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Name Your Price: Compensation Negotiation at Whole Health Management (A)

Monroe Davies' heart skipped a beat when he saw the email from Jim Hummer, founder and CEO of Whole Health Management, entitled "Job Role and Offer." In the winter semester of his second year at Harvard Business School (HBS), Monroe was deeply entrenched in the recruiting process and was focused on Whole Health Management as his first choice.

Having met Jim on a number of occasions, Monroe knew that he valued both openness and innovation, but Monroe was still surprised when he read the email:

I want you to help me craft your job and your compensation package . . . keeping in mind that the package needs to work for both of us. As a member of our management team, you will need to start dealing with offers for Associates who will eventually report directly to you or in your contracts. Consider this practice.

Attached to the email was a template for the job offer, but instead of dollar figures, Jim had written in X's in the spaces next to compensation, bonus, relocation allowance, stock options, and continuing education stipend (see **Exhibit 1**). The job was his, but Monroe was being asked to name his own price—subject to Jim's approval.

This seemed a fitting end to a recruiting process that had been unusual from the start. From Monroe's first interaction with Jim, every exchange had been informal and friendly, but at each step Jim had put Monroe on the spot in what seemed to be personal and professional tests of how he would react when confronted with unanticipated challenges. Monroe recalled the day in early February when he had flown to Whole Health's headquarters in Cleveland to participate in a senior management meeting to discuss the company's Balanced Scorecard for the year. In the car ride on the way to the office, Jim had prepped Monroe by explaining that he expected a lively meeting, with a lot of strong personalities offering different opinions. He had also encouraged Monroe to interject whenever he saw fit. The meeting was everything Jim had described: there were no formal presentations, only smart, respectful individuals who were working through the year's goals. During the CFO's discussion of targets, Monroe had whispered a comment to Jim. Instead of answering, Jim had interrupted the meeting and turned the attention of the entire room to Monroe by announcing, "I think Monroe has a question to ask."

Professors Brian J. Hall and Deepak Malhotra and Research Associate Nicole S. Bennett prepared this case. Special thanks to Madison Mauze for assistance. Certain details have been disguised. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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One week later Monroe had the offer from Whole Health Management—and the compensation template—sitting in his inbox. Before deciding how he might respond to Jim’s latest challenge, Monroe reread the concluding paragraphs of the email:

I want you to know that I am not a game player, so just be reasonable and make sure you are comfortable with what you propose. If I accept it, do not think that you left money on the table. I want you to perform so well that I feel bad about what you are earning . . . then I will want to take care of you. The one thing I learned over the years is that if people are highly paid, the expectations are that they will perform at that level. The higher the pay, the less room for forgiveness. Having said this, I expect you to run hard and make errors . . . that is how you will learn and learn quickly. No one has made more errors than me, so you will have to work real hard to catch up to me before I lose patience. In other words, run hard and learn . . . always learn.

I will help you learn how to build and run a business . . . skills that will benefit you for the rest of your life. I think you will have an opportunity at Whole Health Management that does not exist in many organizations out there. You will be working directly with me and I will teach you all that I have learned over the years . . . and you will be in on decisions that shape our future.

Putting the email aside, Monroe considered all he knew about Jim. Over the past 20 years, Jim had built Whole Health Management into a leader in on-site health service delivery. After graduating from HBS in 1980, he co-founded The Ivy Medical Group (MED Center) and grew it in to one of Ohio's largest multi-specialty primary care group practices before leaving to start several predecessor organizations that evolved into Whole Health. As a result of years of growth, Whole Health now included 70 on-site health clinics and over 500 health professionals serving international and domestic clients ranging from Continental Airlines to Freddie Mac to the Department of the Treasury.¹ Jim was clearly a skilled businessman, and he applied his entrepreneurial approach to his recruiting strategy. Immediately after their first meeting at a Harvard Business School Health Management conference in December, Jim had invited Monroe to come and meet with his management team by flying out to Cleveland for the company’s holiday party. Although Monroe had been unable to attend the party, he soon met with the management team; shortly thereafter he was invited to a dinner in Boston with the board of directors.

Things had moved quickly since then, and it was now up to Monroe to make the next move. After reflecting on the emails they had exchanged to date (see **Exhibits 2–5**), and collecting some data from HBS Career Services on typical compensation packages for graduates (see **Exhibit 6**), Monroe called Jim to get more information about stock valuation and option grants. He discovered that there were 14 million shares outstanding and that the standard equity plan for incoming executives was about 10,000 shares. Finally, with this information in hand, Monroe sat down, got comfortable, and decided to make himself an offer.

¹ HBS health care executives’ biographies, <http://www.hbs.edu/healthcare/executives/hummer.html>.

Exhibit 1 Email from Jim Hummer to Monroe Davies; Job Offer and Compensation Template

From: Jim Hummer
Sent: Friday, February 10, 2006 11:47 AM
To: Monroe Davies
Subject: Job Role and Offer
Importance: High

Monroe,

Everyone on our senior management [team] and I want you to join our company after graduation. In order to make that happen, we need to get an offer to you so you can make your decision.

I want you to help me craft your job and your compensation package . . . keeping in mind that the package needs to work for both of us. As a member of our management team, you will need to start dealing with offers for Associates who will eventually report directly to you or in your contracts. Consider this practice.

Here are some guidelines for you in the compensation area (see template attached):

- Salary (competitive at HBS but within Whole Health's salary ranges)
- Performance Bonus (payable based upon specific measurable targets—think about what those goals should be)
- Stock options (eligible to receive after being with Whole Health for 1 year)
- Relocation allowance (move from HBS to Cleveland, move from Cleveland to your next job location—presumably in or around Texas)
- Benefits (see list attached)

As for your job, here are the major categories (see old job description, attached):

- Manage client relationships and contracts
- Grow existing client contracts
- Develop new client business

I think you will take over [three major contracts] . . . I think this will give you about \$10M–\$12M in revenue to manage right away. That's a nice book of business for you.

Take your shot at the compensation package and revisions to the job description. Please get it back to me and we will discuss. I want you to know that I am not a game player, so just be reasonable and make sure you are comfortable with what you propose. If I accept it, do not think that you left money on the table. I want you to perform so well that I feel bad about what you are earning . . . then I will want to take care of you. The one thing I learned over the years is that if people are highly paid, the expectations are that they will perform at that level. The higher the pay, the less room for forgiveness. Having said this, I expect you to run hard and make errors . . . that is how you will learn and learn quickly. No one has made more errors than me, so you will have to work real hard to catch up to me before I lose patience. In other words, run hard and learn . . . always learn.

I will help you learn how to build and run a business . . . skills that will benefit you for the rest of your life. I think you will have an opportunity at Whole Health that does not exist in many organizations out there. You will be working directly with me and I will teach you all that I have learned over the years . . . and you will be in on decisions that shape our future.

I look forward to hearing from you. If you want to talk about this matter, call me and we will think through the issues . . . otherwise, I will expect to hear something from you by next week. Take care.

Jim

**MONROE DAVIES
COMPENSATION PACKAGE**

Compensation Status Stock Options Bonus Relocation Allowance Fringe Benefits: Paid Time Off: Vacation Holidays Sick Leave Personal Time Insurance: Health Insurance Dental Insurance Vision Life Insurance Long-Term Disability Insurance Social Security Workers' Compensation State & Federal Unemployment Professional Liability Section 125 Cafeteria Plan 401(k) Pension & Profit Sharing Plan Continuing Education Stipend Dues & Licensures EAP (Employee Assistance Program)	Director, Business Operations \$XXX per year, paid semi-monthly Full Time Options to purchase XXX shares at \$2.70 per share according to vesting schedule Up to \$XXX based on agreed-upon goals \$XXX to relocate to Cleveland; additional allowance to be determined for any future relocations 120 Hrs/Yr 80 Hrs/Yr 48 Hrs/Yr 16 Hrs/Yr Based on premiums—see attached Based on premiums—see attached Based on premiums—see attached Paid Term Life (\$50,000) Paid (60% of base pay) Paid Paid Paid Administration Fee Paid Company will match up to 50% on the first 6% of gross pay—after one year of participation \$XXX As Approved \$XXX As Approved 5 Sessions/Yr
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- Above benefits are based upon a 40-hour workweek. In the event that Associates' status changes, compensation and benefits may be adjusted.
- Final offer contingent upon successful completion of post-offer, pre-employment drug screen.
- Whole Health Management is an "at-will" employer; should you accept this offer, you will be an "at-will" employee of our organization. "At-will" employment applies equally to the employer and the employee: Your employment can be terminated by Whole Health Management or yourself at any time, with or without notice, and with or without cause.

I accept this offer of employment with Whole Health Management.

SIGNATURE _____

DATE _____

Job Description

Job Title: Director, Business Operations
Reports To: President & CEO
FLSA Status: Salaried, Exempt
Summary: Manages all business aspects of the contractual relationship with a client within a WHM business segment. The major areas of focus for this position are client relations, clinic operations and business development.

Source: Company documents.

Exhibit 2 Email from Jim Hummer to Monroe Davies after Their First Meeting at the HBS Health Management Conference

From: Jim Hummer
Sent: Monday, December 05, 2005 8:47 AM
To: Monroe Davies
Subject: Cleveland Visit 12/16 to 12/18
Importance: High

Monroe,

You made my day on Saturday . . . in fact, you made my weekend. I enjoyed meeting you and learning more about you during our brief visit. In our brief encounter, I came to understand you and where you want your life to head . . . you remind me of myself in many ways when I was your age.

I am very interested in pursuing discussions to determine if our company is the right fit for you and if we have the right opportunity for your career.

Our company is holding its Christmas Party on 12/17 at our new office in downtown Cleveland (space is yet to be built out but we wanted to have our Associates experience the space). I would like you to consider coming into Cleveland on Friday (afternoon or evening . . . your choice), interviewing with our senior management team on Saturday, attending our party on Saturday night to meet our folks from Cleveland and then returning to Boston on Sunday. Continental has a number of direct flights at good times...so this should not be a problem. I have invited one other person (first year) to come as well . . . so if this works, you should coordinate with him for getting here. We would put you both up at the Hyatt in downtown Cleveland right near the House of Blues and other entertainment venues so you have some activity beyond Whole Health.

We have several roles you can play for us at any number of locations (Texas, California, Cleveland, etc.) as our growth is accelerating and we are moving quickly on [a strategy that could triple in size] by year-end 2006. Our organic growth and [this strategy] will generate many opportunities for you.

I look forward to talking with you and hope that you can come to Cleveland at this time.
Jim

P.S. if you can come, you can either make your own arrangements or have us do it. We will reimburse you for any expenses you incur for this trip.

The great tragedy in life is not in setting our sights too high and missing, but in setting our goals too low and succeeding.

James J. Hummer
President & CEO
Whole Health Management

Source: Company documents.

Exhibit 3 Two Weeks Later: Thank-you Email from Jim Hummer to Monroe Davies after the December Visit to Whole Health

From: Jim Hummer
Sent: Monday, December 19, 2005 10:43 PM
To: Monroe Davies
Subject: Thanks for Coming to Cleveland

Monroe,

We all enjoyed meeting you on your recent trip to Cleveland. Our team at Scotts also enjoyed meeting “that handsome gentleman” . . . you made a nice impression as I knew you would.

In January, we want to get you back to town for another session with more of our business managers and business development team so you can learn more about what they do. We will also nail down a job description and compensation package for you and the timeline for your education as a businessman/entrepreneur.

I can promise you one thing . . . within a year, you will know more about running and growing a business than most of your peers at HBS. I will take you under my wing and help you learn and grow . . . and that will mean making more mistakes in one year than you will have made in your lifetime. I will make sure you don’t kill yourself and will kick you in the butt when you get down about making mistakes. Entrepreneurs take calculated risks and they are not afraid to fail, because it is in failure that they learn and grow rapidly. You have passion and drive . . . I can see it in your eyes . . . and that is what it takes to change the world.

I know that you have aspirations way beyond running a health care company like Whole Health . . . my guess is that major league politics is your end-game. I will help you learn about business and I will give you the opportunity to save your fellow Texas CEOs a bundle of money by reducing their health care costs. In turn, when you do decide to run for elected office, you will know the business leaders and the issues they face . . . and because you will have save millions of dollars for their companies, they will return the favor by supporting you in your endeavors.

If I am in tune with your thinking, then let’s start mapping out a 3- to 5-year plan for your growth and development at Whole Health. You help me grow this business and I will help you fulfill your dreams.

Have a Merry Christmas and a Happy New Year!

Jim

Source: Company documents.

Exhibit 4 Response Email from Monroe Davies to Jim Hummer after the December Cleveland Trip

From: Monroe Davies
Sent: Tuesday, December 20, 2005 10:52 AM
To: Jim Hummer
Subject: RE: Thanks for Coming to Cleveland

Jim –

It was a great trip! I really enjoyed getting to meet some of the other members of the Whole Health team. You really have put together an incredible group of people. I look forward to coming back out in January to meet more of the team and learn more about what they do exactly.

You are in tune with my thinking. I am not set on the politics part, but I am very committed to continuing on a quick learning curve after getting out of school and I do have a passion for making a difference. I agree with you completely that entrepreneurs take calculated risks and they are not afraid to fail, because often that is when the most learning takes place. Your comments remind me of one of my favorite quotes (below). I would much rather dare greatly, and if I fail at least I will do so while daring greatly and learn and grow along the way.

Have a wonderful Christmas and Happy New Year! I will look forward to visiting with you when I get back to Boston after January 15th.

“It is not the critic who counts, not the man who points out how the strong man stumbled, or where the doer of deeds could have done better. The credit belongs to the man who is actually in the arena, whose face is marred by dust and sweat and blood, who strives valiantly, who errs and comes short again and again, who knows the great enthusiasms, the great devotions, and spends himself in a worthy cause, who at best knows achievement and who at the worst if he fails at least fails while daring greatly so that his place shall never be with those cold and timid souls who know neither victory nor defeat.”

THEODORE ROOSEVELT, from a speech given in Paris at the Sorbonne in 1910

Monroe

Source: Company documents.

Exhibit 5 One Month Later: Email from Jim Hummer to Monroe Davies Inviting Monroe for the Balanced Scorecard Meeting in Cleveland

From: Jim Hummer
Sent: Sunday, January 29, 2006 8:08 PM
To: Monroe Davies
Subject: RE: Dinner in Boston 2/21, 22, or 23 at Steve Barrett's Home

Monroe,

We remain very excited about the possibility of having you join our team . . . and personally, I would really enjoy working with you. We can teach you quite a bit about building a business and a creating strong culture to support that effort. I also think you can teach us a great deal about all the new technology out there and the latest problem-solving skills you have learned. We could have a fun time growing this company.

I looked at the dates you can come to Cleveland . . . February 3 and 27/28. If you flew in the night before on the 5:55 pm flight on Continental, you would get in at 8:03 pm. You could take a taxi to the hotel near our office and then be ready to go the next morning. There are also some clubs up around there if you want to get together for a drink. We have a senior management team meeting for 4 hours on Friday morning working on our Balanced Scorecards for 2006. You could attend and see what we are doing. You can then interview in the afternoon with those who you have not met yet (dress casually on Friday).

I look forward to seeing you soon.

Jim

P.S. still come to the dinner in Boston . . . Mike Porter is looking at his schedule to see if he can make it.

Source: Company documents.

Exhibit 6 Harvard Business School, MBA Class of 2005, Career Salary Statistics by Industry

2005 EC Salary by Industry Destinations	%	25th% Base Salary	Median Base Salary	75th% Base Salary	Median Total Add'l Comp**	% Receiving Additional Comp
Consulting	23%	\$105,000	\$110,000	\$115,000	\$30,000	97%
Entertainment/Media	4%	\$85,000	\$95,000	\$104,000	\$18,000	74%
Communications	2%	\$90,000	\$100,000	\$105,000	\$27,500	92%
Entertainment	2%	\$85,000	\$92,000	\$105,000	\$7,500	60%
Advertising/Marketing	<1%	\$72,500	\$90,000	\$93,500	\$4,000	67%
Financial Services	36%	\$95,000	\$100,000	\$120,000	\$40,000	86%
Finance: I-Banking	7%	\$95,000	\$95,000	\$95,000	\$40,500	90%
Finance: I-Management	10%	\$95,000	\$100,000	\$121,250	\$60,750	85%
Finance: PE/LBO	9%	\$100,000	\$115,000	\$142,500	\$59,500	81%
Private Equity	7%	\$100,000	\$115,000	\$130,000	\$55,000	80%
Leveraged Buyout	2%	\$100,000	\$120,000	\$150,000	\$88,500	85%
Finance: Sales & Trading	2%	\$95,000	\$95,000	\$100,000	\$40,000	94%
Finance: Venture Capital	2%	\$110,000	\$125,000	\$136,250	\$25,000	88%
Finance: Other	5%	\$85,000	\$95,000	\$100,000	\$33,000	85%
Commercial Banking	1%	\$83,750	\$85,000	\$91,250	\$35,000	63%
Diversified/Insurance	1%	\$86,250	\$98,000	\$100,000	\$23,500	100%
Real Estate	2%	\$92,500	\$100,000	\$105,000	\$42,500	88%
Non-Profit/Government	3%	\$75,000	\$80,000	\$80,000	\$5,000	42%
Government	<1%	\$75,000	\$75,000	\$75,000	\$5,000	100%
Non-Profit	2%	\$78,000	\$80,000	\$80,000	\$5,000	31%
Real Estate	3%	\$90,000	\$92,500	\$100,000	\$30,800	70%
Retail*	3%	\$85,000	\$90,000	\$98,750	\$20,000	86%
Other Services	3%	\$91,250	\$100,000	\$107,250	\$30,000	77%
Services: Food/Lodging	<1%	\$80,000	\$95,000	\$95,000	\$30,000	60%
Services: Health-related	<1%	\$100,000	\$100,000	\$125,000	\$30,000	100%
Services: Other	1%	\$82,500	\$100,000	\$106,000	\$16,000	70%
Services: Utilities	<1%	-	-	-	-	-
Biomedical/Pharmaceutical	5%	\$90,000	\$95,000	\$100,500	\$34,000	74%
Consumer Products	5%	\$85,000	\$87,000	\$90,000	\$26,000	91%
Manufacturing	5%	\$90,000	\$95,000	\$110,000	\$23,000	89%
Aerospace/Automotive	<1%	\$91,002	\$92,004	\$93,402	\$22,450	67%
Highly Diversified Manufacturing	2%	\$95,250	\$107,500	\$111,250	\$20,750	100%
Manufacturing: Other	3%	\$90,000	\$95,000	\$105,000	\$30,500	86%
Technology	9%	\$92,750	\$100,000	\$110,500	\$23,800	86%
Computer: Hardware	1%	\$79,000	\$90,000	\$97,500	\$25,000	86%
Computer: Software	4%	\$92,000	\$95,000	\$108,750	\$35,600	90%
Technology: Other	3%	\$100,000	\$105,000	\$113,500	\$20,000	78%
Telecomm	<1%	\$110,000	\$115,000	\$120,000	\$31,000	100%
ALL SERVICES	76%	\$95,000	\$100,000	\$115,000	\$36,000	86%
ALL MANUFACTURING	24%	\$88,000	\$95,000	\$105,000	\$26,000	85%
ALL INDUSTRIES	100%	\$90,000	\$100,000	\$110,000	\$35,000	86%

Source: HBS Career Services data and statistics, <http://www.hb.edu/mba/recruiting/data/industry-career.html>.