How Much Is Enough?

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Compensation
How to pay workers appropriately
Part II

Last month, I discussed one type of compensation I call "fair" or "market pay". A second type is what I call "full pay." I define "full pay" as "compensation that fully reflects the total value the person brings to the position and to the organization." Whereas "fair pay" represents the basic market rate of performing the job, "full pay" represents the fair pay plus the chance to share in a "surplus' program which is rewarded as a "premium pay" for the extra value, over and above the expected role, the employee brings to the job. Since the "premium" is paid over and above regular compensation, it must meet two criteria in order to be completely fair to both employee and employer. The first criterion requires the employer and the employee to clearly define and show how the employee has added value above and beyond the normal job. This value should be measurable in the form of more value for the business (i.e. more patients, more business, higher quality of service, more efficiency within the organization, cost cutting, income generating, etc.) Once the value added has been defined, the second criterion is to attach a premium pay to the value based on the value added to the job and the business. Finally, the business must reserve and allocate the extra money to pay the premium.

Now that the roles and responsibilities of each team member have been clearly defined and matched to a fair market pay for those individual jobs and skills, I will discuss how fair and full pay is allocated to the employees. Employees will be paid a "fair pay" compensation package based on completing the basic performance standards of their "Job Description." This "fair pay" should represent what the skills in this job are worth in the marketplace, or the "market worth" of this work. Our goal as an organization is to help you always maintain a "fair pay" compensation package, and as much as possible help team members qualify to participate in a "full pay" compensation package.

This "full pay" compensation package includes the basic "fair pay" package plus the chance to share in a "surplus" program, which will be rewarded beyond the normal pay schedule. Eligibility to share in the "surplus pool" will be measured by the degree each member performed above and beyond the normal expected performance standard. This "surplus pool" consists of profits that may be available as a result of the team's performance in excess of the norm, which should result in the practice generating profits in excess of the norm (or the normal budget for the year necessary to cover all expenses of the practice).

Qualification for the "full pay" compensation package involves a two-part evaluation:

1) Each member of the team will grade themselves and their peers according to the performance standards of each member's "Job Description."
2) Each member of the team will grade themselves and their peers according to the "Standards of Conduct" determined for each position.

Two scores will be given, one for Job Description, and one for Standards of Conduct. The final score will be an average of these two scores. (Keep in mind, each team will need to decide how much weight each score is given to the final score and if certain people or standards are weighted more heavily.) An independent accountant will tally the final score to assure no partiality.

The end result will be either a premium or a discount to your fair pay scale. A discount means that overall you performed both in your job and in your standards of conduct below the acceptable standard. A premium score means that you performed above the acceptable standard in your job and conduct.

The scores will be taken twice annually, in November and in May, with the results applying to the next half of the year's compensation (Nov applies to Jan-Jun, May to Jul-Dec). Fair pay will be adjusted accordingly in that period; with surplus paid quarterly to the extent it is available.

Here's an EXAMPLE:

If an employee's pay rate is $12.00/hour, working 30 hours a week, for 50 weeks per year, the pay for the year is $18,000. This represents the wages part of the "fair pay" compensation package. (The remainder of this "fair pay" package will be the other company paid benefits determined by the company).

The "full pay" will be additional compensation of 1% to 5% of the salary quarterly. (The minimum and maximum % of additional compensation will need to be discussed per team and owner). In this case, the employee could receive an extra 4% to 20% of his/her salary annually, by participating in the "full pay" plan. However, if the employee receives a score below the performance standard, the "full pay" account could also be reduced by 1% to 5% quarterly. If the account goes negative, the employee would have to earn the deficit back before participating in the quarterly payout from the "surplus pool."

So the employee stands to receive additional pay of 4% to 20% annually, which based on wages of $18,000 could make an additional $720 to $3,600. This payout may be in the form of additional income or company paid benefits (additional retirement contribution, CE, insurance or other benefits).

So these are the basic tenants for accomplishing a company plan for clearly defining jobs and standards of performance and conduct.

Warning: This is a significant undertaking that involves every team member's commitment to making the process work. But once there is a formula to measure work performance and conduct, the whole system of compensation, setting wages and paying "bonuses" becomes a nonemotional math problem with the grading fairly distributed amongst all members on the team (doctor included). The key is to create the plan for each person, clearly define what is expected and how each member will be graded, then commit to a grading schedule twice annually. And finally, keep the commitment to pay out the promised amount as surplus allows.

The one key item left out of the example is that once every member has a score, it is simple to come up with an exact dollar amount that each person should receive in the coming period. If the team scored a perfect score then every team member would be eligible to have their pay raised the designated percent annually in the coming 6 months. Obviously to make it happen, the surplus pool must have the necessary money to pay it out. And the only way surplus accrues is to have a practice performing well above the normal standard. If the scores come out to a total staff salary of $100,000 receiving a 10% surplus in the coming 6 months, this breaks down to $5,000 payout each quarter. If the funds are there, the full payout could occur. If not, each employee is paid a pro-rata based on how much is available. So if there is $4,000 available to pay $5,000 need, each member gets 80% of the deserved extra pay.

At year-end, any surplus or deficit is washed away, whether negative or positive. This allows a person who had a tough year to make new commitments and get a good start on the New Year. And it relieves the practice from accruing unrealistic excess compensation due. This is the desired method of “pay for performance.”

The second pay method is the less desirable, least controllable method called the “pay per supply/demand.” This means the market forces set the pay rate. If there is a shortage of good people to fill a position, and the company is desperate for a body in the office, when an applicant comes along, the company may have to pay the “going market rate” regardless of the skill set or performance of the applicant. An example well known to the dental community is hiring a temporary when the business is in a pinch…the temp may or may not be top quality, but the company will pay top quality price or more than what it would cost to hire someone to fill the position permanently. This is called paying a demand/premium. This is the worst position to be in. Another example is hiring a hygienist (or others for that matter) that may or may not meet the needs of the company, but may be the only available hygienist to answer your ad. Most practices have lived both of these examples.

The key is to create within the business a “performance pay” system that attracts and keeps top-notch people, with good skill sets, who over time add value to the business and want to stay because they are well rewarded in return. This synergy cannot be bought; it must be earned over time with the efforts of a well-balanced team. If the performance pay plan works, placing ads in the classifieds and looking for good people in tight markets will be some thing of the past. Obviously, the periodic need for temporary help or a replacement will come up, even in the best practices, but it will occur much less with happy employees who feel good about the long-term career prospects in the organization.

Is your practice market-driven or company-driven when it comes to the way the workers are paid? Are they happy? Are you happy? If you answered yes to both, you probably have a company-driven plan that is working. If so, I’d love to hear about your successes to add to my base of knowledge about this very complex and complicated process of valuing people’s “work worth.” If you have high turnover, low employee retention or loyalty, and high frustration and cost of personnel management, you likely have a market-driven pay program that responds to filling positions with supply/demand pricing and results. If this is the case, you may consider how much it costs you annually to advertise, interview, hire, train, lose and replace an employee. Include all actual paid costs, your time, and your employees’ time to get this person up to speed.

And this doesn't include the "cost of turnover" that goes beyond dollars and touches your other employees, your patients, and yourself.

Then consider how much you would be willing to invest in creating a company-driven pay for performance program, where employees are clear on their job duties, their expected levels of performance, and their expected reward for their work, both in "fair pay" and "full pay" compensation. You will be amazed at what this investment of time, energy and money will return to you in the form of clarified boundaries of work, clearly out-of-balance jobs, and easily defineable areas of improving your service and productivity, not to mention profitability.

Expect this process, if begun from scratch, to take at least 6 months to develop, another 6 months to test and the second year to really begin to see benefits in terms of better job performance, better job fulfillment, higher levels of productivity and profitability, and ultimately fully functioning "full pay" being done from a well-funded surplus pool.

In the next few issues, we'll talk about how to create a budget formula that shows each month how much is in the surplus pool. This must be carefully designed so *all* related practice expenses are paid in full before any surplus occurs. Until then, be thinking about your current compensation system. To get a clear picture on your employee's perspective, I will provide a questionnaire, which they can fill out in next month's issue. It would be very helpful for the doctor/owner to complete the same questionnaire, as an employee, not as owner or employer.

We will also talk about designing a compensation package for the doctor that incorporates "fair pay" standards and "full pay" standards in the three primary roles the doctor plays in the dental practice, including "producer" and "manager/leader" and "investor." You may be surprised about how well you are or are not being compensated for the value you bring to your own organization in these three roles.

Employee Questionnaire:

1. As a worker, are you satisfied with your pay? Yes___ No___

2. List other ways you are compensated besides pay (i.e. company paid benefits)?

3. What is the total cost of your position in the company (i.e. total dollars spent by the business to have you as an employee)? $_____________(per year)

4. List all of the ways you would change your compensation package to make it ideal. And if necessary, what are you willing to do to make that change happen?

5. When all is said and done, if you were to be evaluated by your overall performance and what you bring to this job, and to the company you work for, would you say you are ___ underpaid, ___ fairly paid, or ___ overpaid for your work? If under or overpaid, by how much? $___________/year

6. What would your ideal compensation package cost the company? $_________/yr.

7. Is your job clearly defined so you know what is expected of you? ___ Yes ___ No

8. Do you have a written copy of your job description, duties and expected level of performance in each area? ___ Yes ___ No If you do not have one in place, write down your job description, duties and what you believe is expected of you. Give an indication of how much time you spend doing each main area of work responsibility (list this in terms of hours per week, per month, or % of your job).

9. Is your performance clearly evaluated so you know how well you are or are not meeting the expectations of your employer? ___ Yes ___ No And if yes, how often is this performance evaluated? ___ monthly ___ quarterly ___ annually

10. If you were to go get another job today, would your compensation package likely be __ more __ less or __ the same as you are receiving in your current position?

11. If you were fired and had to get another job, would that replacement job likely bring you __ more __ less or __ the same level of job fulfillment and satisfaction you have in this job today?

12. What is keeping you in this job?

13. What would make you leave this job?

14. Are you the best possible person to fill this job? ___ Yes ___ No If you are not the best you could be, what would help you become elevated to be the best possible person for this job (this might include training, education, direction, rules or guidance, shifting roles and responsibilities, giving up or taking on tasks, changing the way you do things, revising the use of your time)? Please be as thorough and specific as you can in answering this question, assuming that nothing you say would be an unreasonable request in helping you become the best you can be at this job, and assuming that if resources are necessary to make that possible, they will be made available (resources of time, energy, money).