

Tyler's Tidbits

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A PUBLICATION OF *Tyler & Company*[®]

Providing News and Information to Help Corporate Decision-Makers



MARKET MEMO

Executive Compensation for Healthcare Executives ... Your Next Headache!

J. Larry Tyler



As if nonprofit healthcare executives didn't have enough to worry about, a new problem is heading their way, and now is the time to prepare for it. Executive compensation in public companies has been in the news for two years now as stockholders, boards, and activists have battled over compensation for CEOs. Sitting here in Atlanta, we have been able to watch a few controversies firsthand. The most recent was the departure of Home Depot's CEO, Bob Nardelli, with an exit package of \$210 million. Pay controversies such as these have raised public awareness of executive compensation to an all-time high. Add to this the concept of transparency and things get even dicier. For example, a number of companies are now putting their executive compensation programs to a vote of the stockholders, an unheard-of practice in the past. This growing awareness of CEO compensation in the for-profit arena is transcending to the nonprofit sector, especially since more nonprofits have a special status in the minds of the public. Enter the IRS.

The Internal Revenue Service has now decided to focus attention on the Form 990, the informational return prepared by all tax-exempt (nonprofit) organizations annually. Its efforts to reign in abuses in compensation are fully revealed on its Web site

(www.irs.gov), which makes for interesting reading. The IRS just released its report on a study involving approximately 2,000 tax-exempt organizations, many of which were healthcare oriented. Regarding executive compensation, out of 50 public charities reporting effective compensation more than \$250,000, none initially filed schedules detailing the compensation paid to officers or employees. What the Web site doesn't reveal is that the IRS is now reviewing 990 filings from these organizations for comparison with the individual executives' 1040 Forms. These guys mean business. A current study of 880 hospitals will be released soon, according to *Modern Healthcare*.

Complicating things further is the specter of intermediate sanctions—IRS Code 4958 was passed by Congress in 1996 and is relevant for different reasons today. Originally, "intermediate sanctions" was designed as an alternative to the removal of tax-exempt status. One of the provisions of this code includes an excess benefit tax against a "disqualified person" who receives improper personal gain. (And, possibly, against the organizational manager who approved the transaction, i.e., the compensation committee or possibly the board.) A "disqualified person" is any person who was in a position to exercise substantial influence over the affairs of the tax-exempt organization. The ramifications of intermediate sanctions are fairly severe. They include a return of the excess amount of compensation plus a 25 percent tax. They also include

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Tyler & Company's Southwest Practice is Thriving!



It's now been eighteen months since Tyler & Company established its Austin office, and business is booming in the Southwest practice. The Southwest Regional Leadership

Advisory Board, established soon after the Austin office opened, helped the practice get off to this great start. Southwest Regional Advisory Board members include healthcare executives and human resources officers, outplacement experts, and Association advisors from throughout the Southwest. The knowledge and resources this diverse group of healthcare experts offers Tyler & Company have been invaluable. In fact, because of the success of this practice, another Consultant will soon be added to the Austin office.

Some of the notable searches performed by the Southwest practice include:

Corona Regional Medical Center

Corona, CA
(Universal Health Services, Inc.
King of Prussia, PA)
Chief Executive Officer

Memorial Hermann Healthcare System

Houston, TX
Memorial Hermann/TIRR CEO

St. David's HealthCare Partnership

Austin, TX
Partnership Controller

St. Joseph Regional Health System

Bryan, TX
Director, Internal Audit
Director, Patient Financial Services

Texas Children's Hospital

Houston, TX
Director, Supply Chain Management

see Southwest Practice, page 2

ASK A CONSULTANT



Stephanie Underwood

I recently contacted a retained executive search firm that I have had a relationship with in the past. I was interested in applying for two different positions listed on the firm's Web site. However, when I contacted the search consultant to express interest, she told me I must choose just one position—that is, the firm could not introduce me as a candidate for both positions at the same time. This doesn't seem fair.



The idea of presenting a candidate on two searches simultaneously is called “parallel processing.” And, while it might not seem fair from the candidate's perspective, think about it from the client's perspective. A retained executive search firm's first loyalty and responsibility are to the client organization that has hired the firm. Each client must be allowed to fully process each candidate the search firm presents, and the search firm must stand behind each client/candidate pairing until the client concludes its evaluation process. Allowing a candidate to be an active participant in more than one search process would effectively transfer the search firm's loyalty from client to candidate.

Obviously, every candidate must look out for his/her own best interests. The first thought that comes to mind regarding your situation is this: it is not very common to find a candidate who is an ideal fit for one position and also perfect for another. A thorough and honest discussion with the search consultant should lead to a conclusion on which opportunity (of the two offered through one executive search firm) is the closest match to your skills, background, and preferences. Guidance from the search consultant on these matters is certainly something you should expect. Second, since any single retained executive search firm should not be offering more than one opportunity to a candidate at a time, it is certainly appropriate for every

candidate to pursue opportunities simultaneously with different search firms.

It has surprised me over the years that clients never ask about Tyler & Company's policy on parallel processing before we are awarded a search. (Tyler & Company adheres to the AESC—the American Association of Executive Search Consultants—policy on parallel processing faithfully. That is, we do not process candidates in a parallel fashion unless the two clients involved know about the situation and agree, and this is only rarely warranted!) Clients certainly expect their retained executive search firm to represent them to the best of its ability, and I believe this includes not providing candidates recruited for one client to another simultaneously. We know that good candidates often have multiple options, and good candidates are sometimes lost to other opportunities. But losing a candidate because your own search firm—retained to represent you!—had divided loyalties does not seem ethical to me. For this reason, before hiring a retained executive search firm, I encourage clients to ask about the firm's parallel processing policy. **T**

Stephanie Underwood is a Senior Vice President for Tyler & Company, based in the firm's Philadelphia office. She can be reached at 610.558.6100 or via e-mail at sunderwood@tylerandco.com.

Do you have a question for a Tyler & Company consultant? If so, please share it with us. Questions answered in *Tidbits* will appear without reference to your name or organization. Please send your questions to kmazzuckelli@tylerandco.com or fax to Katie Mazzuckelli at 770.396.6693. (Please indicate that you are submitting an item for “Ask a Consultant.”)

Southwest Practice from page 1

The best way to build a business is to just plain do the best retained executive search work in the industry. Tyler & Company does just that, and the success of its methods is reflected in the rapid growth of the Southwest practice. **T**

Comments about this article can be directed to Nelson Mann, Vice President in Tyler & Company's Austin office who also heads the firm's Southwest Practice. Mann can be reached at 512.266.8739 or via e-mail at nmann@tylerandco.com.

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a 10 percent tax on the amount assessed against the manager. Directors and Officers insurance cannot be used to reimburse this tax.

While this is all threatening, Congress gave organizations what seems to me to be a reasonable and practical way to guard against abuse and avoid IRS sanctions. It is called the “Rebuttable Presumption Procedure.” Basically, an organization must do three things to avoid trouble:

- 1 Have an independent body govern compensation issues.**
- 2 Rely on comparable data.** Comparison should be among:
 - Like services;
 - Like enterprises (whether taxable or tax-exempt);
 - Like circumstances.
- 3 Provide adequate documentation.**

While most organizations may not have any issues with excess compensation, it is now a wise and prudent step to engage a compensation consultant to provide oversight and especially to ensure compliance with IRS rules. Below are some of the compensation consultant firms that Tyler & Company regularly recommends; there are others that can also help with this issue:

Sullivan Cotter

Bill Quirk—678.281.7000

Buck Consultants, an ACS Company

Tom Flannery, PhD.—617.275.8030

Mercer Human Resource Consulting

Jose Pagoaga—404.442.3517

Yaffe & Company

Rian Yaffe—410.494.4100

By the way, can you name the highest-paid nonprofit executive? Dick Grasso, who made \$189 million during his eight years at the New York Stock Exchange—a tax-exempt institution at the time Grasso earned his windfall. Grasso left the NYSE in the fall of 2003, and the following year, Elliott Spitzer, Attorney General of New York City, sued him for \$100 million in excess earnings on behalf of the city. A judge recently ruled against Grasso, and reports say he may have to repay \$100 million. Grasso is appealing; he says his current legal bill is \$100 million. Go figure! **T**

Comments about this article can be directed to J. Larry Tyler, FACHE, FAAHC, FHFMA, CMPE, President of Tyler & Company, based in the firm's Atlanta office. He can be reached at 770.396.3939 or via e-mail at lt Tyler@tylerandco.com.



WORTH NOTING

Tyler Elected to AESC Americas Council

J. Larry Tyler, FACHE, FAAHC, FHFMA, CMPE, President of Tyler & Company, was elected to be a member of the Americas Council of the AESC for 2007. AESC, the Association of Executive Search Consultants, is the worldwide professional association for the retained executive search industry. The Americas Council is part of AESC's governance structure with responsibility for North and South America. Tyler is also a member of the Council of the Americas Membership Committee. As part of his responsibilities, Tyler first met with the Council during the AESC Americas Conference at the Harvard Club in New York, March 7-8, 2007. **Dennis J. Kain, FACHE**, Executive Vice President and

COO, Tyler & Company, also attended the Americas Conference.

Tyler & Company In-and-Around the Industry . . .

HLNDV—Patti Hoffmeir, CHC, Senior Vice President; **Dennis J. Kain, FACHE**, Executive Vice President and COO; **Roberta Levine**, Senior Consultant;

Stephanie Underwood, Senior Vice President; and **Bill Wilson**, semi-retired Vice President; attended "ACHE Breakfast with the Regents," an event hosted by the Healthcare Leadership Network of the Delaware Valley in Philadelphia on February 22, 2007. HLNDV is a professional organization for healthcare executives; it is affiliated with the ACHE.

PENN—Stephanie Odorisio, Research Associate, attended "Network Night," an event sponsored by the University of Pennsylvania's Office for Organizational Dynamics. This annual event for graduate students in the Organizational Dynamics Program was held on the University of Pennsylvania campus in Philadelphia, April 11, 2007.

ACPE—George Linney, Jr., M.D., CPE, FACPE, Vice President, will attend the Annual Spring Institute held by the American College of Physician Executives in Orlando, May 5-10, 2007.

CHA—Nelson Mann, Vice President, will attend the Annual Catholic Health Assembly in Chicago, June 17-19, 2007.

CLIENT KUDOS

Client: The Children's Hospital of Philadelphia Philadelphia, PA

Steven Altschuler, President of The Children's Hospital of Philadelphia, was a featured source for *BusinessWeek's* September 25, 2006, cover story. The article, "What's Really Propping up the Economy," highlighted the growth in healthcare industry jobs in the past five years. CHOP's situation mirrored that throughout the industry. Altschuler reported a two-fold increase in full-time jobs at CHOP since 2001. Over the same time period, there was virtually zero growth in jobs in the non-healthcare business sector in Philadelphia.



SIGHTINGS

Marcia Champagne and J. Lee Perrett Senior Vice Presidents, Atlanta

Champagne and Perrett offer career and search advice in the column "Positioning" published monthly in *Atlanta Hospital News*. Each consultant authored the column in alternating months as follows:

- Perrett, "Community Involvement Helps Promote Your Institution and Your Career," March 2007.
- Champagne, "How to Select and Use Your References," April 2007.
- Perrett, "Five Mistakes You Don't Want to Make in an Interview," May 2007.

Patti Hoffmeir, CHC Senior Vice President, Philadelphia

Hoffmeir's article, "Are Search Committees Really Searching?" (*Academic Medicine* 2003; 78: 125-128), was a key source for a recent feature article in the AAMC's Web-based publication, *Faculty Vitae*. The article, "Seven Fresh Ideas to Help Leaders for Academic Searches Succeed,"

by William T. Mallon, Ed.D., was published in the winter 2007 edition of this Association of American Medical Colleges educational vehicle.

Dennis J. Kain, FACHE Executive Vice President and COO, Philadelphia

Kain moderated a panel of regional speakers at the Thirteenth Annual Healthcare Symposium sponsored by the University of Scranton's Student Chapter of the ACHE. The symposium, titled, "Our Changing Healthcare: Impact of the Medical School & Hospital Consolidation," was co-hosted by the Northeastern Pennsylvania chapter of HFMA and was held at the University of Scranton on May 3, 2007.

George Linney, Jr., M.D., CPE, FACPE Vice President, Charlotte

Linney served as a member of the teaching faculty for the American College of Physician Executives (ACPE)-sponsored tutorial offered to physician executives striving to earn "Certified Physician Executive" (CPE) status, Tampa, February 25-March 1, 2007.

Nelson Mann Vice President, Austin

"Networking Techniques," a presentation made at the Texas Hospital Association's Executive Networking Meeting in Austin, February 2, 2007.

J. Larry Tyler, FACHE, FAAHC, FHFMA, CMPE President, Atlanta

Tyler writes a bimonthly column in *Atlanta Hospital News*. In his column, "Hello, My Name Is . . ." he interviews healthcare leaders in the metropolitan Atlanta area. In recent columns he interviewed:

- **Kirk Wilson, FACHE**, President and Chief Executive Officer, Saint Joseph's Health System. (February 2007.)
- **Charlie Scott**, President and Chief Executive Officer, Henry Medical Center. (April 2007.)

Tyler was featured in "Co-worker Compatibility: Why Managers Should Care," authored by Tegan Jones. *Talent Management Magazine*, February 2007.

Tyler was quoted in, "Employment Outlook: Top Fields for Job Hunters," authored by Sarah E. Needleman. The article appeared on *WSJ.com's CareerJournal.com*,

the Executive Career Web site sponsored by *The Wall Street Journal*, January 22, 2007.

"Hiring Right and Avoiding Wrong: Keys to Successful Executive Teams." A presentation to ACHE-member attendees during the American Hospital Association Annual Membership Meeting, Washington, DC, May 6, 2007.

Tyler made two presentations to students in the Executive MSHA program at the University of Alabama, Birmingham on May 6 and 7, 2007: "Governance 101" and "Career Development." The Executive Master of Science in Health Administration program is comprised of students who all have at least five years of healthcare clinical and/or managerial experience. Tyler is part of an elite group of outstanding nationally and internationally recognized expert faculty for this program.

"Moving On Up to the CEO." A presentation at the Healthcare Financial Management Association's Annual National Institute (ANI) in San Diego, June 24-27, 2007. This is the fifth consecutive year that Tyler has been asked to make this presentation at ANI.

SEARCH SUPERLATIVES

“The Medical University of South Carolina has been fortunate in identifying Tyler & Company as its primary retained executive search firm. Over the past several years we have engaged Tyler & Company in some very complex and competitive searches. Our experience and success in recruiting outstanding candidates together has been exceptional. Tyler & Company’s recruitment process, along with their support team, has proven to be invaluable—and in some searches, executed in rapid turnaround time. As the principle staff person for leadership searches at our institution, it has been a pleasure to work with the superb professionals from Tyler & Company. The results of our successes have yielded visionary leadership for our institution; these leaders will be central to our pursuit of excellence.”

Beverly Carson, Assistant to the Dean, Medical University of South Carolina, Charleston, SC.

Tyler’s Truisms

THE 50-50-90 RULE

Anytime you have a 50-50 chance of getting something right, there is a 90 percent probability you will get it wrong.

ORACLE ADVICE

A person who smiles in the face of adversity probably has a scapegoat.

FOOL’S DICTUM

Nothing is foolproof to a sufficiently talented fool.

STRAGGLER’S LAMENT

The things that come to those who wait will be the scraggly junk left by those who got there first.

TECHNOLOGY LAW

Tell a man there are 300 billion stars in the universe, and he’ll believe you. Tell him a bench has wet paint on it, and he’ll have to touch it to be sure.



WELCOME TO OUR NEWEST (OR RETURNING) CLIENTS

Abington Memorial Hospital

Abington, PA
Vice President, Marketing and Communications

AtlantiCare

Egg Harbor Township, NJ
Corporate Director, Imaging Services
General Counsel

Crozer-Chester Medical Center

Upland, PA
Assistant Vice President of Patient Care Services

Culpeper Memorial Hospital

Culpeper, VA
Senior Vice President, Financial Operations (Chief Financial Officer)

Erlanger Health System

Chattanooga, TN
Director of Revenue Cycle Services

Harris County Hospital District

Houston, TX
Chief Nursing Officer
Chief Nurse Executive

Hunterdon Medical Center

Flemington, NJ
Director of Facilities

Jupiter Medical Center

Jupiter, FL
Executive Director, Foundation

LifeBridge Health

Baltimore, MD
Director, Strategic Planning

MidState Medical Center

Meriden, CT
Hospitalist Medical Director

Mount Sinai Medical Center

Miami Beach, FL
Vice President, Human Resources

Seton Health System

Troy, NY
Chief Operating Officer

St. Francis Healthcare Services

Wilmington, DE
Vice President, Operations

St. Francis Medical Center

Trenton, NJ
Chair, Department of Surgery and Director, General Surgery Residency Program

University of Mississippi Medical Center

Jackson, MS
Director of Quality and Clinical Systems Improvement



RECENTLY CLOSED SEARCHES

Bureau of TennCare

Nashville, TN
Deputy Chief of Long Term Care Operations
Associate Medical Director

Children’s National Medical Center

Washington, DC
Director, Facilities and Engineering

Delaware Healthcare Association

Wilmington, DE
President and Chief Executive Officer

MCG Health, Inc.

Augusta, GA
Director of Internal Audit
Director, Corporate Compliance and Privacy

Medical Reimbursements of America, LLC

Franklin, TN
Sales Development
Regional Manager

Presbyterian Healthcare Services

Albuquerque, NM
Vice President, Human Resources Operations

Shore Memorial Hospital

Somers Point, NJ
Vice President, Marketing and Public Relations

Southeast Georgia Health System

Brunswick, GA
Director of Human Resources

St. Charles Hospital

Port Jefferson, NY
Director, Brain Injury Services

Virtua Health

Marlton, NJ
Medical Directors, Operations, for Marlton, Voorhees, and Mount Holly
Vice President and Chief Operating Officer, Post-Acute Services

Washington Hospital Center

Washington, DC
Senior Vice President of Nursing

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