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Growing Pains

M. Tony Bledsoe, (E-mail: bledsoem@meredith.edu), Meredith College
Kristi M. Eubanks, (E-mail: ubanksk@meredith.edu), Meredith College

ABSTRACT

Among the numerous challenges to survival for small family enterprises is the issue of employee compensation. The focus of this case is how one small firm attempts to develop a compensation plan that is fair and equitable to both employees and the organization, specifically addressing annual increases for the revenue-generating employees.

BACKGROUND

For three nights, Jan Hancock, owner of Quality Therapy Services, tossed and turned with the same question on her mind – how to handle employee annual salary adjustments? She certainly didn't plan on becoming a woman of enterprise. Her vision was to be at home more, raise her children, have more free time and try to continue her income.

In the fall of 1999, Jan began thinking of a transition plan to move from her corporate full time position. She envisioned running a home health physical therapy service from her home. Within one year, she started receiving referrals. By the end of 2000, her venture had grown to a point that she needed additional help. In January of 2001, she formed Quality Therapy Service (QTS) as an S-Corporation. By March, she had employed two physical therapists working on a PRN basis.

QTS remained a home-based business until June when the enterprise moved to rented space in Jonesville. At this point, Jan added one office employee, bringing the total QTS staff to four. The growing business necessitated adding a second office employee in December.

In January 2002, Jan decided to restructure the organization by establishing two divisions called the Homecare Division and the Outpatient Division. After gaining "Home Health Agency Contracts" status, she was able to allow more service flexibility through physical therapists and physical therapy assistants.

In July, two major events occurred for QTS. The company became "Medicare Certified" and they started a sports medicine program for local high school sports activities. With this boost came the need for more employees and the total quickly rose to eleven. QTS had three physical therapists, five physical therapy assistants, and three office employees. Growing pains!

The growth pattern continued in 2003 with QTS gaining DME provider status, revenues climbing, and services increasing. By the end of 2003, the total employee population had grown to 20 including six physical therapists and six physical therapy assistants.

Business increased dramatically in 2004. Jan negotiated a sports medicine revenue-generating contract with the local high schools. The business had grown to a point where more space was required. Jan met this challenge by designing and constructing a facility that she would own. She took occupancy by mid-year and bought new computer software that allowed provider tracking of patient care numbers and employee revenue contribution. This information could lead to determining employee performance for salary reviews and adjustments.

In 2005, critical decisions regarding compensation had to be made. At this point, Jan realized that a more systematic quantitative method for salary adjustment was needed. The old system of just randomly adding to the salary base was no longer feasible or practical. A formula was required to reach fairness and equity to both the organization and to the employee. This idea led Jan to designing and establishing (see Att 2) a system to determine each revenue-generating employee's contribution to the overall operation. While this was a key component of the reward system, Jan still needed to introduce and "sell" the idea to her employees.

ISSUES TO BE ADDRESSED

1. What type of formula should be used to determine salary adjustments?
2. How do you effectively communicate the program to the employees?
3. How do you evaluate the effectiveness of the program?
4. How often should the adjustments be made?
5. How to adjust salaries for non-revenue generating employees?
6. How to develop "other" employee performance review factors?
7. How to use "tenure" effectively?
8. Should employees be appraised on employment anniversary dates?
9. When to review, revise, and update employee handbook (policies/procedures)?
10. What guidelines should be developed to empower employees to increase the revenue that they generate?

TEACHING NOTES

The strategy of the company must be considered in the compensation plan. An increase each year would provide incentive year to year but not overly inflate the base wages for the employee. If the revenue-generating employee has a low contribution year, then the compensation would be decreased based solely on that year's performance.

Variable pay (as opposed to increasing base pay) fits into a culture where entitlement is not an issue. The bonus must be re-earned each year. The plan would be "self-funding" because the revenues have already been realized before the compensation has been paid. A quarterly bonus might be considered to keep an employee motivated throughout the year.

This type of pay system can attract high performers and discourage continuing employment for low performers. If base pay continues to increase, funding can become an issue with an employee who has not performed adequately. While discipline can be used in these instances, it is less painful to have an employee self-select leaving because performance-based pay is low for them. Employees can keep their own records and understand where they stand with their goals during the year.

FUTURE CASES TO BE CONSIDERED

The administrative staff could share in the profits of the company. A pre-determined percentage of total profit could be distributed.

Ranking of jobs would be needed to determine the bonus for each individual. Again, this should be a bonus, not an increase in base pay.

KEY DATES, EVENTS, AND PERSONNEL

Case Time Line

1999	Fall:	Began planning/researching phase to make transition to become an independent contractor.
2000	March:	Developed employee policy and procedures manual.
	June:	Started marketing through personal contacts – Johnston County (Jo-Co).
	September:	Received first referral.
	Total Employees:	One Part-time.
2001	January:	Established S-Corporation for QTS – Office at home.
	March:	Hired two physical therapists to work PRN Note: Owner full-time employee.
	June:	Moved office to Smithfield from home.
		Hired one office employee.
	December:	Added second office employee.
	Total Employees:	Five - 3 Part-time, 2 Office.
2002	January:	Established two divisions.
		(1) Homecare division.
		(2) Outpatient division.
		Obtained "Home Health Agency Contracts" – Changed employment by more flexibility through physical therapist and physical therapy assistants.
	July:	Became Medicare certified.
		Started sports medicine program (Jo-Co High school Sports Medicine Services).
	Total Employees:	Eleven - 3 Part-time, 5 Part-time Assistants, 3 Office.
2003	Annual	Gained Licensed DME Provider status.
	Total Employees:	Twenty - 6 Part-time, 6 Part-time Assistants, 4 Office, 2 Other.
2004	Annual	Negotiated sports med contract with Jo-Co High Schools (revenue generating).
		Took occupancy of new office building Smithfield, NC.
		Bought new computer system that allows provider tracking of patient care numbers and employee contribution.
	Total Employees:	Twenty - 6 Part-time, 6 Part-time Assistants, 4 Office, 2 Other.
2005	Annual	Designed and established a program for employee performance appraisal and salary review/adjustment.
		Note: First reviews and raises began in 2002 and used a set of dollar amounts.
	Total Employees:	Twenty - 6 Part-time, 6 Part-time Assistants, 4 Office, 2 Other.

QUALITY THERAPY SERVICES, INC.
ANNUAL EMPLOYEE PERFORMANCE APPRAISAL (EPA)
SALARY REVIEW AND ADJUSTMENT

Employee Name____ Date____________

Review Period____

Clinical Employees

The following information is used to determine pay increases for QTS clinical employees. Every employee will be given the opportunity to earn a percentage of the profit they bring to Quality Therapy Services, Inc. This is a way to recognize employee commitment to the growth and potential of the company. This ensures the company uses consistent guidelines to determine pay increases for everyone and ensures the company does not offer pay increases that would create a loss.

A. Employee Revenue Contribution ______________________

Less(B&C)

B. Cost to QTS to employ this employee
(Salary, benefits, employment taxes) ______________________

C. Company Operating Costs ______________________

D. Total net profit employee contribution ______________________

Interpretation of Result

If total net employee contribution is a negative number: the current salary is more than revenue produced. A pay increase would cost QTS more that what it could afford for this employee. There will not be a reduction in pay, nor pay increase. The employee is eligible for pay increase at the next annual review or within the tenure program.

If total net employee contribution is a positive number: the employee will receive an annual pay increase based on a percentage of this amount. The percentage is based on overall company profit margin percent for the given year. This may change from year to year subject to company performance.

Percentage to base pay increase for the given year ______________________

Pay increase ______________________

Employee Signature____

Supervisor Signature____