Overcoming Workforce Challenges With Strategic Compensation Initiatives

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Workforce planning aligns the needs and priorities of the organization with those of its workforce to ensure:

- Regulatory Compliance
- Service & Production Requirements
- Organizational Objectives
Top priorities for workforce planning initiatives:

– Finding candidates in high demand talent pools

– Compensating competitively and fairly

– Retaining top performers
REALITIES
OF TODAY’S WORKFORCE

TURNOVER
SKILL SHORTAGE
RETIREMENT
CULTURE SHIFT
Voluntary Turnover Rates

- Oklahoma
- South Central Region
Hospitals are facing a significant challenge recruiting and retaining qualified Healthcare workers in a highly competitive labor market

- Nearly 1 in 4 jobs created so far in 2016 is in the healthcare sector
- 1 in 5 newly-licensed RNs leave their first nursing job within the first year, 1 in 3 leave within 2 years
10,000 Baby Boomers are reaching retirement age every day!
54% of millennials are expected to have 2-5 employers in their lifetime

25% expect to have 6 or more employers
Overcome Workforce Issues and...

**SUCCESSFULLY RECRUIT**
Recruit successfully with market competitive rates

**MANAGE TURNOVER**
Manage turnover by addressing pay compression issues

**IMPROVE RETENTION**
Improve retention rates through transparency
OVERVIEW

- Implementation & Communication
- Maintain compliance with new regulations
- Administer a fair and equitable compensation program
- Design a fair and equitable compensation program
- Develop a strong foundation
DEVELOP A STRONG FOUNDATION
**Compensation Philosophy (n):** A formal statement explaining the organization’s position regarding employee compensation. It should answer...

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<th>Question</th>
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<td>1</td>
<td>How do we desire to pay compared to other organizations?</td>
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<td>2</td>
<td>How do the compensation practices and policies support the overall goals of the organization?</td>
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<td>3</td>
<td>How do we ensure fair pay practices?</td>
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A compensation philosophy supports the organization’s:

- Strategic plan
- Current and long-term business goals
- Competitive outlook
- Objectives
- Compensation and total reward strategies
• New hires need to be compensated at the right levels from the beginning

• Pay and how its administered will have an immediate and long-lasting impression on employees

• People have a good sense of their market value and how their pay compares internally
STOP

NEW HIRE PRACTICES
Are you Underpaying or Overpaying? Know the Market and How You Compare

Too low: risk of losing good talent or hiring an employee that begins their career resentful

Too high: create high expectations, an entitlement attitude, and it impacts the bottom line
Establish a Comprehensive Hiring Practice

- Your hiring practices need to balance the realities of the market with internal equity demands.

- A strong compensation program philosophy, structure, and administration are all required to meet the recruitment, motivation, and retention of employees.
• Once you have established a comprehensive hiring practice, review your job descriptions.

• When was the last time your organization’s job documentation was updated?

• Up-to-date job documentation is a crucial piece to the HR process as it plays an important role in the recruitment and retention of top talent.

• Most common forms of job documentation includes:
  – Job descriptions
  – Organizational charts
The process of updating job documentation increases employee-manager communication and helps employees gain better clarity of job duties, leading to higher employee engagement.

Only 33% of employees feel they are engaged at work.

Engaged employees can increase productivity by 21% and profitability by 22%.
Job documentation helps:

– Employees understand their role
– Create employee buy-in and clarity
– Classify the job appropriately
– Recruit and attract qualified candidates
– Evaluate employee performance and identify top performers
– Maintain legal compliance (FLSA, Equal Pay, ADA)
– And more!
JOB DESCRIPTION UPDATES

- Importance to HR process
- Time & resource consuming
- Other issues drawing attention
- Employee confusion
Job Documentation Considerations

- Many employees have gained additional duties as organizational changes have occurred. Make sure descriptions accurately reflect duties.

- Descriptions should not be an exhaustive list of duties.

- Exemption status should be considered if duties have changed.
Pay Management and Administration Considerations

• Design and manage the compensation program and administration guidelines consistently with organizational objectives

• It’s critical to balance the organizational need for internal equity and consistency while responding to the desire to be market competitive

• Maintain the compensation structures annually – even if you don’t make adjustments every year!
DESIGNING A FAIR AND EQUITABLE COMP PROGRAM
To recognize differences in experience and ability, a salary range is established around the competitive rate for each grade.

The salary range should allow an organization the flexibility to respond to sudden variations in the market for specific jobs.
Salary Ranges

- Range spreads tend to widen as the level of the job increases
  - Lower level jobs have smaller spreads to allow for advancement in the range quicker to pay more competitively with the market
  - Managerial and executive level jobs tend to have wider range spreads to move employees more slowly through the range
    - The performance/learning curve is longer for managerial and executive level jobs. The wider range allows for tenure in career level positions

- Red Circle vs. Green Circle
• The midpoint differential is the difference between the midpoints of two adjacent grades expressed as a percent

• As you move up in the salary structure, the midpoint differentials typically increase
  – Helps prevent pay compression between jobs
  – Keeps the difference significant enough to allow career growth
• Recommended Midpoint Differentials
  – 8-10% clerical positions
  – 10-15% paraprofessional, professional and management positions
  – 20-25% executive positions

• Recommended Midpoint Differential for supervisors and subordinates
  – 15-25% total differential between supervisor and subordinates
• Accessing reliable information relevant to your market will help guide your compensation practices and structure.

• Surveys are designed to provide a snapshot of the labor market, but compensation is an art, not a science.
  – Even the best data requires handling by an HR professional who understands the strategic compensation goals of the organization.

• Determining individual pay depends on the value of the job to the organization as a whole, and may vary based on skill-level and experience.
• How many structures does your organization need?
  - How large is your organization?
  - How complex is your organization?

• How many grades should be in your structure?
  • This depends on your organizational structure
    • Hierarchal – more grades
    • Flat – fewer grades
ADMINISTERING A FAIR AND EQUITABLE COMPENSATION PROGRAM
Pay Compression (n):
When you have small differences in pay regardless of experience, skills, level or seniority

1. Pay compression doesn’t form overnight
2. Specific compression issues vary noticeably from organization to organization
3. How to fix the problem also varies depending on the situation
• Common reason for pay compression
  – Organizations react slowly to market changes, creating a situation where new hires must be paid at a rate close to, equal to, or even higher than current tenured employees.
    • For example, annual salary increase budgets have been relatively modest for many years, approximately between 2.0% - 2.5%, yet candidates are changing jobs and are receiving higher pay.

• Compression considerations
  – Current incumbent salaries vs. new hire salaries
  – Annual salary range updates
• If organizations have given low or no pay increases, they can quickly fall behind the competitive market.

• Organizations that trail the market may need to pay new employees higher in order to attract them.  
  – Can lead to pay compression when paying a new hire more than a tenured employee.
Considerations

Review current incumbent salaries versus new hire salaries

B

Update salary ranges annually

C

Ensure administrative guidelines are consistently applied
• Employees’ position within the range depends on your organization’s compensation strategy

• Needs to be consistently administered to prevent pay inequities and compression
MANAGING THE RANGE

• Update salary ranges to meet market competitive levels
  – Salaries have increased approximately 2-2.5% annually over the past few years
  – Recommended that organizations update their compensation structure annually
  – Employees at the top of the range will receive pay increases when the range adjusts

• Offer a lump-sum bonus to high performers
  – This provides employees an incentive for continued performance and tenure while keeping base pay within range
MANAGING THE RANGE

Managing Performance

HIGH PERFORMERS
Manage at range maximum
Consider promotion
Re-evaluate job and adjust salary if needed
Provide a more defined grade structure
Update the succession plan

UNDERPERFORMERS
Consider re-assessing some employees
Freeze compensation
Reassign the employee to a job with lower responsibility levels
MAINTAINING COMPLIANCE WITH NEW REGULATIONS
• It’s never been more important for organizations to stay compliant with every-changing labor law
  – Minimum Wage, FLSA, etc...

• In addition, there is a strong need to design and manage compensation programs consistently with organizational objectives
Effective 7/1/16
Maryland, $8.75
Washington DC, $11.50

Effective 8/1/16
Minnesota, $9.50 (large employers)

Effective 12/31/16
New York, $9.70- $11.00
(depending on location and employee size)

Effective 1/1/17
Arkansas, $8.50
California, $10.50 (26+ employees)
Connecticut, $10.10
Hawaii, $9.25
Massachusetts, $11.00
Michigan, $8.90
Vermont, $10.00
Navigate changes successfully

1. Determine when the changes will occur and how much they will be
2. Calculate how many employees are currently being paid below minimum wage
3. Update the compensation structure
4. Check for pay compression
The Department of Labor recently announced that the FLSA Salary Threshold will increase to $47,476 effective December 1, 2016.

This is leaving organizations scrambling to decide whether to reclassify positions as non-exempt or to move exempt positions up to the salary threshold.
4.2 million workers gaining overtime pay protections across the U.S.

47,771 workers in Oklahoma

If increasing pay of exempt employees to meet the new salary requirements, remember...

**PAY COMPRESSION**

Occurs when employees earning somewhat below the threshold are raised to keep those employees exempt, causing pressure to realign salaries up the ladder to maintain internal equity.

**COST**

The FLSA cost to an organization may be greater than just the cost of increasing salaries on those employees who fall below the new threshold.

**COMPETITIVE STRATEGY**

Organizations need to develop a strategy to balance the regulations with market competitiveness levels that are in alignment with their specific organizational structure.
How We Can Stay Compliant

Transfer Duties
From one non-exempt employee to another employee to maintain their non-exempt status

Part-time Employees
Consider adding part-time employees or increasing the hours of existing part-time employees

Increase Effectiveness
Increase effectiveness of current employees by maximizing employee engagement and productivity
IMPLEMENTATION AND COMMUNICATION
IMPLEMENTATION

HR SHOULD

- PROVIDE LEADERSHIP
  Compensation and benefits-related program design information, including guidelines and training

- CONDUCT & ANALYZE SURVEY DATA
  Key to making informed salary decisions

- PROACTIVELY ADVISE MANAGERS
  Be a strategic partner for compensation matters

- MANAGE JOB DESCRIPTIONS
  Facilitate, coordinate, write and update job descriptions as appropriate

- SUPPORT ORGANIZATIONAL STRUCTURE
  Provide organizational charts and be a partner during re-organizations
Pay Transparency

- Helps employees clarify their role
- Resolves pay inequity
- Builds trust
QUESTIONS?
YOU’RE INVITED!

Free Webinar

Wednesday, December 7, 2016

10am-11am

RSVP at info.CompdataSurveys.com/OHA

Make the Most of OHA’s Salary Survey

What to Expect
An in-depth look into OHA’s annual pay and benefits data, including tips for accessing data and advice for utilizing results. Hear how other hospitals benefit from using this valuable resource.
Contact us anytime with questions about our data or our consulting services:

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