

EXERCISE: HOW SHOULD MERIT RAISES BE ALLOCATED?

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ABSTRACT

Classes in both Organization Behavior and Human Resource Administration typically focus on the topic of granting merit raises. This paper presents an exercise that can be used to examine the equity, expectancy, and learning theories of motivation (OB topics) and basic principles of wage and salary administration (HR topics). The exercise requires that students develop criteria for granting merit raises and apply those criteria to a particular situation. It also requires them to deal with the issues of pay inversion and overpaid employees. The theoretical foundation for this exercise is also discussed.

INTRODUCTION

The subject of employee compensation has gained considerable attention in the media and in academia. Indeed, ABSEL has published numerous works addressing general compensation issues including: "Compensation Dilemmas: An Exercise In Ethical Decision-Making" [McAfee and Anderson, 1995], "Behavioral Consequences Of Reward Regarding Employee Absenteeism In An Industrial Setting: An Operant Conditioning Approach" [Kustin, 1981], and "Executive Bailout At Shake & Spear, Inc." [Sanders, Veiga and Yanouzas, 1984]. Issues of merit pay, specifically, have been largely ignored in prior ABSEL Proceedings. The issue has only been mentioned briefly in: "Designing A Competency-Based Peer Assessment Scale For The Evaluation Of Teaching In Higher Education" [Whatley et al., 1980], "An Experiential Approach To Teaching Subordinate-Oriented Communication" [Vaught and Pettit, 1986], and "Teaching Business Policy Utilizing Mass Lecture And Individual Case Labs" [Kopp and Shufeldt, 1990]. Unlike these papers, however, this one presents an exercise that focuses exclusively on the theoretical and practical aspects of granting merit raises.

THE EXERCISE

Purpose and Objectives

- A. To make students aware of the concepts or theories related to the issue of making merit raise decisions and to the problems that relate to implementing these concepts or theories.
- B. To familiarize students with possible criteria a manager can use in making merit raise decisions.

- C. To enhance student's problem solving and decision making skills.
- D. To enhance student's oral presentation skills by requiring that they explain the procedure used in determining merit raises.

Design and Procedures

Either at the beginning of or before coming to class, students should individually read the "Situation" below and determine merit raises for each Professor. Then, the instructor should divide the class into groups of 3-5 students. Each group should be told to develop a fair procedure that will be used to determine merit raises and then decide the dollar raise to be given to each Professor. After each group finishes, one member should write the raise amounts on the board or overhead for all class members to see. To facilitate this, it may be helpful if the instructor writes a grid on the blackboard showing the name of each professor across the top and an assigned group number on the left axis. This will allow for a quick comparison of the raises given by each team for each professor. Then, once all groups have disclosed their raises, a spokesperson for each group will explain the criteria and procedure used to determine raises.

Situation

Small State University is located in the eastern part of the United States and has an enrollment of about 8,000 students. The College of Business has 40 full time faculty members and over 30 part time faculty. The College is divided into five departments: Management, Marketing, Finance and Accounting, Decision Sciences, and Information Technology. Profiles of the Management Department faculty members are presented in Table 1 below. Management faculty are evaluated each year based on three primary criteria: Teaching, Research, and Service. Teaching performance is based on student course evaluations over a two-year period. Service to the university, college, profession, and community is also based on accomplishments over a two-year period. Research is based on the number of journal articles published over a three-year period. Teaching and research are considered more important than service to the university. In judging faculty performance, the Department Chair evaluates each Professor in terms of four standards: Far Exceeds Standards, Exceeds Standards, Meets Standards, and Fails to Meet Standards. The results of this year's evaluations are shown in Table 2 below.

**TABLE 1
PROFESSOR PROFILES:**

Prof. Housman:
55 years old; 25 years with the University; teaches Principles of Management mass sections; teaches over 400 students per year; has written over 40 articles and given over 30 presentations since joining the College; wants a good raise to catch up with others.

Prof. Jones:
49 years old; 10 years with the University; teaches Human Resource Management and Organizational Behavior; stepped down as Department Chair three years ago; teaches about 200 students a year; has written over 30 articles and 2 books since joining the College; recently received a \$80,000 grant for the College from a local foundation. Wants a good raise as a reward for obtaining the grant.

Prof. Ricks:
61 years old; 6 years with University; teaches Labor Relations and Organizational Development; stepped down as Dean of the College of Business two years ago and took a \$20,000 pay cut; teaches about 180 students per year; has written only two articles in the last 6 years due to administrative duties; very active in the community and serves on several charity boards. Wants a good raise to make up for loss of \$20,000 stipend.

Prof. Matthews:
28 years old; new hire-only four months with University; teaches Employee Relations and Compensation Management; just graduated with a Ph.D.; will teach about 110 students this year. To be competitive in the job market, the College needed to pay Prof. Matthews \$87,000 plus provide a reduced teaching load for two years and a \$6,000 per year summer stipend; none of the other faculty received this when they were first hired or subsequently; had 2 minor publications while a Doctoral student but none since joining the College. Wants a good raise to pay student loans and establish a new residence.

Prof. Karas:
32 years old; 4 years with University; teaches International Business and Honors sections of Management Principles; teaches about 150 students per year; won Teacher of the Year Award this year; published 12 articles in last four years; has been interviewing for a new job at other universities and may leave if good raise is not forthcoming.

Prof. Franks:
64 years old; 18 years with University; teaches Principles of Management and Human Resource Management; teaches about 150 students per year; principle advisor for Management major students; has not written any articles during the last 4 years; plans on retiring within 2-3 years. Wants a good raise to enhance pension plan.

**TABLE 2
DEPARTMENT CHAIRS RATING OF JOB PERFORMANCE**

Professor	Current Salary	Teaching	Research	Service
Housman	\$82,000	Exceeds	Exceeds	Meets
Jones	\$106,000	Exceeds	Far Exceeds	Exceeds
Ricks	\$135,000	Meets	Meets	Far Exceeds
Matthews	\$87,000	New Hire	New Hire	New Hire
Karas	\$90,000	Far Exceeds	Exceeds	Meets
Franks	\$80,000	Meets	Fails to Meet	Exceeds

This year the state has agreed to give raises to state employees totaling 3% --\$17,400 to the Management Department. Your task as Department Chair is to divide the \$17,400 among the faculty members. Keep in mind that these raises will likely set a precedent for future years and that the professors will view the raises as a signal for what behavior is valued and what is not.

Debriefing the Exercise

In debriefing this exercise, we recommend that the instructor begin by examining the completed raise chart on the blackboard and describing the differences in raises given by each team for each professor. A comparison between the high and low raise amounts for each professor can easily be calculated as can the high and low raise amount between all professors. These amounts are usually quite large which raises the issue of why teams that are given the same information with the same instructions reach different pay conclusions. In one of our

Developments in Business Simulation and Experiential Learning, Volume 31, 2004

classes having seven teams, the difference in high versus low merit increases for Prof. Housman was \$1,880. For the other professors, the difference was \$2,255 (Prof. Jones), \$2,050 (Prof. Ricks), \$2,470 (Prof. Matthews), \$1,295 (Prof. Karas), and \$1,400 for Prof. Franks. Three teams gave Prof. Matthews no raise at all. This raises the further issue of whether the merit increases granted are primarily a function of a professor's actual job performance or the team's (Department Head's) definition of job performance.

Next, a comparison can be made between the different criteria and procedures used by the various student teams. Since each group was required to present this information at the end of the exercise, it is now possible to examine similarities and differences between groups. This discussion often reveals why the raises are so different between student groups.

Finally, this exercise can be debriefed in terms of different motivation theories, current wage and salary theories and issues, or both. From a motivation perspective, the exercise can serve as the basis for discussing at least three motivation theories: equity theory, expectancy theory, and learning (behavior modification) theory. The exercise asks employees to be "fair" in the distribution of raises (equity theory). This raises the issue of what is "fair" when the concept is applied to raises. Some groups may think that all professors should receive the same dollar amount of raise money. Other groups may suggest that all professors should receive an equal percentage increase in pay. Still other groups may try to look for differences in job performance between the professors and attempt to give raises accordingly.

One issue that all must face is whether merit raises need to be considered in light of the professor's current salary. In this regard, one perspective would be to look solely at job performance (teaching, research, and service) and base raises accordingly, irrespective of a professor's current salary. Another perspective would be to look at each professor's total pay and attempt to achieve equity by distributing raises based on a combination of each professor's current salary and her/his job performance. Under this later approach, Prof. Ricks, who currently earns \$135,000 might not receive any raise whatsoever given that his/her current pay is so much higher than others. Regardless of which approach is used, students can be challenged by asking: "Is that fair?" followed by "Why?" The instructor may want to stress here that what is "fair" is in the eye of the beholder and that there are no firm rules that one can apply to determine what is fair.

In this exercise, students are required to determine which of many variables (e.g., teaching, research, service, length of service at the university, number of students taught) should be included in determining merit raises and how each should be weighed. The expectancy theory of motivation argues that rewards should be based on job performance. Yet, how does one define "job performance?" Students can be challenged to defend their definitions and weights. Learning theory suggests that desired behavior should be followed by positive consequences. Once again, what are the "desired behaviors" for a faculty member and how should these behaviors be weighed. This exercise demonstrates the difficulty of applying these different theories to practical situations.

This exercise also relates to numerous wage and salary administration issues. Most HR textbooks argue that organizations should establish a tier of pay grades, each of which should be based on the skills, knowledge, and abilities required to perform a job. Then, within each pay grade, pay is determined by the job performance and, perhaps, length of service of each individual. In this exercise, the university does not appear to have developed a series of pay grades for professors. Rather, Assistant Professors, Associate Professors, and Full Professors all seem to be lumped together into one grade. This raises the issue of whether the university should develop different duties and pay grades for each rank. Also, the exercise raises the issue of what salary should be given to an individual who steps down from a former administrative job. In this case, Prof. Ricks has stepped down from the position of Dean of the College and is still receiving a salary that reflects those old job duties, not the ones associated with a professor's job. Should the University change its pay policy so that this does not happen in the future? Should Prof. Ricks still receive raises given his/her high salary or should no raises be given until other professors catch up? The exercise also raises the issue of pay inversion. Prof. Matthews is receiving a higher salary than Prof. Housman even though the later has a far superior record. The university probably justifies this on the basis that in order to attract new professors, it must pay market rate. In addition, it would argue that it can't afford to raise the pay of all the other faculty who are affected. This raises the question of what is "market rate?" It also raises the issues of whether it is fair, ethical, and in the best interests of the university to follow this policy? What alternatives does it have? What are the possible negative long-term outcomes of this policy?

THEORETICAL FOUNDATIONS

The theoretical rationale and advantages for using this exercise can be found in the well known Blum's taxonomy of learning levels (knowledge, comprehension, application, analysis, synthesis, and evaluation). Asking students to complete all portions of this exercise appears to encompass all six levels of learning. In terms of the *comprehension* and *knowledge* level of learning, this exercise requires that students recall facts (e.g. Professor's current salary and biographical information) related to the exercise and to identify performance criteria. The *application* stage of learning is emphasized when students are asked to determine pay raises for each Professor and to write their raise amounts on the blackboard. During the exercise, students need to examine and compare each professor with one another in terms of current salary and job performance to determine raises. These requirements fall into the *analysis* level of learning. The *synthesis* level is demonstrated when students need to propose to the rest of the class their plan for granting raises. Finally, the exercise requires that students make raise decisions, present them to the class, and defend their answers, all of which is part of the *evaluation* learning level.

Theoretical support for this exercise comes not only from the Kolb learning model but from other sources as well. From the earliest foundations of learning style research, educators have recognized the use of experience as an effective teaching method [Dewey, 1916 and 1938; Lewin, 1951; Piaget, 1971].

Developments in Business Simulation and Experiential Learning, Volume 31, 2004

Dewey (1933) proposed that learning takes place when students have the opportunity to try out new behaviors and reflect on them. Experiential learning exercises, such as this one, provide a venue for exposing students to new situations in the classroom and provide opportunities for reflection. While reflecting on their experience, students can develop concepts and plan actions [Kolb, 1984]. This outcome has been well documented in a great variety of academic fields, including human and agro-medicine [Haas and Gregory, 2000; Wheat et al, 2003], human resource management [Elkins, 2002], retail management [Fairhurst and Good, 1991], leadership development (Hornyak and Page, 2003), marketing [Nicholson and Oliphant, 2002], and universal product design [Chang, 2000] and ethics [Sofaer, 1995].

Further, Hill and Herche (2001) describe teaching effectiveness in terms of getting students to think about issues and to question thoughtfully. Within this perspective, experiential learning can be an important feature of course designs. The benefits of using experiential methodology are numerous. Experiential learning environments can support students' development of real-world problem solving skills [Kolb, 1984; Jessup, 1995, Schlager, Lengfelder and David, 1999]. Experiential exercises can benefit students by increasing their confidence in their knowledge [LaVan and Carley, 1981] and students may develop a more favorable attitude toward the course because they play a more active role in the learning process [Kelley, 1978]. In a theoretical discussion of experiential learning, Kayes (2002) concludes that,

“Methods that increase vocabularies, introduce proximity of knowledge sharing, aid in making connections between personal and social knowledge, and organize experience in meaningful ways lead to management learning.” (Kayes, 2002, p. 146.)

DISCUSSION

This exercise has been used successfully in two different Organization Behavior classes. While it took about 30 minutes to conduct the exercise, less time is needed if groups meet outside of class to determine raises or if the number of student groups is small. Also, the exercise can be shortened by asking student groups to only write down the raise amounts and not present the procedure they used to determine the raises. The exercise has the following positive attributes:

1. It can be used in a variety of classes-OB, HR Principals, Compensation Management, HR Policy, and Business Ethics. It can be used at the undergraduate or graduate level.
2. It is relatively easy to conduct and debrief. The instructor's main task is to contrast the raise amounts given by student groups, to compare the procedures and criteria used by these groups to determine raises, and to examine all of the findings in light of one or more theoretical/practical bases.
3. Student interest in the exercise is high because pay and raise issues are typically salient to them. Most students have worked and have been frustrated with the amount of pay and raises received, particularly during a slow economy where raises are minimal.

4. It can be used to demonstrate and examine a variety of theoretical and practical issues. It can examine equity theory, expectancy theory, and learning theory and to examine wage and salary administration concepts.

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