charitable gifts. That means that hospitals would need $75,000,000 in patient revenue to deliver the same net impact as $1,000,000 in charitable giving.
- **Average funds raised:** The median amount raised by a hospital philanthropy team in the U.S. in a given year as reported by AHP's annual *Report on Giving* survey is $7 million (which would translate to $525–700 million in patient revenue).[1]

There have been many large donations made to charities by major donors, billionaires, and corporate foundations in the past several months. This follows the trend previously reported by *Giving*

1 Association for Healthcare Philanthropy, *AHP 2019 Report on Giving for FY 2018: USA*.

While it may seem counter-intuitive in this time of crisis, now is the time to engage donors and ask them to invest or reinvest in your hospital's mission.

What's Inside

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Key Board Takeaways

Questions the board should ask of the Chief Philanthropy Officer include:

- Has the community continued to engage and give during the pandemic?
- What can I share with my own network about the hospital's response to the pandemic and how donations have helped?
- Are we mainly raising money for COVID-related work or for our more traditional needs?
- What messages can I share with my own network about the hospital's needs now?
- How can I help?

USA[2] of larger gifts by individual donors and corporations, but also underscores the dependence of the country's not-for-profits on fewer, larger donors. The pandemic has had varying effects on charitable sectors, with some seeing dramatic declines in charitable giving. AHP embarked on a study, which will be updated monthly, to look at healthcare fundraising results versus organization goals across U.S. and Canadian hospitals.[3] We found that there was a significant increase in major gifts (defined as those greater than $10,000) in the month of March, with a return to expected levels in April. Conversely, giving of less than $10,000 (defined as annual gifts in our survey) rose versus expectations in April. Perhaps most interestingly, respondents reported that approximately one third of their gifts came from new donors across the March and April timeframes.

As a foundation board member or a member of the hospital board, how can you step in and help, especially given the current pandemic? There are several key things you can do to greatly increase the effectiveness of the organization's fundraising efforts.

With current donors:

1. **Communicate the mission:** You chose to serve on the board of your hospital or foundation because you believe in the mission of the organization. Now, more than ever, talk about the amazing work being done. Engage the community in how the hospital is responding to the pandemic, and what the organization's mission for the future looks like.
2. **Help with engagement:** Donors are eager for interaction right now, and many are also looking for information about the pandemic from a trusted resource like the hospital. Ask your philanthropy team and the executive team at the hospital what they want communicated and how.
3. **Follow up with donors:** We have been fortunate to have numerous new community members step forward and donate cash, PPE, meals, and contribute in other ways. A thank you from board members with a story of the impact of the donation will mean a great deal to these new donors. Ask your philanthropy team to give you a list of donors to thank—those you know and those you don't.

With potential donors:

1. **Conduct a network analysis:** Review your contact list to find current and potential donors.
2. **Make introductions:** Reach out to the Chief Development Officer (Chief Philanthropy Officer, Executive Director of the Foundation) and discuss the list of possible donors to determine the best way to make an introduction.
3. **Review gift requests:** The "ask" of the donors will come from the appropriate team member, but you can make a real difference by reviewing proposals and providing context and anecdotal feedback on the donor in order to tailor the proposal to their unique situation.

While it may seem counter-intuitive in this time of crisis, now is the time to engage donors and ask them to invest or reinvest in your hospital's mission. Your commitment to this work is a key component to succeeding as a high-performing philanthropy organization. That work is critical to ensuring the long-term health of your hospital and securing the mission for the community.

2 "*Giving USA 2020*: Charitable Giving Showed Solid Growth, Climbing to $449.64 Billion in 2019, One of the Highest Years for Giving on Record," June 16, 2020.

3 Association for Healthcare Philanthropy, COVID-19 Benchmarking Study.

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New Frontline Insight on Crisis Compensation Actions

By Steve Sullivan, Managing Director, Pearl Meyer

Pearl Meyer recently hosted a virtual peer exchange among five chief human resource officers (CHROs) in the healthcare industry. Each represented a fairly large academic medical system or integrated healthcare system and came together to discuss the compensation challenges forced by the ongoing COVID-19 pandemic, including executive pay, furloughs, compensation for reassignments, and assisting staff who have contracted the virus.

This crisis has blurred many of the once-clear lines of responsibility separating senior management and boards. A read-out of the ideas exchanged by these CHROs can be very helpful for hospital and health system directors, who are now facing unforeseen executive compensation questions and are tasked with thinking about pay issues deeper in their organizations.

Key Board Takeaways

- Set time for in-depth and ongoing conversations with the chief human resources officer.
- Prepare early by developing milestones and a timeline for salary restorations.
- Refocus this year on annual incentive goals to spur desired short-term achievements and maintain executive motivation and engagement.
- Communicate more clearly and more often about all aspects of compensation during this crisis.
- Keep a closer watch than may be typical on workforce actions below the management team.

Geographic Differences

Each of the peer exchange participants stated that their organization is experiencing some reduction in revenue due to the discontinuation of elective procedures and ambulatory services. Further, all are either engaged in identifying or executing workforce and expense reduction activities. However, geographic location appears to significantly influence the progress they are making toward cost reduction as some experienced a surge in COVID-19 cases much sooner and in greater numbers than others. Those in geographies impacted early on have taken more aggressive action around cost reduction than those located in areas only experiencing the beginning of the infection curve.

What was clear in the discussion is that those impacted later than others seemed to benefit from the well-publicized experiences of their counterparts who were forced to improvise.

Executive and Director Salary Reductions

Several participants discussed implementing executive pay cuts as well as director pay cuts (for organizations with paid directorships). The majority of these executive pay adjustments are voluntary, with CEOs commonly taking the largest base salary reductions, generally ranging from 20 to 50 percent of base salary. This is consistent with what we are seeing amongst our larger client base. Reductions for other C-suite executive and senior management positions seem to be between 15 and 30 percent. The participating organizations are about evenly divided on longevity; those for whom the cuts are finite will either resume full pay or reevaluate after 90 days while the others' reductions are "indefinite."

Based on the peer exchange conversations and other market research we have conducted, our firm's healthcare advisors are seeing a pattern: executives whose organizations are furloughing employees without pay tend to then decide to forego a portion of their salary. The corporate communications around executive salary reductions typically identify "leading by example" and/or "further cost reduction" as the rationale behind the executive pay adjustments, similar to the communication in other industries.

Variable Pay Actions

The CHROs also discussed how their organizations plan to address their variable compensation programs in light of diminished financial performance, and therefore reduced or nonexistent incentive awards. None of the participants expect their executive or non-executive incentive plans to pay out. Most are operating on a "wait and see" basis and feel that it's just too early to make consequential decisions about annual or long-term incentive arrangements. All participants said that their organizations would be "out of the

money" on most financial measures.

Rather than moving ahead without any performance incentive opportunity, our firm's position is that it will be important for healthcare providers to have at least some annual incentive goals in place during the pandemic. The healthcare business challenges are more difficult than ever. Healthcare leaders are working harder and may be having to formulate and execute business strategies outside of their traditional roles. The fallout in goodwill resulting from the elimination of performance pay likely outweighs the financial cost of the awards.

A well-communicated plan can focus the management team collectively on a short list of critical goals, and it helps the board outline operational priorities during the crisis. And while goals will help provide some objective basis for determining awards, no doubt many boards will be required to make some subjective decisions regarding variable compensation. While there may be more discussion about the trade-offs between reward, retention, optics, and the organization's mission, pre-establishing some actual pay-performance relationships will reduce the pressure on directors of having to determine awards in a fully discretionary manner.

One reasonable approach is to identify an alternate incentive plan comprised of:

- Metrics from the existing plan that are still relevant during the crisis, such as quality, safety, patient experience, and employee engagement
- Threshold, target, and stretch goals that are set higher or lower than normal
- Metrics that are critical for the organization during the pandemic period, including some baseline financial goals, understanding that the financial markers may be quite different than those before or after this crisis

Structuring these plans to be administered and paid out on a quarterly basis allows the board and management team the flexibility to update measures and target levels as the situation demands. As the impact of the pandemic lessens, the board will also have the flexibility to continue or terminate the quarterly plan every three months.

The CHROs whose organizations have long-term incentives (LTIs) said that they are waiting to see how the year progresses, but that it is unlikely any open LTI grant cycles will pay out.

Our opinion is that it is even more important for providers with LTI programs to establish some temporary annual incentives as described above. The reasoning is that their boards and compensation committees will likely need to make difficult discretionary decisions about 2020 and 2021 LTI awards since those metrics are less likely to be changed during the pandemic than those of their annual incentive plan.

Workforce Staffing and Rewards

In the area of broad workforce pay adjustments, participants described a number of creative management approaches, including:

- Employees working reduced hours for reduced pay but maintaining their benefits
- Reducing pay rather than terminating or furloughing employees
- Telework—a first for many healthcare systems—for employees whose jobs enable them to do so
- Job-sharing where two part-time employees can share one full-time role; both are paid a part-time wage and continue to receive benefits
- Job shifting to accommodate demand; for example, a business manager working in patient transport, but the employee receives pay as if in their original role
- Staff pool creation, where employees whose own jobs are nonessential can help out temporarily in other areas; one organization has a full-time staffing coordinator to manage this process

Several of the organizations have created cost centers to track expenses directly related to COVID-19. One participant mentioned that each department has a goal to reduce administrative expenses by 20 percent without resorting to furloughs or layoffs. Their employees are encouraged to use PTO because reducing their PTO bank reduces a liability on the company's balance sheet. Another participant mentioned that their organization will achieve a 20 percent reduction in payroll costs by having employees work and get paid for four days a week versus five days. One organization offers voluntary furloughs in two-week increments based on seniority, which the participant said has been a popular option for their employees.

Interestingly and unlike some other highly impacted industries like grocery and package delivery, none of the organizations represented in the peer exchange are providing hazard pay to their employees. They all noted that healthcare employees recognize working in hazardous conditions with potential exposure to infectious disease is an expected part of the job. However, one participant mentioned providing up to two weeks

Healthcare leaders are working harder and may be having to formulate and execute business strategies outside of their traditional roles.

of pay for employees quarantined due to COVID-19 exposure at the hospital and some had employees file worker's compensation claims due to COVID-19 exposure at their workplace. One organization provides paid housing for employees treating COVID-19 patients who have compromised family members at home, and another mentioned paid childcare expenses for their employees.

At the most fundamental level, all of the CHROs said their organizations have suspended merit-based salary increases for 2020, but all participants also expressed strong concern that employees retain health insurance benefits. Several organizations have applied or are in the process of applying for funding through the CARES Act, although notably CARES Act funds are not available to public safety net hospitals.

Clearly, executive and director compensation and workforce staffing and cost-containment solutions are not one-size-fits-all. Based on our work with the organizations represented in this peer exchange and many others in the industry, there is a consistency in the approaches described by the CHROs—that is strong alignment with their individual organizations' business model, culture, financial health, and location. While the current crisis does not—and should not—change that custom look at each system's set of circumstances and development of corresponding unique compensation plans, this is a time of great uncertainty and closer collaboration. To that end, institutions willing to share experiences and perhaps try, even if temporarily, new ideas to achieve their goals may find that flexibility to be a competitive advantage.

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Scientific Considerations of Employee Engagement during COVID-19

By Nolan Miller, M.S.I.O.P., Research Analyst, Workforce Engagement, NRC Health

Twenty years ago, almost nobody was talking about employee engagement. While some organizations were beginning to recognize the benefits of improving their employees' satisfaction, motivation, and mental health, employee engagement as we understand it today had not even been conceptualized. It wasn't until 1990 that a scholarly paper was written on the topic, and then it took another 20 years before that article began circulating in scientific and organizational communities.[1]

We now understand that employee engagement is the simultaneous employment of a person's "preferred self" through physical, cognitive, and emotional means. When an employee commits their preferred self to their role, not only does the organization benefit from their high-quality work, but the employee's well-being is fostered through emotional and cognitive health.

While this understanding of engagement is relatively new, engagement's popularity is nonetheless well-precedented. Studies showing the relationship between employee engagement and performance, profitability, and productivity across countless industries have helped shift the conversation from academia to senior

Identifying employee pain points and countering them with positive experiences is the key to engagement during difficult times.

1 Alan M. Saks and Jamie A. Gruman, "What Do We Really Know About Employee Engagement?," *Human Resource Development Quarterly*, June 2014; pp. 155–182.

leadership.[2] In a 2019 study with over 1,000 healthcare organizations, employee engagement was rated as the industry's fastest-growing priority.[3]

When it finally seemed like we were effectively grasping, measuring, and improving employee engagement, an unprecedented state of affairs from COVID-19 challenged the engagement of our nation's healthcare workers. Frontline staff face the challenges of treating and caring for COVID-19 patients while maintaining their own physical, mental, and emotional health. How do our conversations around employee engagement change when facing the challenges of COVID-19?

Key Board Takeaways

- Difficult times do not mean employee engagement needs to suffer. The research is clear that negative workplace experiences can ultimately improve engagement when organizational action planning helps staff shift into more positive mindsets.
- Healthcare staff are facing some of the most unique workplace challenges related to COVID-19. Boards should task management with identifying specific points of increased demands and strategically implementing resources according to the JD-R model through pulse surveys, focus groups, and leader rounding.
- Questions for boards to ask management include:
  - » Do we fully understand the unique demands our staff are facing?
  - » Do we have a strategy to counter each demand with resources?

Focus on the Shift

Research shows that engagement levels fluctuate quickly, even daily![4] The good news is that these fluctuations can be leveraged. An important distinction in highly engaged employees is the presence of a shift from negative affect to positive affect. If an employee experiences negative affect in the morning of their working day, but positive affect later that afternoon, their engagement levels actually increase. This is because negative circumstances cause employees to analyze their surroundings in greater detail and to focus on identifying discrepancies between their ideal state and current situation. These discrepancies lead to goal-directed behavior and a desire to transition from a negative experience to a positive one. Without negative events altogether, employees would perceive a lower need to initiate goal-directed behavior. Since negative events are inevitable, the well-being of an employee is dependent on their ability to self-regulate out of the negative mindset and into a positive one. When a shift is successful, the employee's self-regulation skills become more refined through goal achievement and their engagement improves.

While the stressful times surrounding COVID-19 present an array of new challenges for healthcare workers, they also offer unique opportunities to drive engagement. It's reasonable to expect an increase in negative work experiences due to COVID-19, but that doesn't mean engagement needs to suffer. Identifying employee pain points and countering them with positive experiences is the key to engagement during difficult times. If a shift occurs, it will ultimately lead to higher levels of engagement than would have been possible without the negative circumstances altogether.

Counter Demands with Resources

Consider the impact of COVID-19 through the lens of the Job Demands-Resources (JD-R) model. Numerous organizational studies highlight the efficacy of this model and provide research findings that are quite relevant to our time period. This simple and well-validated model presents the existence of two simultaneous workplace processes that determine employee well-being and engagement. The presence of high job demands is shown to deplete employee energies and personal resources, leading to lower levels of engagement and even adverse health consequences. Alternatively, job resources promote engagement and consistently lead to *improved* performance. Interestingly, the research is clear that when job demands rise, job resources have an increased potential to motivate employees.[5] In other words, high job demands don't necessarily lead to stress and burnout; rather, it is the absence of job resources that contribute to these negative outcomes. High job demands and high job resources can be an effective contributor to employee engagement and performance.

2 James K. Harter, Frank L. Schmidt, and Theodore L. Hayes, "Business-Unit-Level Relationship between Employee Satisfaction, Employee Engagement, and Business Outcomes: A Meta-Analysis," *Journal of Applied Psychology*, 2002; pp. 268–279; Nazan Kartal, "Evaluating the Relationship between Work Engagement, Work Alienation, and Work Performance of Healthcare Professionals," *International Journal of Healthcare Management*, March 2018.

3 Jason A. Wolf, *The State of Patient Experience 2019: A Call to Action for the Future of Human Experience*, The Beryl Institute, 2019.

4 Ronald Bledow et al., "The Affective Shift Model of Work Engagement," *Journal of Applied Psychology*, July 2011; pp. 1246–1257.

5 Arnold B. Bakker and Evangelia Demerouti, "The Job Demands-Resources Model: State of the Art," *Journal of Managerial Psychology*, April 2007.

There is no question that COVID-19 has presented healthcare with an increased degree of job demands, both physical and mental. The types of demands may vary but the premise is the same; when demands go up, organizational resources should counter. Interventions at reducing demands and increasing resources are most effective when they are tailored to specific work environments.[6] Some of the ways that healthcare organizations are helping employees during COVID-19 include:

- Providing staff with a pantry that includes groceries at wholesale pricing to save them from going to the grocery store after work
- Offering staff free meals during all shifts or partnering with local restaurants where staff can preorder meals and pick them up at a designated on-site location
- Holding regular town hall meetings to thank staff and give them the opportunity to ask questions
- Providing Web-based resources for mental and spiritual care
- Distributing documentation listing various stress-reduction exercises
- Setting aside a sum of money to distribute to staff as appreciation bonuses to those working during COVID-19
- Extending allotted staff break periods (three additional 10-minute breaks per shift)
- Conducting leader rounding to ask frontline staff how to better support them

While not likely to serve as the only needed avenue of support, these actions are a great starting point.

Beyond the Annual Survey

Perhaps the most popular means of collecting employee feedback today is through an annual engagement survey—a widely popular and effective method for capturing big-picture insights. However, truly effective support during this time requires soliciting staff feedback and implementing resources accordingly. No organizational demands will be quite the same, and organizational resources should be reflective of situational needs. Feedback from an annual survey may not provide enough content specific to staff demands surrounding the stressful situation at hand.

Research in the field of engagement shows us how important it is to help employees shift from negative experiences to positive ones, and the JD-R model emphasizes the importance of understanding the unique demands staff are facing. Healthcare organizations should ensure that they have a way to collect employee feedback during or shortly after stressful events. One healthcare organization used a COVID-specific survey to learn that their employees were concerned and confused about a new PTO policy that was implemented. The policy allowed for more flexible use of PTO, including accruing negative hours during COVID-19, but many employees were requesting more information about the long-term implications of the new policy. Without this feedback, the organization may have assumed that all employees felt supported by the new policy. In reality, the new policy was causing undue stress due to a lack of information. Consider some additional employee comments regarding COVID-19:

- "Provide more resources on conditions at hospital and the situation on rotating staff and providers."
- "I need to know my COVID-19 status and I also need complete instruction on what I need to do if my test result turns out positive."
- "Be more transparent. How are you sterilizing our N95 and how can we be sure this process is safe? What is our system's daily number of recoveries and deaths? How many of our own staff have contracted the virus?"

It is clear that healthcare employees are facing some of their most unique challenges to date. Such circumstances call for proactive, well-validated, and tailored responses. If leadership provides a way for employees to shift from negative to positive work experiences, employee self-efficacy will improve, and engagement levels will rise. The higher job demands associated with this time period require a simultaneous increase in job resources or employees will find themselves discouraged and burned out. Leaders who seek to understand exactly what their employees need and take subsequent action will reap the short- and long-term benefits of more engaged employees and higher-quality patient care.

6 Evangelia Demerouti et al., "The Job Demands-Resources Model of Burnout," *Journal of Applied Psychology*, 2001; p. 499.

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