

## **Salary Adjustments at Chicago Health System: An Unsolved Mystery**

I. E. Jernigan, III

Joyce M. Beggs

The University of North Carolina at Charlotte

---

*This case is intended to highlight management problems that can occur when an organization implements changes to its base salary plan. Maryanne Walker, Director of Pharmacy Services at Chicago Hospital in suburban Chicago, was caught by surprise one evening when several of her staff pharmacists called her expressing their anger regarding salary adjustment letters. The next morning Maryanne sent an e-mail to her boss concerning the salary letters. Maryanne's boss called a directors' meeting to discuss the salary adjustment issue. Maryanne learned that none of the line managers at the hospital had advance knowledge of the salary adjustment letters, that the adjustments were not related to performance appraisals, and that the size and form of the adjustments varied within and across departments. The following week, the hospital's Vice-President of Human Resources distributed a memorandum that explained the rationale for the salary adjustments.*

*Seven weeks after the letters were distributed to employees, Maryanne and her management team met with the Vice-President of Human Resources to discuss the salary adjustments for staff pharmacists. While apologetic about the notification process, the Vice-President defended the overall base pay plan that his department had developed with the assistance of an outside consulting firm. The salary adjustments became a continuing problem for Maryanne.*

---

### **Introduction**

On Wednesday, employees of Chicago Health Systems received salary adjustment letters. The adjustments were made by Human Resources with assistance from an outside consulting firm. That evening, Maryanne Walker, Director of Pharmacy Services, received calls at home from several distraught pharmacists. Maryanne told them that she would find out what was going on. The next morning, Maryanne sent an e-mail to her boss, Sharon Green, the Vice President for Patient Care Services, concerning "the salary adjustment mystery" (see Exhibit 1). Maryanne wondered what she should do next. Maryanne also looked over the performance notes that she had compiled for the full-time pharmacists (see Exhibit 2).

### Background

Chicago Health Systems was a private, nonprofit health care system located in suburban Chicago. The system consisted of a 150-bed hospital, an 80-bed nursing home, and five “minor emergency” clinics. Although Chicago was non-union, many of the hospital’s personnel practices and policies were similar to those found in unionized settings.

Maryanne directed pharmacy services that included the main pharmacy located in the hospital, a pharmacy at the nursing home, and four satellite pharmacies. There were 50 employees in pharmacy services [22 pharmacists (10 full-time and 12 part-time), 23 pharmacy technicians, 3 secretaries, and two records clerks]. In addition to Maryanne, four other full-time pharmacists were supervisors: Judith Smith, the assistant director; Adam Rogers, the operations and MIS supervisor; Ellen Johnson, the inventory supervisor; and Nancy Peters, the sterile products and chemotherapy supervisor.

Maryanne had been the director of pharmacy services for eight years. She was trained as a clinical pharmacist, and her educational background included the Masters of Business Administration and a Pharmacy Doctorate. In addition, Maryanne had been a clinical pharmacist and associate director of pharmacy services for two years at another hospital and a staff pharmacist at another Chicago area hospital for six years. Maryanne earned the reputation throughout Chicago as “a good boss.”

### **The Salary Adjustment Saga**

As a result of Maryanne’s e-mail, Sharon called a directors’ meeting. Sharon explained that she did not know any more than her managers did. Sharon also found out about the “salary adjustments” on Wednesday evening. The adjustments were made by Human Resources with the help of a consulting firm.

Prior to the director’s meeting, Jim Smith, the Director of Physical Therapy and Cardiac Rehabilitation, had talked to Gerald Hammersmith, the Vice-President of Human Resources, about a meeting to discuss the salary adjustment process with his staff. Gerald agreed to meet with Jim and his staff as soon as possible. (Note “as soon as possible” turned out to be approximately six weeks later.) Sharon agreed with Jim that department meetings with Human Resources were a good strategy and advised the other directors to set up the meetings. Sharon said she would try to attend the department meetings, but department directors should schedule meetings with Human Resources based on their schedules.

After the meeting with Sharon, none of the directors felt they knew how the salary adjustment would play out or what they should say to their employees. To Maryanne,

this seemed like an example of someone “asleep at the wheel” over in Human Resources, of lack of planning, and of poor communication. To make matters worse, the Joint Commission on Accreditation for Health Organizations (JCAHO) survey for pharmacy services was scheduled to start next week. JCAHO accreditation was a requirement for continued state licensing for the pharmacy. Maryanne did not want her staff distracted and angry over salary adjustments while the accreditation committee was visiting.

Maryanne summarized what she learned from the meeting about the salary adjustment process.

- The adjustments were made by Human Resources with assistance from an outside consulting firm.
- The adjustments were neither merit-based nor related to performance appraisals.
- The managers had not been consulted regarding individual adjustments.
- Employees had received letters in the mail at home informing them of their salary adjustments.
- Some employees did not receive a letter. Therefore, they did not know what their adjustment was or even if they were getting one.
- Employees were notified of their salary adjustments by mail before their managers and supervisors were informed.
- The form the “award” took varied:
  1. Some employees were given a one -time bonus that was not added to base pay.
  2. Others received half of the adjustment as a bonus and half as a permanent raise added to base pay.
  3. Others had the total adjustment added permanently to their base pay.

Maryanne decided to meet with her management team to brief them on the directors’ meeting and to discuss the salary adjustments. She would then meet with any individual pharmacy employee upon request to discuss salary adjustments. As soon as possible, she would arrange a meeting with Gerald Hammersmith.

According to the hospital grapevine, the highest salary adjustments (up to 5 percent) went to emergency room nurses. The people who received one-time bonuses were “already at the high end of the salary scale” according to the letters they received. The half and half awards were for people in the mid-range of the salary scale, while the increases to base salary were for those far down on the scale. However, no one had seen the salary scale referred to in the letters.

In the pharmacy, high performers who had been working at the hospital a long time

were at the top of the pay range for their job classification. Maryanne believed the reason their pay was higher than the rest of the staff was they had worked hard, were top performers, and had earned it. Unfortunately, the top performers received a two percent bonus not permanently included in their base salary. Ironically, the salary adjustment letter stated that the goal of the new compensation plan was to recruit, retain, and reward highly qualified employees. However, the pharmacists who received the one-time bonus payment thought that the organization must not think much of them. From Maryanne's point of view, the new compensation plan was a real mess, one with which she was going to have to deal.

Late in the afternoon Maryanne received a response to the e-mail she had sent Sharon Green that morning (see Exhibit 3). Maryanne looked at the performance notes and salary history of the full-time pharmacists for the past three years. She could not find a rational explanation for the consultant's recommendations. Maryanne requested additional information and received another e-mail from Sharon (see Exhibit 4).

Maryanne spent the rest of the day and most of the next talking to angry and upset employees about their adjustments. The following Monday, Maryanne received a memo from Human Resources that "explained" how individual salary adjustments were determined (see Exhibit 5). Seven weeks after the notification letters had been distributed, Maryanne and her management team met with Gerald Hammersmith, Chicago's Vice-President of Human Resources. Gerald was very apologetic about the way the salary adjustments were handled and said his staff may have "acted prematurely in sending out letters without notifying anyone in advance." Gerald said the basis for the salary adjustments was that "Chicago's aim for salary is to be in the mid range in terms of salary for the Chicago regional labor market." The external consulting firm had conducted a salary survey and the pay ranges were determined from the survey. The pharmacy operations manager, Adam Rogers, questioned why adjustments in base salary were not used for all employees. Adam said, "You're effectively capping salaries." Gerald stated that the decision had been made, "If you're unhappy, you can always leave Chicago for a better paying job."

At the end of the meeting with Gerald, Maryanne as well as her management team were still dissatisfied, and the issue continued to be a significant point of contention for the hospital's professional staff. During her MBA classes, Maryanne learned the importance of performance evaluations and the impact on morale. Employees must have faith in the fairness of the evaluation system. Ideally, rewards in the form of compensation would be related to performance. High performers should expect to receive higher raises. However, this year pay raises were unrelated to performance,

were performed by an outside party, and were related to a regional salary survey that no one had seen. Maryanne questioned the impact of these salary adjustments on the staff. She also did not know how to explain the rationale of the adjustments to the pharmacists.

She wondered whether to call a meeting to let the staff vent their anger. As seven weeks had passed since the letters were received, Maryanne could see that things were calming down. Perhaps she should just ignore the situation.



## **EXHIBIT 1**

**To:** Sharon Green, Vice-President, Patient Care Services  
**From:** Maryanne Walker, Director, Pharmacy Services  
**Subject:** Pharmacists' Pay Adjustments

I have several inquiries about the letters the pharmacists received regarding their pay adjustments. Just so you won't be caught off guard, there is some confusion, disappointment, distrust, and even anger. I am doing my best at damage control, but the timing could not be worse. However, it's difficult to respond to inquiries since I don't have a copy of the pay adjustments.

The emotions are a result of the form the pay award took rather than the amount. However, I do not have the whole picture at this point. Some of the full time pharmacists are questioning their value to the organization, especially those who received a one-time bonus.

Initially, I limited myself to addressing direct questions but soon realized that pre-emptive tactics were more appropriate. I have spoken with pharmacists individually and assured them that I will take their concerns forward. I informed them that decisions regarding the amount and form of the award were made independent of their supervisors or me. At least one pharmacist has not received a letter yet. She said, I think jokingly, "Maybe I won't get anything."

If this is a taste of the new, more equitable compensation, the pharmacists feel nervous about what is yet to come. You have always told us that you don't mind a problem or a challenge; it's the surprises you hate. I could not agree with you more.

## **EXHIBIT 2**

### **Performance Summaries for Staff Pharmacists**

Judith Smith was the Assistant Director. She had been at Chicago for ten years, the last three as Assistant Director, and she had a total of thirteen years of experience as a hospital pharmacist. She handled most of the day-to-day interaction with the clinical staff. Judith served as the pharmacy representative on several standing committees. She was married to an investment banker and recently had her second child. Her peers thought of her as an excellent pharmacist and a hard worker.

Adam Rogers was the Operations and MIS Supervisor. He was consistently an above average performer. He has been a pharmacist at Chicago since graduation from pharmacy school eleven years ago. He had primary responsibility for managing the operation of the main pharmacy and the satellites that operate during the first shift. He had been instrumental in "computerizing" the pharmacy, and he had played a major role in developing the recently implemented computerized MAR. He was divorced and had custody of his two small children. He was well liked by the other pharmacists and respected by all for his expertise with computers.

Ellen Johnson was the Inventory Supervisor. She was considered an average performer. Recently married, she had been at Chicago for six years and was promoted to Inventory Supervisor two years ago, and she had twelve years experience as a hospital pharmacist.

Nancy Peters was the Sterile Products and Chemotherapy Supervisor. Hired three years ago, she was generally considered an above average performer. She was attending graduate school at the local university and hoped to complete her MBA next year. Maryanne thought that Nancy would leave Chicago upon completing her MBA. She had been a research and development pharmacist for a major pharmaceutical company for six years.

Pharmacist 5 was a staff pharmacist. She had been at Chicago for six years. She applied for the sterile products and chemotherapy supervisor job but was not selected. She was considered an average performer, had an abrasive personality, and was married to a physician.

Pharmacist 6 was a staff pharmacist. He came to Chicago from a large teaching hospital five years ago. His first year at Chicago was "spectacular." He took on major responsibility for setting up a new pharmacy at a nursing home owned by the hospital.

Pharmacist 7 was a staff pharmacist. She was not well regarded by her peers. Maryanne considered her a marginal performer. She recently completed a mandatory drug rehab program after it was discovered that she was addicted to painkillers. She was seriously injured in an automobile accident four years ago.

Pharmacist 8 was a staff pharmacist. She had six years' total experience, the last three at Chicago. She was an average performer but was popular with her peers. She was married to a factory worker and the mother of two.

Pharmacist 9 was a staff pharmacist. She was likable but a slightly below average performer. She had a one-year-old child who was sick frequently, and she missed work to care for the child. Her husband was a math teacher at the local high school, and she had three years' experience as a hospital pharmacist.

Pharmacist 10 was a staff pharmacist who was hired last year. Her performance during her first year has been well above average.



## **EXHIBIT 2A**

### **Three Year Salary History for Full-time Pharmacists**

	Year 1	% Raise	Year 2	% Raise	Year 3
<b>Salary Classification 1</b>					
Judith Smith Assistant Director	86,500	2.50%	88,663	1.85%	90,303
<b>Salary Classification 2</b>					
Adam Rogers Operations and MIS Supervisor	84,000	3.50%	86,940	2.50%	89,114
Ellen Johnson Inventory Supervisor	74,000	2.00%	75,480	1.48%	76,597
Nancy Peters Sterile Products & Chemotherapy Supervisor	75,000	2.50%	76,875	1.75%	78,220
<b>Salary Classification 3</b>					
Pharmacist 5 Staff Pharmacist	57,200	2.00%	58,344	1.50%	59,219
Pharmacist 6 Staff Pharmacist	58,600	2.75%	60,212	1.45%	61,085
Pharmacist 7 Staff Pharmacist	51,000	1.50%	51,765	1.00%	52,283
Pharmacist 8 Staff Pharmacist	58,200	2.00%	59,364	1.50%	60,254
Pharmacist 9 Staff Pharmacist	51,000	1.75%	51,893	1.00%	52,411
Pharmacist 10 Staff Pharmacist	N/A	N/A	N/A	N/A	54,000

**NOTE: ALL OF THE STAFF PHARMACISTS WORK A ROTATING SHIFT SCHEDULE.  
THEY CHANGE SHIFTS EVERY FOUR WEEKS.**

### **EXHIBIT 3**

To: Maryanne Walker, Director of Pharmacy Services  
From: Sharon Green, Vice-President, Patient Care Services  
Subject: Pharmacists Pay Adjustments

Here are the current year salaries resulting from pay adjustments for the 10 full-time pharmacists in your department.

Judith Smith	\$90,303
Adam Rogers	\$89,114
Ellen Johnson	\$77,363
Nancy Peters	\$79,003
Pharmacist 5	\$59,811
Pharmacist 6	\$61,085
Pharmacist 7	\$54,000
Pharmacist 8	\$60,254
Pharmacist 9	\$54,000
Pharmacist 10	\$54,000

## **EXHIBIT 4**

To: Maryanne Walker, Director of Pharmacy Services  
From: Sharon Green, Vice-President, Patient Care Services  
Subject: Pharmacists Pay Adjustments

Here is additional information regarding pay adjustments for the 10 full-time pharmacists in your department.

### **Salary Classification 1:**

Judith Smith                      No raise or bonus

### **Salary Classification 2:**

Adam Rogers                      No raise or bonus

Ellen Johnson                      1% raise plus, 1% one-time bonus

Nancy Peters                      1% raise plus, 1% one-time bonus

### **Salary Classification 3:**

Pharmacist 5                      1% raise plus, 1% one-time bonus

Pharmacist 6                      No raise, 2% one-time bonus

Pharmacist 7                      Adjustment to raise salary to 90% of midpoint

Pharmacist 8                      No raise, 2% one-time bonus

Pharmacist 9                      Adjustment to raise salary to 90% of midpoint

Pharmacist 10                      Adjustment to raise salary to 90% of midpoint

Salary Classification 1 Range: 75,000 – 85,000

90% of midpoint: 72,000    Midpoint: 80,000    110% of midpoint: 88,000

Salary Classification 2 Range: 65,000 – 75,000

90% of midpoint: 63,000    Midpoint: 70,000    110% of midpoint: 77,000

Salary Classification 3 Range: 55,000 – 65,000

90% of midpoint: 54,000    Midpoint: 60,000    110% of midpoint: 66,000

## **EXHIBIT 5**

To: Vice-Presidents and Department Directors  
From: Gerald Hammersmith, Vice-President, Human Resources  
Subject: How Salary Adjustments were Determined

The following information on the determination of salary adjustments is provided for your use in explaining the process to your professional staff.

If your salary was less than 90 percent of the midpoint of the salary range for your job classification, then you received an adjustment sufficient to bring you up to 90 percent.

If your salary was greater than 90 percent and less than 100 percent of the midpoint of the salary range for your job classification, then you received a 1 percent adjustment to your salary and a one-time 1 percent bonus.

If your salary was greater than 100 percent and less than 110 percent of the midpoint of the salary range for your job classification, then you received a one-time 2 percent bonus.

If your salary was greater than 110 percent of the midpoint of the salary scale for your job classification, no adjustments were made to your salary.

**Vice-Presidents and Directors are reminded that no funds have been budgeted for any other adjustments to salary.**

## APPENDIX 1

### Salary Spreadsheet

#### Three Year Salary History for Full-time Pharmacists

	Year 1	Raise	Year 2	Raise	Year 3	Current	Explanation
<b>Salary Classification 1</b>							
Judith Smith Assistant Director	86,500	2.50%	88,663	1.85%	90,303	90,303	No Raise or Bonus
<b>Salary Classification 2</b>							
Adam Rogers Operations and MIS Supervisor	84,000	3.50%	86,940	2.50%	89,114	89,114	No Raise or Bonus
Ellen Johnson Inventory Supervisor	74,000	2.00%	75,480	1.48%	76,597	77,363	1% Raise plus 1% Bonus
Nancy Peters Sterile Products & Chemotherapy Supervisor	75,000	2.50%	76,875	1.75%	78,220	79,003	1% Raise plus 1% bonus
<b>Salary Classification 3</b>							
Pharmacist 5 Staff Pharmacist	57,200	2.00%	58,344	1.50%	59,219	59,811	1% Raise plus 1% bonus
Pharmacist 6 Staff Pharmacist	58,600	2.75%	60,212	1.45%	61,085	61,085	No raise, 2% one-time bonus
Pharmacist 7 Staff Pharmacist	51,000	1.50%	51,765	1.00%	52,283	54,000	Adjustment to 90% of midpoint
Pharmacist 8 Staff Pharmacist	58,200	2.00%	59,364	1.50%	60,254	60,254	No raise, 2% one-time bonus
Pharmacist 9 Staff Pharmacist	51,000	1.75%	51,893	1.00%	52,411	54,000	Adjustment to 90% of midpoint
Pharmacist 10 Staff Pharmacist	N/A	N/A	N/A	N/A	54,000	54,000	No adjustment, raise, or bonus

#### Salary Classification 1 Range 75,000 - 85,000

90% of Midpoint	72,000
Midpoint	80,000
110% of Midpoint	88,000

#### Salary Classification 2 Range 65,000 - 75,000

90% of Midpoint	63,000
Midpoint	70,000
110% of Midpoint	77,000

#### Salary Classification 3 Range 55,000 - 65,000

90% of Midpoint	54,000
Midpoint	60,000
110% of Midpoint	66,000