MERIT PAY: TO REWARD PERFORMANCE OR VALUE TRADITION?

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Dean George Elliott of the College of Business Administration at Ivy State University was pleased to inform the Department Chairs that there would be a faculty salary increase program next year. This was welcome news since pay raises had been both few and small in recent years. The pay plan included a 2% across-the-board increase and a 3% discretionary component based on merit. Although the Chairs were glad for the flexibility in awarding raises, their challenge was to recommend increases that were fair and justified by faculty performance data. The Dean had exhorted the Chairs to use these dollars wisely to recognize achieving faculty and motivate others for future performance. Also, he told the group that he was not tied to the tradition of giving raises as a percentage of base salary and that the Chairs should consider proposing raises in absolute dollars.

Fred Anderson, Chair of the Marketing Department, was puzzling over how he would determine pay increase recommendations for his department. He reviewed the faculty performance evaluations and thought about how to proceed. Ringing in his ear was the Dean's exhortation to the Chairs: "Let's not waste this opportunity!"

INTRODUCTION

Dr. George Elliott, Dean of the College of Business Administration at Ivy State University, had just called the April monthly meeting of the Department Chairs of the College to order:

> Good afternoon. As I mentioned in my email to you yesterday, we learned from the Provost's Office that there <u>will</u> be a faculty salary increase program for next year. I want to go through that with you as the main agenda item for today's meeting.
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> I know that we haven't had much raise money in several years and certainly not many discretionary dollars, but this year will be a little different. There was much discussion yesterday at the Deans' meeting with the Provost on

the salary increase program, and I can tell you that the Deans were not all in accord on how the raises should be handled. A major issue was how much of the pay increase should be across-the-board (ATB) and how much should be discretionary. Frankly, I would have liked for nearly all of it for merit, but several others disagreed, and their position carried the day. After a considerable amount of wrangling, by the end of the session some decisions were made, and we all agreed to go with the following guidelines:

1. The allocation to each college will be 5% of the current year salary budget.
2. Of the 5% salary pool available to each college, 2% of the funds will be a general ATB increase for all faculty members who achieved at least a "Good" rating on their evaluations. Anyone who scored lower than Good is not eligible for any merit increase or the 2% increase. However, any funds saved from not awarding the 2% ATB will not available for distribution to other faculty members in the unit and go back to the central administration.
3. The remaining 3% of the salary dollars are discretionary and are to be awarded for merit related to the faculty member's performance.
4. The maximum merit raise for any faculty member is not to exceed 8%, or the total increase cannot be more than 10%.

Now within the College, I think we really need to address some salary issues. We have an opportunity this year to distinguish the doers from those who are just present. We've got some high-performing faculty who are well behind the market in their compensation, and we are likely to lose them if we can't show them that they are appreciated. I have to turn in the College salary proposal by end of business on Friday, so that gives you only a couple days to work out your recommendations. Let's plan to have them in to Alice (Business Officer) by Thursday afternoon. That will give us a little time to review them and work out any questions or issues we might have with your numbers.

So you've got your work cut out for you, but, before we break, there is one other point I want to make. Given the limited dollars we have and what we need to accomplish with them, I am not tied to giving faculty members percentage raises this year. What I want you to consider is whether we ought to use percentage pay increases or use absolute dollar increases. Maybe a top-performing faculty member should be rewarded in the same way, whether it is highly paid Joan or lowly paid Joe? After all, the benefit to the College of our professor publishing a good journal article is the same,

> whether the professor makes $75,000 or $150,000. I'm not sure that we need to link pay increases to someone's base salary. Are there any questions?

The Chair of the Economics Department, Dr. Phyllis Maxwell, was concerned about how the dollars could be distributed: "So, as an extreme example, you're saying that we could recommend faculty member A for a 7% merit increase and faculty member B for 0?

"Well," Elliott replied, "I guess that could happen if their evaluation scores warrant it –and if you have that much money available. But, remember that everyone will get the 2% ATB, except the poor performers.

Dr. Fred Anderson, the Chair of Marketing, looked a little puzzled and remarked, "To be sure I understand, are you suggesting that faculty members who have the same performance ratings should get the same amount of money, regardless of their salary base, whether it's $60,000 or $100,000?"

Elliott paused a moment and then responded:

> Well, I want you to consider that when you work up your recommendations. You need to make the dollars count. What will motivate the faculty to high performance in the future? I am not so sure that we should reward people more just because they have a higher base salary. Think about it, work with the numbers, and see what action you think will have the best impact on the faculty to advance your departments. In what you submit to me, make the case for the merit increases you're recommending. And you all know the College policy on our three-year evaluation window.
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> Get your recommendations in to Alice by close of business Thursday. And look, for the first time in many years, we have some degrees of freedom to give differential raises. Let's not waste the opportunity!

BACKGROUND

Ivy State was a large university in the Southeast United States. Like most public universities, it had faced budget challenges in recent years with state appropriations continuing to diminish. Although annual tuition and fee increases had helped to make up for declining state funding, there now was no political appetite for approving additional increases. Within this economic environment, faculty and staff pay increases had been fewer and smaller, thus the prospect of substantive salary improvements this year was unusual and very welcome news.

Fred Anderson had been the Chair of the Marketing Department for four years and had witnessed the lean times for salary improvement. There was no pay raise last year, a 2.0% raise the previous year, no raise three years ago, and a 2.5% raise four years ago. What a change, he thought, as he fondly remembered his early years as a faculty member in the Department when annual average salary increases in the range of 5% to 7% were common. He even recalled the one year when he got a 10% pay increase. But, as he thought about how he would make his pay recommendations for the Marketing faculty, that was then and now is now.

The Dean's message was clear: recommended faculty pay increases had to be tied to performance evaluations. Each spring, the Department Chairs conducted performance evaluations for every faculty member in the unit. Depending on a faculty member's assigned responsibilities, his/her effort was allocated on a percentage basis among six possible categories:

1. Instruction
2. Advising
3. Research and scholarly activities
4. Public and professional service
5. University service
6. Academic administration

At the College level, faculty evaluations were implemented by the process described in the *Faculty Roles and Rewards Document*, the major policy statement on faculty governance and operations. In early spring, faculty members submitted dossiers which summarized their activities and accomplishments for the previous calendar year. For nearly all faculty members, most of their efforts were allocated to instruction and to research and scholarly activities, which typically totaled about 80% or more of their efforts. The Department Chair rated their performance on each category of assigned activity using the qualitative descriptors of "Excellent, Very good, Good, Improvement needed," and "Failure to meet responsibilities." The weighted average of the category ratings produced their overall rating, e.g., if one were rated Very good in 70% of the effort categories and Good in 30%, the overall rating would be Very good. Although the Chairs' evaluations were occasionally contested and appealed to the Dean, the system had been in place for over 20 years, and it was reasonably well accepted.

When funding for merit raises was available, the *Roles and Rewards Document* specified that the criterion for allocating increases should be based on the last three years of evaluations, not just on the previous year. In part, this reflected the faculty's desire to "level" their performance records since, for example, one might have several publications in a given year but perhaps have none accepted in other years. Also, since merit salary increases had occurred infrequently, the faculty wanted the three-year moving average to increase their chances of getting pay increases when merit money was available.

PROFESSOR ANDERSON'S DILEMMA

When he returned to his office after the Dean's meeting, Fred Anderson began the task of reviewing his faculty and preparing his salary recommendations. Within the Marketing Department, there were four professors, four associate professors, three assistant professors and two instructors. He pulled up the files which contained the faculty members' name, academic rank, and current salary. As he glanced at the array of data before him, he observed the familiar discrepancies among faculty salaries that were related to salary compression. Among the 13 faculty members, there were not only major differences among faculty salaries at the same rank, but there were also cases of salary inversion in which higher-ranked faculty members made less than lower-ranked ones. Although he was not comfortable with what he saw, he knew that this was a long-standing problem and could not now be addressed – it was a matter for another day, he thought. His present task was to come up with pay recommendations for the upcoming year that were based on performance. He located the file on faculty evaluation records for the last three years, labeling the most recent evaluation as Eval #3, the previous year rating as Eval #2, etc. He put this information together on a spreadsheet (see Table 1, following page).

Anderson began to think about how he would work with the numbers. He recalled the Dean's exhortation to utilize the pay increase funds to reward the high producers and consider using raises based on absolute dollars, or a percentage of the salary pool, rather than raises calculated as a percentage of the faculty members' salary bases. As he thought about this, he could see that these two approaches would yield some different results.

TABLE 1
Faculty Name, Rank, Salary and Performance Evaluations

Name	**Rank**	**Salary**	**Eval #1**	**Eval #2**	**Eval #3**
Raymond Duffy	Prof	$103,348	Very good	Very good	Very good
Ken Pelz	Prof	141,650	Very good	Excellent	Very good
Joan Rakowski	Prof	132,875	Excellent	Excellent	Excellent
Ernest Segner	Prof	107,175	Very good	Good	Very good
Phillip Church	Assoc	110,158	Very good	Good	Very good
Fred Furniss	Assoc	85,690	Very Good	Excellent	Very good
Paula Long	Assoc	107,143	Very good	Very good	Very good
Carter Marx	Assoc	95,780	Good	Very good	Good
Mallory Jacobs	Asst	99,800	Very good	Excellent	Very good
Brent Jakes	Asst	107,500		Excellent	Excellent
Ravi Srinivas	Asst	112,500	Very good	Very good	Excellent
James Connor	Inst	59,500			Improv need
Alexis Moore	Inst	$ 65,700		Excellent	Excellent

He began by assigning points to each faculty rating for the last three years, with one point for Good, two points for Very good, and three points for Exceptional. For those faculty members who had served less than three years, he extrapolated their ratings(s) as was the College policy. He also noted that James Connor's evaluation was Improvement needed, thus Connor was not eligible for any raise. He then began to sum the annual scores for each faculty member, e.g., Duffy got 6 points, Pelz got 7 points, Rakowski got 9 points, etc.

The salary pool available for distribution was 3% of the department salary total which Anderson calculated to be $39,865. Before making his pay increase recommendations to the Dean, he needed to look at the effects of pay increases based on both (1) absolute dollars of the salary increase pool, and (2) percentage of base salaries. He could calculate the raise amounts in absolute dollars by relating the faculty member's total merit points to the total department evaluation points (81). He then could calculate the percentage of the salary increase pool that each faculty member would receive.

However, Anderson realized that distributing the $39,865 salary pool in a manner that used percentage increases in base salaries would be more difficult. To reflect the dispersion in the merit points of the faculty members, he knew that higher-rated faculty would get more than 3% and that lower-rated faculty group would get less. As a starting point, he assigned preliminary percentage increases related to merit points for each faculty member. He assigned a faculty member with 9 points a pay increase of 4.0%, one with 8 points would get a 3.5% increase, one with 7 points would get a 3.0%, etc. He then could calculate a pay raise for each faculty member and see how this worked out with the raise money available.

I am going to have to get my hands dirty with these data, he mused, and this is going to take some time. Since it was almost 5:00 pm, Anderson decided that he would not tackle this project today. Better to get into this when I am fresh and not so tired – like tomorrow morning, he thought, as he packed up to leave for the day.