Compensation

Physician Executive Compensation Recovers with Economy: S-l-o-w-l-y

Single-digit, two-year growth rates reported for most titles

By Deedra Hartung

In this article.....

Discover what drivers are most likely to influence compensation for physician leaders as reported in the 2013 edition of the Cejka Executive Search and ACPE Physician Executive Compensation Survey.

The latest edition of the Physician Executive Compensation Survey reflects the reality of a slow economic recovery and the uncertainty of health care reform.

As self-reported by 2,364 physician executives, compensation grew an average of 7 percent between 2010 and 2012 across all titles. That two-year growth rate is essentially the same as reported in the 2011 survey (6 percent between 2008 and 2010) and was still well below the 12 percent two-year increase reported in the pre-recession reporting period from 2006 to 2008.

Will physician executive compensation ever regain the momentum enjoyed before the recession in this new post-reform era? The answer is not clear, but there are strong signals that:

• Pay will depend on organizational performance.
• Compensation will increase as the scope of physician leadership roles evolves.
• Demand for experienced physician leaders with management degrees will be reflected in compensation gains.

Because the survey is self-reported and non longitudinal, results are subject to a range of uncontrolled variables, especially for job titles with fewer respondents. However, a snapshot of median compensation and year-to-year comparisons for titles with at least 100 responses illustrates the acceleration in earning power over time for physicians at the C-level.

Chief executive officers reported median compensation of $410,000 for 2012 with a 48 percent growth rate over 10 years, while medical directors reported median compensation of $280,000 representing a 31 percent 10-year growth rate. In 2003, there was a 6 percent differential in the median compensation between CEOs and medical directors; that differential had widened to 46 percent by 2013.

Given the challenging nature of the economy — particularly as it would have influenced compensation paid in 2012 — it is not surprising that CEO compensation growth (4 percent) lagged behind that of clinical department chairs and division chiefs (11 percent).

The driving factors of CEO compensation are based in large part on financial performance and achievement of organizational (rather than personal) goals. However, among clinical department chairs and division chiefs, “financial performance” is cited by less than half (46 percent) of respondents as a factor in bonus compensation, and bonuses are awarded based primarily on personal performance (58 percent) rather than achieving organizational goals (42 percent).

New roles and earning potential

With the advent of health care reform and the drive toward clinical integration, roles for physician leaders have not only proliferated, they have broadened in scope as new titles are introduced. The 2013 survey indicates that these new roles may bring with them higher compensation potential, reflecting the growing importance of accountability for outcomes and emphasis on health care delivery transformation.

Small samples reporting in the emerging title categories required that roles with variable responsibilities be combined and presented challenges in delivering statistically valid comparisons. But anecdotal responses reveal key areas of commonality and emphasis regarding what is expected of these leaders.

For example, chief information officer/chief medical information officer respondents point out that there are key differences in their respective responsibilities, but
### Table 1
Two-Year and Ten-Year Comparisons of Median Compensation

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All Physicians Executives</td>
<td>2,364</td>
<td>$325,000</td>
<td>1,985</td>
<td>$305,000</td>
<td>$225,000</td>
<td>7%</td>
<td>44%</td>
</tr>
<tr>
<td>Chief Executive Officer / President</td>
<td>167</td>
<td>$410,000</td>
<td>166</td>
<td>$393,152</td>
<td>$277,800</td>
<td>4%</td>
<td>48%</td>
</tr>
<tr>
<td>Chief Medical Officer</td>
<td>517</td>
<td>$365,000</td>
<td>437</td>
<td>$343,334</td>
<td>$253,500</td>
<td>6%</td>
<td>44%</td>
</tr>
<tr>
<td>Clinical Department Chair / Division Chief</td>
<td>194</td>
<td>$377,000</td>
<td>195</td>
<td>$340,000</td>
<td>$250,000</td>
<td>11%</td>
<td>51%</td>
</tr>
<tr>
<td>Executive Director / Program Director</td>
<td>107</td>
<td>$296,665</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td>Medical Affairs, EVP, SVP and VP</td>
<td>147</td>
<td>$330,000</td>
<td>127</td>
<td>$315,000</td>
<td>$230,000</td>
<td>5%</td>
<td>43%</td>
</tr>
<tr>
<td>Medical Director, Service Line</td>
<td>143</td>
<td>$295,755</td>
<td>113</td>
<td>$275,000</td>
<td>*</td>
<td>8%</td>
<td>*</td>
</tr>
<tr>
<td>Medical Director</td>
<td>478</td>
<td>$280,000</td>
<td>473</td>
<td>$269,050</td>
<td>$214,000</td>
<td>4%</td>
<td>31%</td>
</tr>
</tbody>
</table>

*Title groupings changed.

### Table 2
C-Level Compensation: Two-Year Comparison

<table>
<thead>
<tr>
<th>Title and Description</th>
<th>2011 Median Compensation</th>
<th>2013 Median Compensation</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer/President (n=16)</td>
<td>$393,152</td>
<td>$410,000</td>
<td>4%</td>
</tr>
<tr>
<td>Chief Medical Officer (n=517)*</td>
<td>$343,334</td>
<td>$365,000</td>
<td>6%</td>
</tr>
<tr>
<td>Chief Information Officer/Chief Medical Information Officer (n=27)</td>
<td>$291,500</td>
<td>$315,000</td>
<td>8%</td>
</tr>
<tr>
<td>Chief Quality/Patient Safety Officer (n=27)</td>
<td>$307,500</td>
<td>$375,000</td>
<td>22%</td>
</tr>
<tr>
<td>C-Suite, Other (n+10)**</td>
<td>$376,285</td>
<td>$469,000</td>
<td>25%</td>
</tr>
</tbody>
</table>

* CIO and CMIO included 6 and 45 respondents, respectively.  
** C-Suite, Other included Chief Operations Officer (8), Chief Integration/Implementation Officer (5), Chief Administration Officer (3) or Chief Strategy/Innovation/Transformation Officer (3).
nearly three-quarters (71 percent) share a scope of responsibility that is “regional,” and more than half (55 percent) work for a health system — predominantly at the corporate/parent organization.

They are also more likely to have a master’s degree in business administration than all physician executives on average. In addition to “information management,” they are much more likely than other physician leaders to cite “stakeholder engagement,” “governance” and “transformation” among responsibilities associated with their position.

The highest median compensation and growth rate was reported

### Table 3

**Compensation Methods**

<table>
<thead>
<tr>
<th>Compensation Method</th>
<th>Response 2013 (%)</th>
<th>2013 Median Without Other Compensation*</th>
<th>Response 2013 (%)</th>
<th>2013 Median With Other Compensation</th>
<th>% Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hourly</td>
<td>3%</td>
<td>$259,377</td>
<td>1%</td>
<td>$300,000</td>
<td>16%</td>
</tr>
<tr>
<td>Hourly plus bonus</td>
<td>1%</td>
<td>$330,000</td>
<td>1%</td>
<td>$357,500</td>
<td>8%</td>
</tr>
<tr>
<td>Salary</td>
<td>20%</td>
<td>$280,000</td>
<td>9%</td>
<td>$280,000</td>
<td>0%</td>
</tr>
<tr>
<td>Salary plus bonus</td>
<td>28%</td>
<td>$325,000</td>
<td>33%</td>
<td>$364,000</td>
<td>12%</td>
</tr>
<tr>
<td>Stipend</td>
<td>3%</td>
<td>$320,000</td>
<td>1%</td>
<td>$359,500</td>
<td>12%</td>
</tr>
<tr>
<td></td>
<td>55%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Table 4

**Rates of Increase in Compensation Based on Years in Administration**

- Increase after 2 years
- Increase after 5 years
- Increase after 10 years
- Increase after 15 years
by the small but diverse group of C-Suite respondents gathered under the umbrella of “other.” More than two-thirds (68 percent) have greater than 10 percent of their compensation at risk (bonus compensation), and 61 percent of this bonus is based on achieving organizational goals, rather than personal goals.

In addition to “human capital,” they are also significantly more likely to cite “stakeholder engagement,” “governance” and “transformation” among responsibilities associated with their positions.

Rise in at-risk compensation

As noted earlier, CEOs have the highest risk/reward compensation profile, with organization-wide financial performance as the main driver of incentive compensation.
• 74 percent have more than 10 percent of compensation at risk in bonus or incentive pay.
• 76 percent of CEOs who receive a bonus as part of their compensation package report that 40 percent of their bonus is based on financial performance.
• 70 percent of their bonus compensation is based on achieving organizational goals.
• 60 percent of CEOs include “other income” as part of total compensation, derived from equity sources such as stock options, partnership distributions, pensions and/or deferred income.

The survey analysis differentiates the earning power reported by physician executives whose compensation includes “other compensation” in the form of stock options, partnership distributions, pensions and/or deferred income.

The percentage of respondents who reported that they earn these forms of “other compensation” rose to 45 percent in 2013 from 38 percent in 2011 (the first year this metric was tracked). Total compensation is generally higher for those with “other compensation,” than without.

### Scope drives earning potential

The consolidation and growth of health systems offer another path for physician leaders to expand their geographic scope of responsibility and earning power.

Respondents were offered choices to describe the physical location and geographic scope of operations of their organizations. Those selecting “multiple types of [location] areas” rose to 31 percent in 2013 from 21 percent in 2011, and this segment represented the highest median compensation for all physician executives.

Consistent with the 2011 report, more than half (54 percent) of all physician leaders indicated the geographic scope of operations for their organizations as “regional,” which also represented the category of organizational scope with the highest median compensation.

Respondents further defined the scope of their individual duties that revealed a significant shift. Having responsibilities for a local/single site dropped to 35 percent from 48 percent reported in 2011. Regional/multiple sites was selected by 48 percent of respondents in 2013, compared with 41 percent in 2011, and a new category of “divisional” was selected by 7 percent of the respondents.

Respondents with “interna-
tional” scope of individual responsibilities reported 38 percent higher median compensation than those with local/single-site responsibilities.

Hospital size (by number of beds) and organizational net revenue are also associated with higher median compensation. There is a 45 percent differential in median compensation between physician leaders at the smallest facilities (less than $10 million) and larger organizations (between $3 and $4.9 billion).

Notably, median compensation drops off a bit after the $5 billion mark, requiring a closer look at particular aspects of that segment, such as the sample size and the mix of titles reporting from these very large organizations.

Together, these findings are consistent with our experience that the pace of integration and system expansion results in greater demand for physician leadership to shoulder a broader scope of responsibility, with commensurately higher compensation.

Experience is rewarded

The survey tracks the two-year percentage gain in median compensation based on years spent in administration. The difference in median compensation between respondents with one to two years and those with 16 or more years has been relatively consistent and has varied no more than 5 percentage points, ranging from a 19 percent differential in 2005 to a high of 24 percent in 2009. In the 2013 survey, the differential was 21 percent, compared to 23 percent reported in 2011.

However, there was discernible shift this year in the rate of increase in compensation as physician executives add years of experience.

From 2005 through 2011, there was little or no growth in compensation after an executive has spent more than 15 years in administration. In the 2013 report — for the first time since 2005 — this rate of
increase did not drop as significantly for those with 16 or more years.

In an increasingly complex industry, the value of experience and need to encourage retention among veteran leaders is growing. This finding could reflect an emerging opportunity for physician executives to progress in earning power longer into their careers.

Post-graduate management degrees pay off

Findings from the 2013 survey reinforce that the path to opportunity and earning power for physician executives primarily lies with key post-graduate management degrees. The value of the degree appears to be influenced by the physician leader’s role in the organization:

- CEOs who hold an MBA reported a median compensation that is 28 percent higher than those who do not, up from a 6 percent difference in 2011.
- CEOs holding an MBA earned 17 percent more than CEOs holding an MMM.
- Chief medical officers (CMOs) holding an MBA reported median compensation that is 7 percent higher than those who do not, compared to a 14 percent difference reported in 2011.
- CMOs holding an MMM earned 11 percent more than CMOs holding an MBA.

Management training degrees become more significant at the C-level, with the MBA representing the most prevalent post-graduate degree.

Physician executives are hungry for opportunities to develop skills that traditionally are not honed in medical school. In 2013, respondents were asked to select the areas in which supplemental training has or would enhance their skills as an administrative leader.

The skill development areas most frequently selected were financial analysis (47 percent), strategic planning (39 percent), conflict resolution (31 percent) and project management (31 percent). These skills are also embedded in the advanced management courses, leadership institutes and development programs provided to physicians by forward-thinking organizations.

Charting your course

Armed with information shared by more than 2,000 peers, the course ahead requires physician leaders to evaluate not only their compensation goals, but their strengths and aspirations as it relates to influencing their patients, their peers, their organizations and their communities.

Uncertainty and risk are part of the “new normal.” But there is no question that there is an important and growing need for physicians who choose to embrace and cultivate a career in leadership.

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Progress Toward Accountable Care

The Affordable Care Act challenges health care organizations to develop more accountable, quality-driven delivery systems, that has led to the formation of Accountable Care Organizations (ACOs). ACOs are intended to manage the health of a defined population and to be held accountable and reimbursed based on measurable improvements in quality and patient satisfaction, plus reductions in cost.

As health care reform implementation has moved forward since the 2011 survey was published, the percentage of physician executives involved with an ACO has grown from 8 percent to 29 percent, with another 22 percent pursuing plans to create or participate in an ACO.

How to Learn More

ACPE members who completed the 2013 survey are eligible to receive a free copy of the 2013 compensation survey. Others may purchase the survey at a discounted member rate of $245 (regular price of $485) by visiting www.cejkaeexecutivesearch.com/surveys.

A complimentary copy of “Highlights of C-Level Findings” is available to all members by contacting Mary Barber at 314-236-4410 or mbarber@cejkasearch.com.