

DESIGNING EFFECTIVE EMPLOYEE COMPENSATION MODELS. A COMPREHENSIVE/SYSTEMATIC APPROACH

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Conflict of Interest Disclosure

Jason Wambold is the Co-founder/Managing Partner of OnusOne/Pay-for-Performance Solutions LLC, a company that offers software and strategic support designed to equip practices to effectively introduce customized employee compensation models.

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Learning Objectives

- Summarize evidence related to effectiveness of traditional compensation models
- Identify most common barriers that prevent companies from introducing alternative comp models
- Describe/discuss categorized strategic decisions necessary to introduce alternative comp models
- Discuss rollout strategy best practice
- Summarize ethical/compliance considerations

Traditional vs Alternative Compensation Models

Traditional Compensation Models

- Full salary + Bonus
- An incentive plan model
- Employer holds all risk
- All upside, no downside

“Shared Success” Alternative Models

- Partial or no salary + Performance Pay
- Not an incentive plan model. Is a payroll comp model
- Employee/Employer share risk/reward
- Upside and downside

Do Traditional Compensation Models Work?

What does the literature say?

"Of the three contingent pay dimensions, **only performance-related pay had direct positive relationships with all three employee attitudes.**"

Ogbonnaya, C. & Daniels, K.(2017). *Does contingent pay encourage positive employee attitudes and intensify work?. Human Resource Management Journal,27:1.*

"Your organization might want to take a different approach altogether. This means... redesigning practices around your employees."

Morgan, J.(2017). *Why the millions we spend on employee engagement buy us so little. Harvard Business Review. <https://hbr.org/2017/03/why-the-millions-we-spend-on-employee-engagement-buy-us-so-little>*

Do Traditional Compensation Models Work?

What does the literature say?

“...The giving of bonuses, raises and other awards to average or below-average employees is rampant.”

Sammer, J(2014). Not an Entitlement: Keep Bonuses Performance-Based. Society for Human Resource Management. https://www.shrm.org/resources_and_tools/hr-topics/compensation/pages/performance-based-bonuses.aspx

Do Traditional Compensation Models Work?

What does the literature say?

- "Millennials feel that most businesses have **no ambition beyond profit**, and there are distinct differences in what they believe the purpose of business should be and what they perceive it to currently be."
- "Millennials often put their **personal values ahead of organizational goals**, and several have shunned assignments (and potential employers) that conflict with their beliefs."

The 2016 Deloitte Millennial Survey. Winning over the next generation of leaders.

<https://www2.deloitte.com/content/dam/Deloitte/global/Documents/About-Deloitte/gx-millennial-survey-2016-exec-summary.pdf>

Barriers to Introducing Alternative Compensation Models

- Fear (I like the concept, but what if.....?)
 - Resignations
 - Employees may get the wrong impression(quality vs quantity)
 - Too expensive
 - Competing with other companies/practices

Barriers to Introducing Alternative Compensation Models

- Time Poverty(I like the concept, but I don't have the time to design/implement a new compensation system)
- Lack of Knowledge(I like the concept, but where would I even start?
 - How do I construct my new models?
 - What factors should I include?
 - What if I can't afford my new models?
 - What about compliance/ethics?

Traditional vs Alternative Compensation Models

Traditional Compensation Models

- No down side for employee if goals not met
- Employer sets productivity standard
- Employee less likely to manage cancellations, schedule accommodation, marketing

“Shared Success” Alternative Models

- Down side for employee if goals are not met
- Allows for employee to set own productivity standard
- Employee more likely to manage cancellations, schedule accommodation, marketing

Revenue vs Volume Models

Revenue Based Models

- Employee paid a % of revenue(actual vs predicted)
- Employee more likely to focus on “ethical profit maximization”(billing/coding etc)
- Requires employer transparency
- Can be utilized for employee who struggle with profitability
- Protects company profitability

Volume Based Models

- Employee paid based on units of production
- Employee more likely to focus exclusively on production
- Limits employer transparency
- Can be used to reward employee who has consistent profitability
- May not protect company profitability

Static Scale vs Sliding Scale

Static Scale

- Compensation increases only as production increases
- More expensive for employer at lower levels of production
- Pay rate held constant regardless of employee cost

Sliding Scale

- Compensation level may increase per unit of production as production increases
- Less expensive for employer at lower levels of production
- Can be customized to increase pay after employee cost has been covered

Units of Production



Units

- Total Units
- Reimbursable
- Custom unit value



Minutes

- Min/Day
- Min/week
- Min/patient



Visits

- Visits/day
- Visits/week

Optional Vs Mandatory Enrollment

Optional Enrollment

- May create 2 different cultures
- Eases rollout anxiety
- Allows for organic enrollment
- Open door for employee negotiation
- Inconsistent expectations

Mandatory Enrollment

- Culture continuity
- Eliminates employee negotiation
- Sets clear expectations
- Levels playing field

Tips for Introducing Shared Success Compensation Models

Recognize Experience

- Reimbursement is NOT based on years of experience, or clinical expertise
- Employees DO want to feel that their company loyalty, or experience, has monetary value
- Consider offering a preset increase in base pay or % of comp every few years-eliminates merit raise negotiation
- Consider capping the program after x # of years

Tips for Introducing Shared Success Compensation Models

Offer Multiple Plans

- Offer at least 2 plans, with relative risk levels
- Allow annual re-enrollment
- Provides employees option to change plans as life circumstances change
- Serves as a powerful recruitment/retention tools

Tips for Introducing Shared Success Compensation Models

Avoid Doom and Gloom

- Avoid painting a dire picture
- Focus on everything a new comp model will add to your employees as a benefit
- Increased freedom, flexibility, choice

Tips for Introducing Shared Success Compensation Models

Offer a Grace Period

- Allows employees to acclimate to company culture
- Allows employees to establish a caseload and build up revenue
- Allows new grads to first focus on quality care, efficiency, documentation
- Tip: optional enrollment for existing employees, mandatory new hires

Tips for Introducing Shared Success Compensation Models

Gather Data

- Establish your compensation models
- Calculate historical pay against your new models
- Determine whether comp as a % of revenue is too high or too low(recommend 35% max)
- Adjust as needed
- Present historical data to your employees along with new comp models

Tips for Introducing Shared Success Compensation Models

Establish a “Calibration Point”

- The point at which current employee earnings will equal earnings on your new plans
- The point at which employee earnings will be identical regardless of which plan an employee chooses

Tips for Introducing Shared Success Compensation Models

Be Patient

- Many employees fear change, even if it provides increased earning potential and professional/personal flexibility
- Consider extended grace period
- Run simultaneous comp plans

Ethical Considerations

- Well entrenched preconceived notion of quality and quantity mutual exclusion
- KPI measurement is critical
- Generic productivity standards are often “one size fits none”
- Productivity varies dramatically over life stages
- Shared success models are NOT designed to force providers to increase productivity. They ARE designed to pay providers according to their contribution to the clinic/company.

Compliance Considerations

<https://www.dol.gov/agencies/whd/fact-sheets/17a-overtime>

- Part time Minimum wage requirements
- Full time employees may be eligible for “White Collar Exemption”
- Federal minimum pay requirement: \$35568/yr
- State minimum pay requirements may or may not exist
- Compensation transparency
- Follow State regulations when changing compensation for existing employees

Thank You!

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