WELCOME!

THE IMPACT OF PAY POLICIES ON ORGANIZATION STRUCTURES
& ORGANIZATIONAL EFFECTIVENESS
DECEMBER 5, 2017
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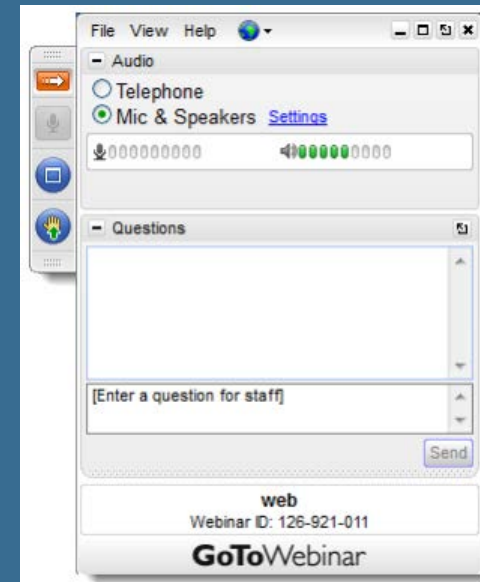
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The Impact of Pay Policies on Organization Structures and Organizational Effectiveness

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"Victorious warriors win first, and then go to war, while defeated warriors go to war first and then seek to win."

-- Sun Tzu

How it is Supposed to Work

Mission
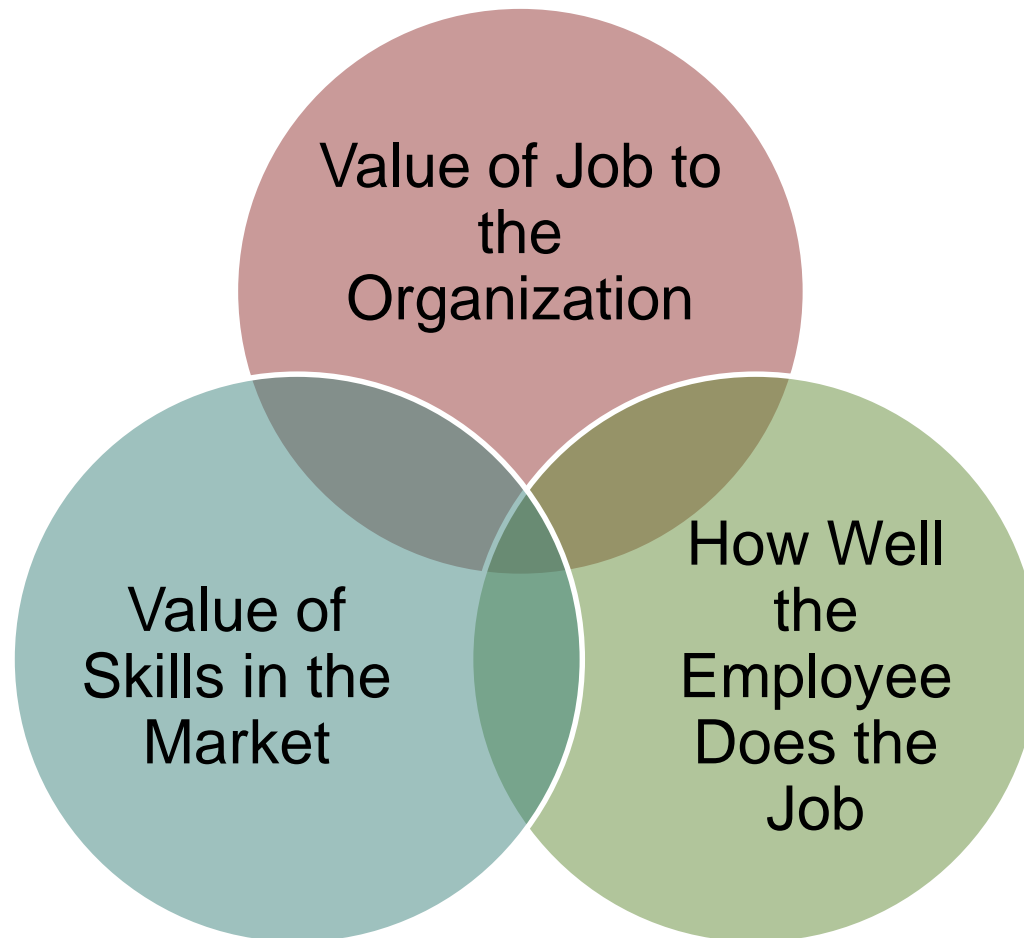
Strategy

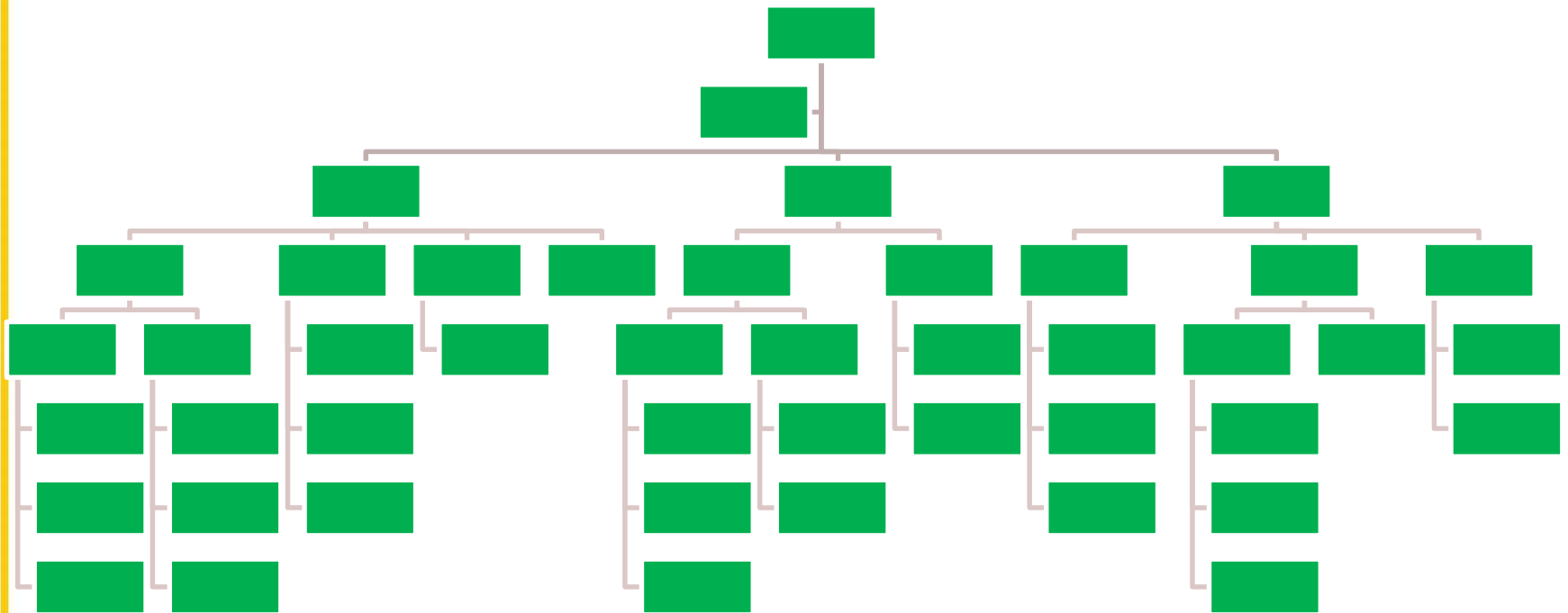**Processes**

Pay Programs

People

Designing and Planning

- We plan for performance of certain tasks at a certain level in order to achieve certain objectives

- The cost of the people required to perform certain tasks at a certain level is balanced with the return from their performance

- Effectiveness of the design (individual and organizational) can (and should) be "benchmarked"

Factors Determining the Right Price

Value of Job to the Organization

Value of Skills in the Market

How Well the Employee Does the Job

An Organization as Designed

How it Often Works

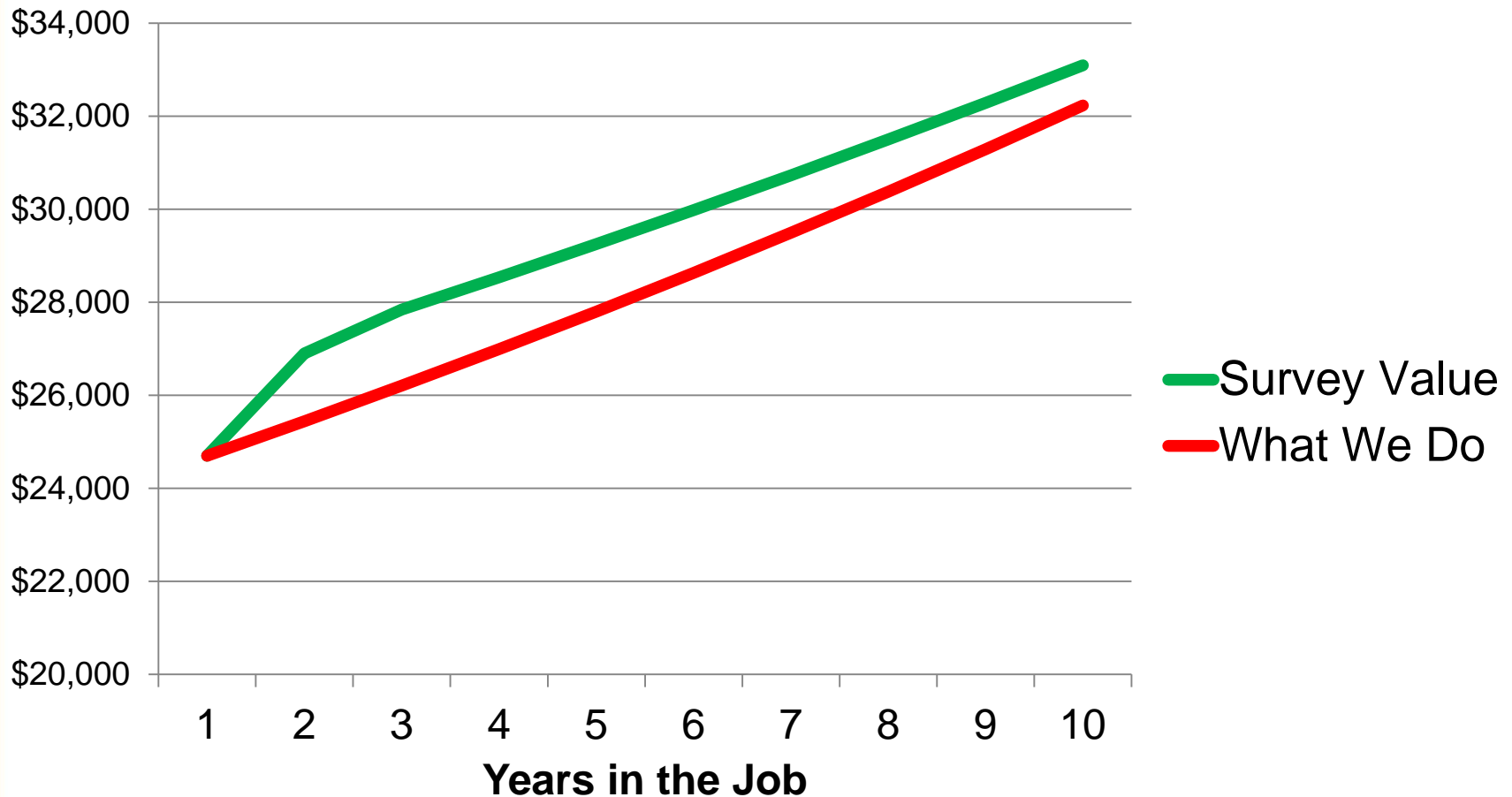Pay Programs

People

Processes

Strategies

Results

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Pay Programs May Not Support Design

How Do Pay Programs Impact Us?

- Organizationally
  - Type of Staff
  - Quantity of Staff

- Organizational Performance
  - Individual Effectiveness
  - Turnover
  - Engagement

Organizational Assumption

- Each "box" on an organization chart represents successful performance of a set of duties and responsibilities
- When pay opportunities are inadequate…
  - Jobs can't be performed as designed
    - Some functions are diverted or not performed
  - Volume of work will not be as expected
    - More (or different) people will be needed

Changing Job Complexity

- Design job to handle a number of tasks at a certain capacity with minimal supervision
- "Can't afford" people who can handle the job?
  - split one job into multiple jobs that can be performed by people you can afford
  - add more people to get to capacity
  - add "lead" roles or divert supervisors/managers from their duties

Changing the Number of People

- Design jobs to be performed by a certain number of people
- "Different type" of people than designed
  - less reliable means more absenteeism, thus need for more "coverage"
  - lower pay increases chance of turnover, increasing…
    - time when jobs are unfilled
    - overall lower expertise because less experience

Impacts on Individual Productivity

- Lower staff skills produce lower results
  - Capacity is decreased
  - Quality is decreased
- Lower staff skills influence others
  - Others distracted from their responsibilities
  - Ability of providers to see patients
  - Morale of providers
  - Impacts on recruitment and retention

Impacts on Costs of Services

- Turnover:
  - Raw cost = turnover rate X number of employees X average employment cost (salary + benefits + required costs) X average "cost of turnover"
    - "cost of turnover varies from 25% to 150% based on type of job
 - Additional cost = lost productivity, diversion of staff from appropriate work.

Cost of Engagement

- Unfairly paid employees are likely to be unsatisfied

- Unsatisfied employees are less likely to be engaged

- Disengaged employees are costly:
  - Some actively damage their employers
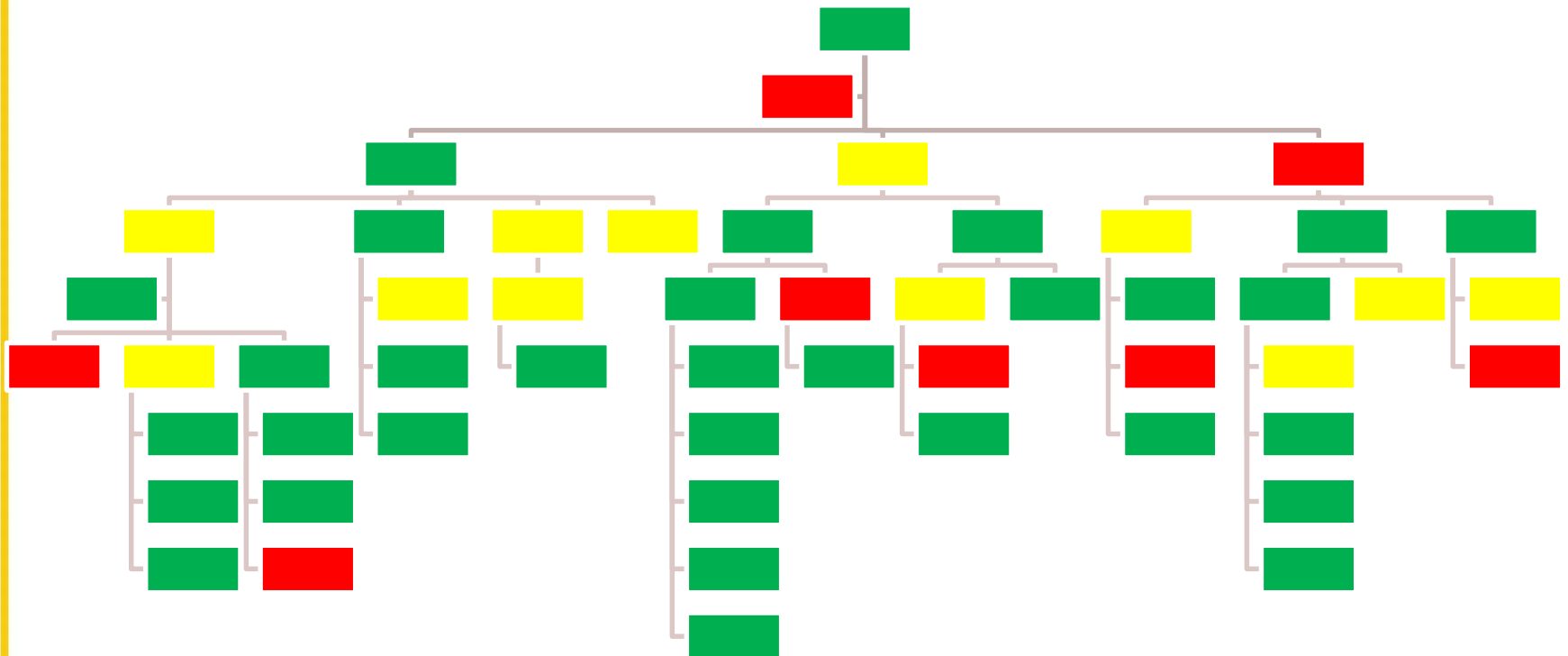 - Some perform at a lower level

Performance Appraisal Impacts

- Allows employees who have not mastered the job to remain

- Fails to correct or develop

- Impacts other employees

An Organization as Designed
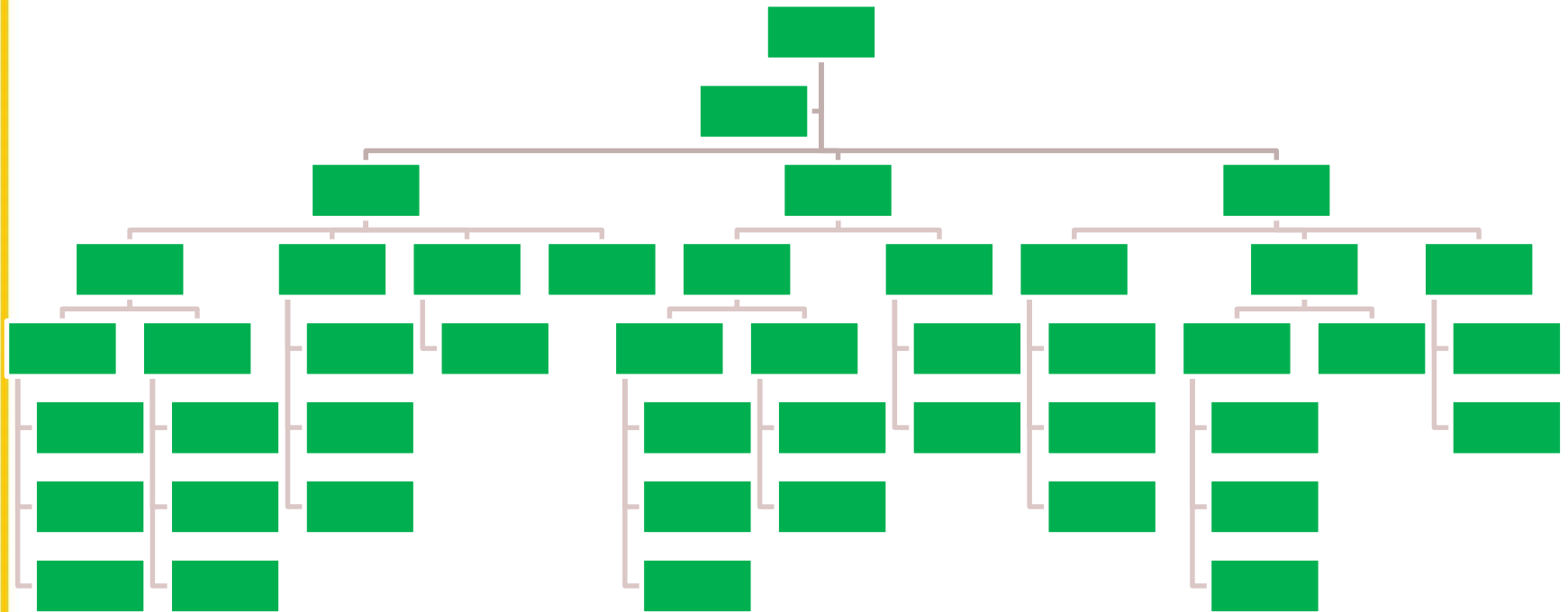
What the Organization Looks Like

How Do They Compare?

- Initial Structure – 45 * 100% = 45
- The Result –
  - 32 * 100% = 32
  - 12 * 75% = 9
  - 8 * 50% = 4
  - Total of 45, but with 15% more people (52) and all their attendant costs

In Summary

- Every job has a particular value:
  - The contribution of their job to the organization
  - The cost of their skills in the market
  - Their ability to master job requirements
- Employees only "fill" their position when they are at 100%
  - Pay programs may not allow us to do that
  - Failing to pay the value causes us to:
    - Increase staff
    - Decrease expectations
- To be effective, staff compensation programs must be designed and implemented to achieve the organization's objectives.

Questions & Contact Info

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