

Computing Compensation

Paying employees fairly and keeping pace with both the competition and internal salary ranges is critical to retaining quality people. How to be equitable and squash the rumor mill.

Dave Bennett was working in his Vancouver, Washington, office on a rainy, spring day when one of his key employees, an x-ray technician with seven years with the practice, came in and shut the door. “I was talking with a colleague across town,” she began hesitantly, “and she’s making a lot more money than I am for the same job.” With the employee’s concurrence, Bennett took careful notes.

Bennett, the administrator of [Rebound Orthopedics](#), a 20-physician orthopedic and neurosurgery practice with more than 120 non-physician employees, was nonplused. “I thanked her for coming to me and told her that I’d get back to her once I had a chance to investigate,” he reports.

The priority Bennett quickly assigned to the person-

nel matter reflects a widespread concern in the industry. Overhead gobbles up nearly 60 cents of every revenue dollar in a family practice, according to the American Academy of Family Physicians, and salaries constitute the biggest chunk of that pie, often 25 to 35 percent of net revenues. Yet a practice can only thrive in today’s slash-and-burn marketplace with well-trained, experienced employees. How does a practice determine compensation levels that are fair, but also allow for adequate physician compensation at a time when reimbursements have been cut to the bone?

Surveying the land

The first step to determining fair employee compensation is to review the major national job surveys, say most experts. “There are plenty of surveys out there that practices can tap into,” says Robert Erra, the presi-



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dent of [Management Science Associates](#) (MSA), a division of Clark Consulting-Healthcare Group in Minneapolis, Minnesota. While the survey conducted by the Medical Group Management Association ([www.mgma.com](#)) is considered the gold standard for physician and other professional salaries, MSA also surveys technical and professional jobs in health care and reports them on a regional basis. Local affiliates of MGMA supplement the national reporting with regional and even city-specific data. The Professional Association of Health Care Office Management ([www.pahcom.com](#)) also conducts salary surveys.

“These surveys are complementary,” Erra says, “in that if you think about what a physician gets paid, whatever’s left is overhead. You need to get a good idea of what the support staff costs to have an idea of what a practice will be able to keep for every dollar billed.”

Compensation surveys are done annually, so they reflect market movement by job category. They also provide entry level, mid point, and percentile rank-

ings, to make it easier to determine salary ranges. Typically, an entire range will move approximately 2 to 5 percent every year, says Erra, based on cost of living alone. Due to the economics of smaller practices, it is not uncommon for a new hire to come in at the hire-in rate and then receive pay increases based solely on cost of living.

Market surveys do not have to be exhaustive, but you should at least know what some of your competitors are paying for like positions, adds Phil Armstrong, the president of PWA and Associates, Inc., a group practice management consulting firm in Ridgefield, Washington. “Find out what the hiring-in wages are, not what their long-term employees are being paid.”

Salary ranges for hospitals are easily obtained. While hospitals are often a group practice’s stiffest competition for personnel, both Armstrong and Erra point out that the preferred hours of a group practice allow for a 15 to 25 percent discount from hospital wages.

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Maintaining equity

One of the key issues in effectively compensating employees is equity. "We try to be very consistent and fair with our employees," says Jonathan Seidenberg, an ophthalmologist in group practice with Seidenberg Protzko Eye Associates in Havre de Grace, Maryland. "Any inconsistencies will be seen by other employees as a problem and will cause dissent and demoralization."

Dave Bennett, the practice administrator in Vancouver, viewed his employee's complaint about her salary in a similar light and consulted the regional and city-wide pay scale surveys, then made calls to the local medical society and to colleagues. Background data in hand, he called the administrator of the practice that was ostensibly paying their x-ray technicians more and found that the report was untrue. He met again with his employee and explained that their own practice was at the leading compensation edge for her position. The employee left satisfied that Bennett had taken her complaint seriously. "We want to pay as well as any other organization," Bennett says. "If what an employee brings to us about higher compensation elsewhere is true, then that's been a great source of information and we'll adjust our scale upward for that position."

Compensation today is a more complex calculation than it was a decade ago. Insurance coverage, for example, is coveted by potential employees, as are retirement benefits. Ample vacation time is also attractive, but in today's frenetic world, so is personal time off to attend to the challenges of balancing family needs with job expectations.

Homing in on the range

Part of the difficulty with administer-

ing compensation is how to set ranges within job classifications and then use them consistently to benefit employees, while at the same time improving practice efficiency.

Most practice administrators try to establish a range of six to 10 steps, says Armstrong. Steps within the range should allow for at least a cost-of-living increase, but are usually set higher, often based on a pre-set percentage of profits. Ranges are reconfigured annually, or semi-annually in fluid markets, and are anchored by the hiring-in rate and top rate for that job in the specific geographic market.

Most practices nationwide link wage increases within the pay scale steps to performance. Seidenberg's small ophthalmology practice, for example, has established job descriptions. "We tell employees up-front how they will be evaluated," he says. "We group positions and review employees on a rotating basis throughout the year, using a simple evaluation form. Employees also self-evaluate."

Bennett's practice takes evaluation one step further, developing individual goals for each employee, and then linking any raises to their achieving those goals. Rebound Orthopedics divides a 4-percent profit pool among its employees, some receiving as high as 8 percent, others no raise at all. And, like most savvy practices today, they handle their top-of-scale employees differently.

"We give these employees a bonus, rather than a salary increase, so that their base salary doesn't go up," he says, which would artificially skew the scale for that position out of the market range. "But," cautions consultant Erra, "be sure to remind those employees that there is no guarantee they will get a bonus in subsequent years."

In many markets, the economics of sup-

ply and demand have pushed scales up so quickly that practices have not had the luxury of worrying about employees reaching the top of their scales. "Medical assistants in our area are in high demand, so the scale keeps going up due to market pressures," says Bennett. "We haven't had to worry about employees getting maxed out at the top and not getting any more increases."

Non-cash incentives

Given the frantic pace of life in America, many employees assign great value to non-cash incentives, although any incentive program incurs costs for the practice. Non-cash incentives can be extra days off but are limited only by imagination, according to practice administrators.

"We go to great lengths to recognize employees," says Bennett. "If someone has done something really exceptional, we'll sometimes give them a small bonus. We give dinner out, coffee vouchers, lunches, breakfasts."

Rebound employees are also recognized for patient service in a monthly newsletter. "We just celebrated going fully electronic with our medical records and digital with our x-rays, so we gave everyone in the practice a cash bonus at a luncheon and put a full-page thank-you ad from the physicians to the staff in the local paper." These activities are a potent tool for employee morale and productivity, Bennett says.

Across the country, smaller practices like Seidenberg's try to accommodate non-cash incentives, too. "We surveyed our employees and they told us extra vacation or time off was most highly valued," he reports. "We also offer retirement benefits and pay for each employee and her spouse to have time with a

A Dozen Dos and Don'ts

DO



Closely monitor the market, especially for in-demand specialties. Talk informally with colleagues at meetings, call other practices when you're hiring, and read the latest salary surveys.

Connect with local training programs. Maintain contacts with community colleges, which can be an important source for getting x-ray techs or medical assistants. Provide internship opportunities, so you're training potential employees and can recruit them into your organization.

Evaluate employees every day. Give praise when appropriate, give constructive criticism when necessary. "It should never come as a surprise when someone receives a less-than-favorable evaluation," says Philip Armstrong, the president of PWA and Associates, Inc., a group practice management consulting firm in Ridgefield, Washington.

Expect quality staff for competitive wages. Have a system in place to remediate, and possibly terminate, under-performers.

Consider a mentorship program. Often new hires feel awkward working with more experienced employees. A formal mentorship program helps participating employees and the broader office morale.

Establish six to 10 annual pay-scale steps before an employee maxes out for that position. After that, cost-of-living increases, bonuses, and incentives will boost that employee's pay.

DON'T



Let pay scales become disjointed. This can undermine the entire foundation of your personnel management.

Pay more than what a job is valued, based on the job's requirements. A well-structured compensation plan enhances your ability to recruit and retain employees. "The real advantage that office practices offer employees is an 8-5 job," says Robert Erra, the president of [Management Science Associates](#) (MSA), a division of Clark Consulting-Healthcare Group in Minneapolis, Minnesota. "The work environment is going to be better than in other settings, so you just need to be fair and competitive."

Let inequities creep into your system. "Inequities undermine morale and then you have attrition," says Dave Bennett, the administrator of Rebound Orthopedics, a 20-physician orthopedic and neurosurgery practice in Vancouver, Washington.

Hide. If you mishandle a salary issue, admit it and do whatever is necessary to correct the situation. This has a positive impact on employee morale that will overcome a short-term error in judgment.

Be cheap. Good people make good practices profitable.

Chastise employees publicly. Always criticize in a private setting.

financial adviser. We reimburse for coursework. We also recognize our people throughout the year for specific actions or just a continuing good attitude. We do mall certificates, theater packages, dinner. I think that's why our longevity is so good."

Robert Erra offers a word of caution. "You need to be careful with non-monetary compensation, because it can suddenly become an expectation or a right. That could complicate matters."

When it comes to bonuses, Armstrong offers some practical advice. "Bonuses need to be thought out clearly. The practice can easily back-fire if they are perceived as unfair. Bonuses should reward an employee for achieving a measurable goal for the practice like increased profitability, more patients per year, or more new patients. If everyone gets a bonus, you'll be held to this each successive year. I suggest a letter to the staff explaining how and why bonuses would be achieved."

Hired guns

When it comes to the issue of fair compensation, an issue that regularly arises is how to handle bringing in someone new to a practice who would start at a higher rate than someone who has been with the practice for years in substantially the same position.

Clearly, if a new hire comes in at the mid-range of the scale, the practice should offer a rationale for doing so to other employees to avoid demoralization. "We really try to avoid doing that," says Seidenberg. "We try to advance from within or else we have to justify why we're hiring in at mid-scale. That's all part of the consistency issue. When we post the position, we discuss with anyone already working here what they would need to do in the way of additional education or skills to qualify for the new position. If they don't have that training, and they want the job, within reason we'll help them get it."

When a practice feels pressure to hire someone mid-range, it should first examine whether there is a job performance problem with existing employees or, in fact, whether the skills involve the creation of an entirely new job category. If neither is the case, the practice may be violating one of the basic tenets of salary administration, which is to maintain internal consistency.

Whatever the case, don't hire in at a higher rate and then, for the benefit of the savings involved, keep another

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employee in the same job at a lower rate. “That will inevitably come out and will affect morale negatively,” says Bennett. “You’ll probably find out about it about the time you get their termination letter and they’re already someplace else.” Bennett takes the need to hire in at a higher rate as a message that the market is changing. Rebound immediately increases everyone’s salary for that position, so that there’s equity in the salary structure.

There are times when mid-point hiring is justified, such as when the new hire has experience and skills that are not practically available to current staff. In that case, be honest with employees. By helping them understand how the new skills will benefit the practice, and possibly affect their own compensation in the form of pay and incentives, they will more likely integrate the new hire into the practice with minimal disruption.

The rumor mill

One of the most contentious issues in office politics is the rumor mill. Employees talk with one another continuously during the day and often the talk turns to money. Administrators adopt a wide range of practices to minimize the morale problems caused by salary discussions among employees.

Even though Seidenberg’s office has a written policy that specifically forbids employees to discuss matters of compensation, he readily admits that the information still filters through.

“There’s nothing you can do to prevent employees from talking about salary,” says Erra. “Doctors talk with each other about what they make. It’s just human nature.”

Consultant Armstrong agrees with Erra, but offers suggestions for a problem that will sound familiar to any experienced ad-

ministrator. “It is virtually impossible for you to control people talking about their wages. However, if an employee goes overboard and is chronically complaining about her wages, then you should have a discussion about whether or not she is really suitable in your practice.”

What about an employee who threatens to leave over wages? If you are confident that the wages are in line, in most cases you are better off letting that employee separate from your practice, the experts agree. If you make an exception, then you have corrupted your wage policy and all employees will understand that it is simply a matter of raising the stakes to get a better wage.

The bottom line

“Sometimes physicians will get too cheap in terms of employee compensation and that hurts more than helps,” says Bennett. He suggests that offices look at ways to enhance revenues rather than cutting expenses on employee compensation. As he points out, better practices often have a higher FTE ratio and they spend more on employees than practices that are less successful financially. It takes good people to do the follow-up, collections, and scheduling that support each physician.

Administrators and consultants alike urge practices to pay attention to their employees. “They are your greatest resource,” says Bennett. “They’re the one thing that can make an incredibly complicated business successful. A stable, motivated work force is essential.”

Seidenberg agrees, and adds a final word. “Lead by example. If you want a successful practice, work hard and show that you care. Your employees will want to do that, too.” ■

Les Picker is a regular contributor to Unique Opportunities.