

## **Total Compensation**©

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### **Developing a Total Compensation Philosophy**

Employers looking to succeed in this increasingly competitive environment must have a well-designed compensation program that is able to attract, retain, and motivate employees. In broad terms, total compensation is defined as the sum of all cash and noncash payments given to an employee in return for their actual and expected contributions to the organization. The most common forms of compensation used in the veterinary industry are:

- Base Pay
- Overtime Pay
- Performance Bonus (e.g., Production)
- Profit Sharing
- Merit Increase
- Cost of Living Increase
- Continuing Education
- Benefits including: various medical, dental, and other personal insurances, paid time off, personal unpaid leaves of absence, retirement/pension plans, personal pet care, etc...

Most organizations use one or more of these forms of compensation to develop a total compensation philosophy. Determining the appropriate compensation philosophy is important for an organization of any size practice and is not a quick and easy process to be taken lightly. Your compensation philosophy should be aligned with the overall goals and objectives for the practice. Complicating this process is the fact that compensation philosophies may likely change as the organization evolves. The strategy you develop today may not be appropriate for the state of your practice tomorrow. For example, a new practice looking to attract talent may choose to pay salaries at or above the average paid in the marketplace but offer less employee benefits that are not as competitive with those provided by other practices with whom it competes for talent. However, once the practice begins to mature and its employees develop tenure, providing more benefits to retain existing staff may be an appropriate strategy. A compensation philosophy may also include different strategies for different types of employees. An organization might decide to pay a competitive rate for easy to fill nontechnical support jobs and a higher than competitive rate for professional jobs that are especially difficult to fill. Careful thought and analysis must go into creating this philosophy to preclude an organization from implementing a pay strategy that ends up underpaying or overpaying its employees. Both of these conditions may cause problems for an organization by either increasing turnover due to noncompetitive pay rates, or resulting in greater than necessary labor expenses due to high salaries. Thus, the real challenge for any organization is to create a pay program that is financially feasible and fits with its desired culture and stated mission statement. Each organization must develop its own compensation



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philosophy and strategy based on the overall value it places on its employees combined with what it can afford and is willing to pay for each employee.

### **Compensation Tools**

Most organizations normally utilize a core set of tools and resources to support achievement of its chosen compensation philosophy. Some of the more common components of a compensation system include:

- **Job Description**-A written definition of the responsibilities, requirements, functions, duties, location, environment, conditions, and other aspects of a job. Job descriptions may be developed for individual jobs or for entire job families.
- **Job Analysis**-The process of analyzing jobs in order to develop job descriptions. Job analysis techniques may include the use of interviews, questionnaires, and observation.
- **Job Evaluation**-A system for comparing jobs for the purpose of determining appropriate compensation levels for individual jobs or job families.
- **Pay Structures**-A systematic way of assessing the relative worth of individual jobs or job families in comparison to other jobs within the organization.
- **Salary Surveys**-Collections of salary and market data that allow an organization to compare its salaries to comparable jobs at other companies within the competing marketplace.
- **Performance Reviews**-Normally conducted annually, or more frequently, salaries for all employees are measured against several external and internal factors, including stated performance goals, to determine whether an increase is appropriate and warranted.

### **Other Considerations**

Other considerations for determining the appropriate types and levels of compensation are to recruit and retain qualified employees, increase or maintain morale/satisfaction, reward and encourage peak performance, achieve internal and external equity, and reduce turnover and encourage company loyalty. Recruitment and retention of qualified employees is a common goal shared by most employers. Many employers base their compensation decisions on the market by setting their wages and salaries at some arbitrary point they think is above, below, or equal to the marketplace. For example, some employers decide that they will set wages for certain positions at well above the market rate to attract and retain highly valuable employees. To some extent, the availability and cost of qualified applicants for open positions is determined by market factors that must be considered by the employer. While an employer may set compensation levels for new hires and advertize those salary ranges, it does so in the context of other employers seeking to hire from the same applicant pool. Morale and job satisfaction are also affected by compensation. Often there is a balance (equity) that must be reached between the monetary value the employer is willing to pay and the sentiments of worth felt by the employee. In an attempt to save money during challenging economic times, employers may opt to freeze salaries or suspend bonus payments at the expense of satisfaction and morale. Conversely, an employer wishing to reduce employee turnover may look to increase salaries and benefits. Both of these actions may not be appropriate unless they are consistent with the organization's compensation philosophy. Compensation may also be used as a reward for exceptional job performance. Examples of such plans include: performance increases and bonuses, profit and gain sharing programs, and promotions.

While there is no one formula for developing a compensation philosophy, there are steps an organization should take to ensure its philosophy is appropriate and viable:

- Determine whether the practice wants to set salaries at, above, or below market for similar talent and, if so, by how much.
- Decide if any differences should exist in the competitiveness of pay structures for management, technical and professional employees, paraprofessional employees, other support staff, and so on.
- Decide the extent to which employee benefits should replace or supplement cash compensation.

Another important consideration when developing a compensation program is to ensure it complies with federal and state legal requirements. By law, the pay practices of any organization must be consistent, must not discriminate, and must not be arbitrary. For instance, the Fair Labor Standards Act requires all employers to pay time and one half the normal hourly rate for all hours worked in excess of forty in a given workweek for certain types of jobs (nonexempt) unless specifically exempted from the provisions of the Act. There are numerous other employment laws that ensure the fair and equitable treatment of employees vis-à-vis compensation programs. In short, it is vitally important for every company to continuously audit and monitor its pay programs to ensure all statutory requirements are being satisfied.

### **Putting It All Together**

Once an organization has decided upon its compensation philosophy and created the needed tools, it is time to develop the implementation strategy. A good first step is to document and communicate a general compensation philosophy to all employees. This can be accomplished by creating a well-defined compensation policy and sharing it with employees. Letting your employees know how and why decisions are made regarding their compensation will help eliminate uncertainty and assure them that careful planning was given to determining their salaries. This policy can also state whether the practice intends to offer the opportunity for employees to receive future pay increases tied to individual or group performance, cost-of-living allowances, achievement bonuses, promotions, etc. Of course, any compensation program should include the requirement to develop a compensation budget that projects current and future expenditures for salaries, benefits, mandated employer taxes, and any other employee-related expenses to be paid by the employer. A good tool for accurately capturing how much it costs an organization to employ each staff member is an employee cost calculator. This form can easily be developed for each employee and can be updated as changes occur in salary, benefits, tax rates, etc.

Finally, a growing trend in the veterinary industry is to incorporate performance-based compensation plans into the total compensation philosophy to boost productivity and maximize the return on investment in compensation. These types of plans are normally designed to reward employees for the achievement of specific performance objectives. However, great care must be taken to ensure the plan provides appropriate rewards for desired performance. Otherwise, an organization risks rewarding performances that are inconsistent with those of the organization.