

Team Incentive Plans that get Results: Step-by-Step Guide

written by HR Banana

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This is the fourth in a series of posts on team incentive programs. Team incentive plans are a great tool to use when you need to improve the performance of the group or work team. The concept may seem overwhelming and HR professionals often avoid them since they seem complicated and “what if we get something wrong?”

To change that perception, we will use an example work team and provide a step-by-step demo of a team incentive plan.

What do we mean by improving group performance? We have described the 3 core elements of health care delivery success: quality, profitability, and satisfaction. Quality is at the core of what we deliver and should never be compromised. Healthcare delivery organizations are expected to deliver the highest quality service.

When we refer to satisfaction, we are including both the satisfaction of the patients (customers) and those delivering the care (employees)

While you could use a team incentive to improve any of the 3 elements, I have not used it to improve quality or satisfaction. Providing high quality healthcare is an expectation of the job and employees should not have to be incentivized to do so. Generally, the same should be true of satisfaction of patients and staff.

Having said that, there may be occasions when those elements have serious issues that a team incentive may help address. In that case, any incentive should be commensurate with results and probably a one-time bonus rather than ongoing.

Since healthcare is so people-intensive, when we talk about *profitability*, we are really concerned with *productivity*. *The greatest impact that you can have on profitability is to increase productivity*. That is why there is such a great opportunity for HR to include productivity expertise in their portfolio. Productivity

is THE major challenge for healthcare providers, and this link describes why I think it belongs in HR!

Team incentives can be essential in achieving superior productivity results. Increasing the productivity of a work team requires group effort and group buy-in. A team incentive rewards all team members for improvements and fosters cooperation and collaboration.

Since the 7 steps to developing a team incentive plan have been outlined earlier, let's use them to develop a sample incentive program. This can then be used as template and customized for other departments or teams.

Our example will use a Pharmacy department that has both inpatient and a retail pharmacy function. This should make the example relevant to HR professionals in the inpatient or outpatient setting.

1. Determine what you are trying to improve.

We are trying to improve the productivity of the Pharmacy Department. It has both in inpatient function within a midsized hospital, and outpatient pharmacies located in 12 family practice centers.

Why productivity? When we increase productivity, every dollar goes directly to the bottom line. Productivity is how many human resources it takes to produce one "unit of service" (UOS). The UOS is whatever product is produced by the department or work group.

Nursing uses patient days as a UOS. Rehab Services may use treatments or modalities, Radiology would use exams. A physician practice may use patient visits.

In any patient delivery system the work volume of departments providing patient care is captured somewhere. This is true whether the service is direct care or diagnostic. It is captured because there is usually a patient charge associated with it.

To determine current productivity, divide the total worked hours by the total UOS

for the same period . That number is productivity stated as hours/UOS. So if a nursing unit has 175 patient days in a week and the worked hours are 1330.0 for the same period, productivity would be stated as 7.6 hrs./patient day.

2. Establish the target or key indicator of success.

The target for an incentive plan would be something that is better than what is currently being achieved-something that will require a stretch by the team. The goal is to improve productivity. Improved productivity would be measured by less hours worked to provide each UOS.

In our example, here is the current productivity for the Inpatient and Retail pharmacies:

- Inpatient: .73 hrs./pharmacy adjusted days
- Retail: .15 hr./scrip

We want improvement. So we are going to set an initial stretch target and add two options that are even greater. Each one will have a greater reward. Why provide more than one option? Often, the team can surpass the initial target rather easily. Additional options allow the team to go after further improvement with increasing rewards. More on that later.

Our targets will be:

Inpatient:

- A. Hours/pharmacy adjusted days is equal to or less than .58
- B. Hours/pharmacy adjusted days is equal to or less than .52
- C. Hours/pharmacy adjusted days is equal to or less than .48

Retail:

- A. Hours/scrip is equal to or less than .13
- B. Hours/scrip is equal to or less than .12
- C. Hours/ scrip is equal to or less than .10

3. Establish control indicators.

It would be easy to achieve the target if we had no concerns about maintaining quality, satisfaction, or let other expense factors slide. We want to achieve productivity gains without sacrificing in other areas.

In this case, we choose not to use quality indicators as quality is a given and must be maintained. There is no acceptable error rate in prescribing meds. No process change proposed by the team would be considered if it would negatively impact quality.

However, we will ensure that the team does not develop process changes to increase productivity that are unsatisfactory to the consumer (patient).

Our control will be our patient satisfaction scores. We use the Press-Ganey patient survey product so we will use that data since we already get it on a monthly basis.

We will state it like this:

1. Press-Ganey satisfaction score must be 96% or above.

This is the satisfaction score currently being achieved. We are not seeking gains here but are trying to improve productivity without dissatisfying our patients. If we want to improve patient satisfaction, then that should be addressed separately. If it is a real issue, perhaps the incentive plan should address satisfaction and keep productivity as the control indicator.

We also included an optional 3rd target related to expense reductions. If the expenses ratio could be reduced while reducing worked hours, the payout was increased.

4. Determine the incentive.

The incentive should be enough to be attractive to the team members. You won't get results if you pay out \$10 for every \$1000 gain by the organization. Well, you may get some results such as increased employee cynicism but that probably shouldn't be the goal.

You also don't want to pay out more than the organization gains. If productivity increases but the reduced hours are costing more than dollars gained, you have fallen behind.

My approach is to think "partnership" and "sharing". I have had success when the gains achieved via an incentive plan are shared 50/50. 50% of the savings go to the team members, and 50% is retained by the organization.

In actuality, we split 50% of the wage savings. The organization also realizes an additional 6+% savings in payroll taxes as well as other savings related to benefits and reduced PTO.

So how do you calculate the potential financial impact to the organization? It is actually pretty easy and is best done based upon the payroll period since this provides you with actual labor usage and costs. In our example, we have a two week pay period.

To calculate:

1. Determine the current productivity for the pay period. If you have a productivity monitoring system, you are already getting this data. If not, divide the total UOS volume for the 2 week period by the total worked hours. This gives you the number of hours/UOS.
2. Determine the average hourly rate for the pay period for the work team. Most payroll systems can report this. Include all members of the team including management.
3. The total cost of worked hours is usually included in payroll reports. This is the cost of providing the volume of service for that period. Here is a formula for calculating the cost manually: **(average hourly rate) X (hrs./UOS) X (volume).**
4. To determine the financial gain from meeting one of the target levels, simply plug the target into the formula above. So it would be **(average hourly rate) X (target hrs./UOS) X volume).** Use the same volume to determine the financial impact of the productivity gains.
5. Subtract projected number from the current one. This is the amount that will be gained for the same pay period by meeting the new target.
6. If you are going for a 50/50 split, one half of that number should go to the team members. It is your choice on how it is divided. Flat dollar amount

to team members, % of base pay, etc.

In our example, without going through the calculations, the savings by meeting the first goal would be \$4,240/pay period for the inpatient pharmacy. This means that we would use \$2,120 for incentive payouts as we will pay out for each pay period that this is achieved. Waiting until year-end is a program killer and you won't get results if you do this. Immediate reinforcement!

Include the payout levels in the plan. Describe what the employees will receive for meeting the levels. Our example has approximately 20 employees in the department so we know we have about \$100/employee. It is easy if you go with a flat dollar amount but we went with percentages of base pay for employees and a flat dollar amount for managers. Managers received \$100 and employees received 5%.

This worked as the % was the same for all employees but this allowed for differentiation based on skill level. The Pharmacist and Tech both get the same percentage, but the amounts are different.

We also have the 3rd optional target related to reducing the expense ratio. If this was achieved, the payout was increased. Since this is a separate issue from productivity, it is easy to calculate. The current ratio tells you the expenses related to current revenue. Plug the new target ratio into current revenue to establish the dollar impact.

5. Establish eligibility.

Eligibility is important. If not addressed, you will have issues related to new employees, employees that may have been on leave or off work, etc.

Here are eligibility rules that we would use in our example:

- Regular full and part time employees in the Pharmacy departments.
- Special compensation will be prorated to eligible non-management full and part time employees based upon worked hours paid during the review periods. No special compensation will be paid for non-productive hours (holiday, PTO, sick).
- PRN employees are eligible if paid 60+ worked hours during the review period. Compensation will be prorated for PRN employees according to

the worked hours paid during the review period.

- Must be on active status.
- Must have completed the orientation period.
- Must have been employed for the entire review period.
- PTO and sick time usage must not exceed 25% of the total paid hours during the review period.
- Must be employed on the date Pharmacy Special Compensation Plan payments are issued.
- In months with three paydays, the two pay periods with the most days in the applicable month will be the two pay periods upon which the productivity criteria and any applicable bonuses will be based/paid.

6. Establish with Payroll how the program will work.

Create the program criteria and include Payroll in designing the forms and guidelines.

Sample criteria and payout guidelines:

Criteria

The Pharmacy Special Compensation Plan payments will be based upon the following guidelines:

1. Eligibility will be based upon a calendar month. Staffing standards will be based upon the two pay periods containing the most days within that calendar month.
2. For eligible employees to qualify for special compensation plan payments, the following criteria must be met by the appropriate area of employment:
 - Criteria 1 must be achieved for the calendar month, and,
 - One of the three levels of Criteria 2 must be achieved for the two pay periods with the most days occurring within the calendar month. The level of achievement under Criteria 2 will determine the level of payment according to the schedule enclosed.
3. Additionally, if Criteria 3 target is met for the calendar month in addition to Criteria 1 and 2, the special compensation paid for achieving any of the

three levels in Criteria 2 shall be increased according to the schedule attached.

4. Special compensation for non-management staff will be a percentage of gross earnings for worked hours paid for the review period. Management staff shall be paid a set dollar amount.

Targets:

Inpatient Pharmacy

1. Press-Ganey patient satisfaction score must be 96 or above.
2. Target Hours:
 - Hours/pharmacy adjusted days is equal to or less than .58
 - Hours/pharmacy adjusted days is equal to or less than .52
 - Hours/pharmacy adjusted days is equal to or less than .45
3. Expense to revenue ratio is equal to or less than X%.

Retail Pharmacy

1. Press-Ganey patient satisfaction score must be 96 or above.
2. Target hours:
 - Hours/script is equal to or less than .13
 - Hours/script is equal to or less than .12
 - Hours/script is equal to or less than .10
3. Expense to revenue ratio is equal to or less than X%.

7. Create a plan description document for the team members.

It is important that you have a plan document that employees can have. We created a 5-6 page booklet. The cover was entitled, "Special Pharmacy Compensation Plan, (Pilot Project). We included the pilot project designation when initially introducing to a work team. Obviously, it would be impossible to roll out organization-wide. We let everyone know that we were testing it in certain

departments and as it was successful, it would be expanded to include other patient care areas.

Here is the framework of our document:

- Cover page
- Intro to plan and purpose
- Eligibility
- Criteria
- Incentive levels and payout
- Forms used to verify and activate payouts

Now you can develop you own plan to reach new levels of productivity. How do you keep the gains and go even further? Here is a final note on incentive payouts.

Keeping the gains and going for new ones

Incentive plans need to pay out immediately in order to be effective when attempting to achieve increased levels of productivity. Here is an approach that worked many times.

If the work team is just starting to use productivity standards or below the mean of the peer group (and this data is out there), then I would take a different approach. I would consider paying a one time bonus for reaching any target below the mean. After all, you are achieving mediocre results so there is no reason to pay more than the going rate. No one is doing anything worthy of superior pay by achieving the same results that everyone else is getting.

However, when a work team is at the above the mean for the peer group, I would consider making the gains permanent for maintaining these results. Here is what we did.

The work team had to meet the new target consistently for 3 months. After doing this, the incentive pay became part of their hourly wage. Is was coded in separately and was considered “at risk”. For any pay period in which the new target was not met, this pay was not given.

The work team was also given new, even more challenging targets. Did it work? Several departments added 2 levels of at risk pay and were going for the 3rd

targets.

Unleash the power of your employees! This is a great tool for doing so.

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