

Zenith Medical Inc: Simulation Project

HRM 13- Compensation Administration

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SECTION A

PART A. IDENTIFICATION OF PROBLEMS AT ZENITH MEDICAL SYSTEMS INC.

Zenith Medical Systems Incorporated is a new company formed by the merging of a supplier of hospital supplies and a major computer firm. They provide product management software and services to hospitals such as an integrated system for maintain patient records, creating staff and facility schedules, tracking medications and providing financial software. While their initial year was successful some problems have surfaced since amalgamating. They are experiencing some issues that require attention and they have hired us as a team of consultants to analyze the problems and suggest solutions. Darlene Adams, president and CEO of Zenith suspects that the current compensation system at the firm is contributing to these problems and has asked us to evaluate it. We will begin by identifying the key issues, assessing their current structural and contextual variables and identifying problems with the current rewards system.

Zenith has identified the key issues on which our attentions will focus. They tell us that employee turnover has increased and morale is low, customer satisfaction is low, they are receiving a lot of complaints and revenue and profits are both down.

Reasons for High Turnover and Low Morale

There are several issues that have contributed to sinking morale and increasing turnover at Zenith. The main problems lie in decreased commission as a result of decreasing sales and inter-departmental communication and attitudes. As problems began to arise, departments turned inward and directed all their attention on their own contributions of the company while becoming highly critical of the other departments and the workers

within them. They often accuse each other of being incompetent and blame each other for errors. The staff of Systems Development is blamed for creating inadequate systems, Systems Installations is blamed for improper installations and Marketing is blamed for promising clients things that the current systems are unable to do. Systems Maintenance is often the one pointing the finger as they are the main line of communication between Zenith and its clients. They have to field the angry customer complaints and as a result, this department has the highest turnover rate in the company. Overall, the tensions that exist among the departments and the decreasing commission rates are making Zenith a seemingly miserable place to work.

Reasons for Customer Complaints and Low Satisfaction

The biggest disjoint for customers lies in the promises of what the system can deliver by sales representatives and the actual services provided. A snowball effect is taking place at Zenith wherein systems development is taking longer to develop systems due to promises of increasingly elaborate systems which means the installation department is consistently late installing the programs. They are then being rushed to install only the basic components which angers customers as they paid for elaborate services. Systems Maintenance, who acts as the main line of communication for customers, is becoming increasingly less enthusiastic about helping customers which creates more anger with customers. As a result, sales are dropping and the sales department has to continuously promise more elaborate systems to get clients.

In response, the newly appointed Installation Department Manager made some cuts. He cut time spent on systems testing as he felt this was unnecessary and also cut back on time

spent training client staff. He was able to save some time in making these changes but the quality of the products and services were decreased as a result. To add insult to injury, the department is attempting to charge clients for systems failures that resulted from client staff misuse. Clients, of course, are not responding favorably to this and blaming the crashes on Zenith's poorly designed systems and insufficient training of client staff. Overall, the decreasing quality of products and services at Zenith are resulting in unhappy customers that complain frequently.

Reasons for Decreased Profits

The internal morale and customer service problems are resulting in lower profits for Zenith. Instead of analyzing the problems at hand and making changes accordingly, management in problem areas were replaced. They even went so far as to replace managers from the parent computer company with managers from the hospital supply company in the Systems Installations and Maintenance departments. Given the technical nature of these departments, this seems like an odd choice and the result was an additional net loss of \$5,000,000. Much of the activities currently taking place at Zenith are defensive or in response to problems, leaving little time for revenue generating activities.

EXAMINATION OF STRUCTURAL VARIABLES

An organizational structure should achieve two things; differentiation and integration. Differentiation refers to dividing the total task of the organization into subtasks and integration refers to coordinating the subtasks in a way that works toward the achievement of organizational goals. (Long, 2014, p. 25) Other than the rewards system,

which will be discussed in detail below, there are 5 main structural variables; Job design, Coordination and Departmentation, Decision-Making and Leading Structure, Communication and Information Structure and Control Structure (Long, 2014, p. 25-26). The arrangement of these variables determines different managerial styles. Zenith uses a classical managerial strategy in their attempt to foster its business and achieve its objectives.

The classical managerial strategy assumes that most employees inherently dislike work but can be induced to satisfy their economic needs. This indicates that management uses the economic needs of its employees as a threat so as to make them behave the way they want and perform their duties effectively and efficiently (Long, 2014, p. 27). The following is an assessment of the structural variables at Zenith.

Job Design

This is a dimension that outlines how an organization's total task is divided into separate jobs (Long, 2014, p. 25). The total task of Zenith is to provide clients with superior computer systems that integrate several clerical functions of a hospital while providing excellent customer service. To provide this, Zenith is broken down into two main subdivisions- Marketing and Administration, and Systems. Under Marketing and Administration there are three departments which are Marketing, Finance and Administration and Human Resources. Under Systems there are also three departments which are Systems Development, Systems Installation and Systems Maintenance. The majority of the problems that Zenith is facing stem from the Systems portion of the

organization. Each person's job within each department is defined by their direct department manager and there seems to be little differentiation of jobs within each department. In short, the jobs are narrow and given the poor communication between departments, the jobs are also extremely fragmented.

Coordination and Departmentation

This aspect of organizational structure focuses on how the work of individual employees and departments are coordinated. (Long, 2014, p. 25) The jobs at Zenith are arranged on a very strict, hierarchical, and formalized manner with each task being coordinated by a manager. Each department is compartmentalized according to its function. For example, the System Installation Department's function is to take the system to the client, install it on the client hardware, help with necessary data conversion, test the system and conduct training for client personnel. The employees from this department have very little to do with the functions of other departments. Given this fragmentation, each department only takes accountability for their portion of the business. As mentioned above, employees often refer to those in other departments as being incompetent. There is little teamwork and a lot of blame being placed for the current problems and failures being experienced at Zenith. The departments are not working together to meet overall organizational goals.

Decision Making and Leadership Structure

This aspect of organisation structure describes how decisions are made and who makes them (Long, 2014, p. 26). The decisions in Zenith are made by individuals with high level authority. This includes the CEO, the two vice presidents and the department managers.

Employees have little input on the decision making process in this organisation. For example, the Systems Installations manager decided to cut time spent on systems testing even though he lacks technical expertise. His subordinates, who do have technical expertise, were forced to follow his orders and the results impacted the organization negatively. In this way, the decision making process at Zenith is autocratic and controlling.

Communication and Information Structure

This is the aspect of organizational structure that describes the methods of communication in the organisation (Long, 2014, p. 26). In terms of communication, Zenith is very formal, vertical, and restricted. Formal in the sense that top management communication with employees is very low because information given is majorly about tasks and rules to follow to perform such task. Communication is vertical in the sense that, there is a downward flow of information (that is, from the top management to the subordinates) and upward communication from employees are not taken into consideration. The structure is very restricted in the sense that the employees do not engage in any informal communication.

Control Structure

This is the aspect of organizational structure that describes the methods used to control employee behaviour in an organisation. (Long, 2014, p. 26) Control at Zenith mainly focuses on external rewards. There is a commissions system in place but as the profits of the organization decrease, so do commissions earned by employees. With this reward dwindling, employees are becoming increasingly unhappy and turnover rates are rising. Thus, Zenith is losing control over its employees.

EXAMINATION OF CONTEXTUAL VARIABLES

The business tactics adopted by the founders of Zenith has an effect on the five contextual variables of the company such as the company's environment, business strategy, technology, workforce and size. The contextual variables will be analysed as follows:

Environment

Zenith operates in an unstable and complex environment. Clients in the healthcare industry are looking to integrate their systems to become more effective and efficient by coordinating the information of employee and patient records, financial management and medication tracking. Technologies for such systems change rapidly which requires the tech team to constantly update and make advancements in technology in order to stay competitive. This creates instability in the environment. Their services are complex in that the type of system that they offer is cutting edge. They offer a variety of complex information management systems which require an advanced degree of technological expertise. (Long, 2014, p. 38)

Business Strategy

The company adopts a Prospector business strategy under the Miles and Snow theory of typology and a Focused Differentiator business strategy under Porter's theory of typology. A prospector business strategy involves quickly identifying opportunities for new products and being the first to exploit them. (Long, 2014, 39) Zenith focuses on identifying and exploiting demand for information management technologies in the healthcare industry.

Before Zenith's products and services, the information systems for different aspects of the hospital were separately managed. Zenith aims to integrate the systems of information. The focused differentiator business strategy provides unique products and services to a narrow range of clients. (Long, 2014, 39) Given that their systems aim to be cutting edge, they are unique in the industry of hospital information management and given that the systems are specifically for hospitals, they target a narrow range of customers. Even within that client base, no two Zenith clients are ever the same; therefore, systems are designed and developed to suit customers' needs.

Technology

Currently, Zenith straddles two types of technology under Thompson's Typology of Technology.

Long-Linked Technology

They maintain strict departmentalization of tasks that are performed in sequential steps within the organization. The production process at Zenith involves the salesperson acquiring a contract to design and develop a system for a client which is forwarded to the System Developer to design. After completion it is sent to the Systems installation department and finally, to Maintenance where any required upgrading is provided. This process is referred to as a long-linked technology. (Long, 2014, p. 40) This sequential process is related to some of the problems currently being faced by Zenith wherein every department blamed the other for being incompetent. As client complaints about the quality of the products have increased, the company has developed a standardized way of dealing

with the errors across all departments with routine technology.

Intensive Technology

Zenith's product also requires that each case be dealt with on an individual basis depending on the needs and wants of the client. They design each system according to the demands of each client. This is referred to as intensive technology. This type of technology is generally best suited to a high-involvement managerial style. (Long, 2014, p. 40)

Size

Zenith has 600 employees with about half of the population at the Headquarters and the other half in 5 branches across Canada. This constitutes a medium sized company.

Workforce

This refers to the education, skills, characteristics and other attributes expected of a workforce of an organisation, to enable them to carry out their job duties and responsibilities. (Long, 2014, p. 42) The nature of the workforce at Zenith indicates that the company employees, even at entry level positions, have minimum qualifications of a university degree. They are highly skilled individuals and professionals in their area of work. A high level of professionalism is expected from employees at all levels of the organization despite the education and qualification required for their job.

ALIGNMENT OF STRUCTURAL AND CONTEXTUAL VARIABLES

After assessing the current structural variables and contextual variables of Zenith, it is

evident that they would benefit greatly from a shift in managerial strategies. Currently, the variables are not aligning which hinders an organizations ability to achieve its goals. They must choose a management strategy according to the environment in which they operate, their business strategy, their use of technology, their size and the nature of their workforce. Their current management strategy is more suited to simple structures that do not require skilled employees. The contextual variables indicate that a High Involvement managerial strategy will help Zenith realize its organizational goals.

ISSUES WITH THE REWARD SYSTEM

Currently, the rewards system issue at Zenith Inc. is largely due to the bland compensation mix they have implemented. Non-managerial employees are not given an effective blend of compensation. There are no intrinsic rewards offered, which induces unfavorable behaviour from employees such as lower levels of membership and citizenship behaviours. An insufficient compensation system and the lowered levels of behaviours listed cause lack of employee motivation, cooperation, and overall job dissatisfaction.

For example, Managers in the Maintenance Department are paid base salary, plus a bonus based on a percentage of the extra income the department is able to produce. The department only generates extra profits if it is additional work requested by a customer, this causes a disparity of job functions between the Maintenance Department, System Development and System Installation Department.

A more effective reward system to implement could be a profit sharing and performance pay plan. Bonuses should be given as long as the company is reaching one of its major objectives which is profit making. Employees should receive bonus pay if it can be

determined that their performance can be related directly to organizational goals. Though, commission rewards work well for marketing and sales departments, it may not work for other departments. Reward systems for other departments are not incorporating both intrinsic and extrinsic rewards for employees. This is a main reason that the turnover rate for the Maintenance Department is especially high.

SECTION B

PART B. STRUCTURAL AND STRATEGIC RECOMMENDATIONS

From the analysis of Zenith Inc. in Part A, there is a clear need to produce solutions to the issues the company faces. A new managerial style with differing structural and contextual variables is in need, as well as job redesign.

Recommendation

The recommended managerial style for Zenith Inc. is a High Involvement style, which gathers the idea that if the organization is structured properly, work can be intrinsically motivating (Long, 2014, p. 30). This is the proposed system because of the importance of employee motivation, personal growth, and autonomy. The system will provide better rewards and opportunities to employees through higher levels of intrinsic satisfaction. A High Involvement strategy will lead employees to practice higher levels of membership, citizenship and task behaviour. This may promote better achievement of the corporate goals because of greater effectiveness and efficiency by the employees.

Contextual Variables

The contextual variables of this strategy fit the current position of the organization- the workforce is high skilled labour; economic circumstances that are good/fair; unstable and complex environment; intensive technology; and lastly, a focused differentiator corporate strategy.

The recommended strategy will change the current structure of the company.

Structural Variables

- Goal setting with joint planning by members;
- Control through the use of intrinsic rewards such as satisfaction from the work itself, and self-regulation through internal commitment;

- Informal and open-communication atmosphere;
- Job design with a less structured work area allowing for a more social atmosphere;
- Decision making with minor consultation, employee-oriented, with controlling supervisory role;
- A pay-for-knowledge system for intrinsic rewards; and a focus on organizational performance through extrinsic rewards such as gain sharing or profit sharing compensation;
- Horizontal and vertical coordination, use of work teams and departmentation of products and customers.

The structural variables of the recommended strategy vary greatly from the current system- Job design will become less rigid; there will be less hierarchal and formalized work structure; less autocratic and controlling behaviours by managers; greater informal horizontal and vertical communication; and lastly, a control structure not stringently focused on extrinsic rewards.

Affected Positions (Job Redesign)

Sales

To increase revenue and employee motivation, some job design adjustments are need to be made. Starting with the sales staff which bring in the contracts and generate revenue, it is recommended that they are clearly familiarized with their responsibilities and goals through communication and feedback. Sales managers are required to facilitate administration and communication between their staff and make sure that performance measures and audits are conducted. A major setback in their job design that needs to be

reconditioned is that they have only focused on closing deals with clients rather than clearly defining goals and expectations that are realistic but challenging such as focusing on the quality of what is being offered and time needed to get it done. This may give the client a better understanding of the product and when they may expect to receive the product; this may increase customer satisfaction.

System Development

Another job redesign is required in the System Development Department and that is to check the compatibility of the system requirements received by the Marketing Department. This redesign should enable the department on determining whether what the client has asked for can be achieved or not and how long it will take to deliver. This will help decrease customer dissatisfaction, eliminate conflicts between departments and decrease employee turnover.

References

Long, R. (2014). *Strategic compensation in Canada*. USA: Nelson