Merit Pay in Higher Education

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The economic situation for most U.S. universities since the financial meltdown of 2008 has been challenging. Many of them reduced the size of their faculties or instituted unpaid furloughs to avoid layoffs. Even in institutions where these measures have been unnecessary, salaries have remained essentially frozen, and most universities have been unable to provide cost-of-living adjustments to keep pace with inflation.[1] Where the most basic adjustments to compensation have been largely impossible, discussions about merit-based pay have tended to be absent. Anecdotal information indicates that many faculty who were hired during these years have not received any pay increases, and so they may not have had an opportunity to consider what constitutes merit or how organizations might equitably distribute differential pay increases tied to the strength of a particular person's contribution to the institution.

The economy has shown some signs of recovery recently, and an opportunity now exists for higher education institutions to rethink their compensation philosophies and adopt new strategies by designing practices that can accomplish the aims of a merit-based system while avoiding some of the potential negative side effects. This article explores the design considerations associated with merit pay systems and their application in higher education.

The Logic of Merit-Based Compensation

The logic of merit-based pay systems is straightforward—reward-based compensation will increase overall organizational effectiveness and productivity.[2] In general, organizations wish to boost performance, so they seek to maximize the work of individuals in the organization. A basic assumption is that one of the primary reasons individuals work is to receive compensation for their efforts; therefore, organizations that have relatively broad flexibility over the way that compensation is distributed may devise distribution plans that reward individuals whose effectiveness and productivity are deemed to be greater. The anticipated result is that the more highly compensated individuals will be motivated to continue their high levels of achievement while their less highly compensated peers will be motivated to work harder, generating improved overall performance for the organization.

Merit-based compensation schemes are rooted in behavioral psychology, which is associated most frequently with B. F. Skinner. Its basic premise is that the behavior of all organisms can be explained entirely by the desire to maximize rewards and minimize punishment.[3] The intuitive appeal of this argument is so great that it now seems a matter of "common sense"—to motivate people to act in a specific way, reward them whenever they do so. To encourage people to cease specific behaviors, threaten to punish them. Rational beings will work to maximize rewards and avoid punishment. Adding to the allure of its simplistic formulation, this consequential-behavior-based approach is fairly easy for most people because they have seen myriad examples of its application in real life. Considerable empirical evidence also supports this belief.[4]

Unfortunately, behaviorism fails to explain many behaviors and to answer questions, such as:

- Why do rational people act in ways that they know will not maximize rewards?
- Why don't rewards that are applied consistently achieve unfailing increases in the intended behaviors?
- Why do certain reward schemes actually seem to impact behaviors negatively?

The next section presents some explanations for these issues, and the supplemental online article, "Digging More Deeply Into Behaviorism," provides additional information related to theories and research in this area.

Extrinsic Versus Intrinsic Motivation

Self-determination theory explores these questions, and seeks to explain why all forms of motivation do not work equally well.[5] This theory identifies two basic types of motivation—extrinsic

and intrinsic. The former involves behaviors that occur in direct anticipation of receiving a reward or avoiding punishment, whereas the latter behaviors are performed strictly for personal pleasure. Examples of intrinsically motivated behaviors include producing art, completing crossword puzzles, or exercising.

Complicating the situation of extrinsic motivation is the reality that many behaviors can involve both extrinsic and intrinsic motivation simultaneously. For instance, do people jog because they enjoy exercise (intrinsic motivation) or because they want to have a healthy body (extrinsic motivation)? Probably both motivations drive their actions.

In most cases, there is no way to determine clearly whether a specific behavior is driven by extrinsic or intrinsic motivation (or a combination of both). In practice, it is not necessary to be certain of the nature of people's motivations to understand how a merit-based compensation system based solely on extrinsic rewards would be detrimental to the overall health of an organization and its members.

Critiques of Extrinsically Based Compensation Systems

Merit-based pay systems are concerned entirely with the manipulation of extrinsic rewards with the goal of motivating people to perform at a higher level. This approach is challenged by Kohn,[6] who provides a thorough and well-supported exploration of the issues associated with merit-based pay. He articulates five key ways in which reward-based systems fail to accomplish their design goals.

- Rewards frequently involve punishment, which can be destructive.
- They can rupture relationships by creating a competitive environment for distribution of limited available funding for compensation.
- Rewards ignore the underlying reasons for the current performance levels and presume that improvements can be made solely through compensation incentives, rather than through addressing process-related issues.
- Such systems can discourage taking risks, which may be perceived as jeopardizing compensation increases if good results are not obtained.
- Rewards can undermine intrinsic motivation, shifting an individual's perspective from personal satisfaction and achievement to an overemphasis on pay.

The Meaning of Meritorious

Merit-based pay systems require a concrete articulation of the activities that are considered worthy of merit.[7] Although this is deceivingly simple in theory, it is an extremely challenging issue in practice. Here is a list of activities that a university might identify as meritorious.

- The number, quality, and/or impact of scholarly publications
- The amount of funding from grants and/or fellowships obtained
- The achievements or scholarly outputs of students
- The number of students taught in a given period
- The quality and/or impact of service contributions

Four major issues tend to arise when merit-based pay systems are being developed, as follows:

- *Deciding how to measure each accomplishment—independently and relative to the other activities.* For instance, how does a department chair decide which faculty member's raise will be 3 percent and which will be 3.5 percent? What constitutes the measureable difference in behaviors that is 0.5 percent more meritorious? Scientific approaches may be attempted, such as assigning points based on qualitative or quantitative differentiations; however, they can be quite cumbersome and often are difficult to validate. These formulas are inherently arbitrary judgments of value and are likely to be skewed based on internal politics and other nonbehavioral-related considerations.
- *Taking individual capabilities of faculty members into account.* Many factors can impact the relative weighting of merit determinations among faculty members. Consider the potential differences in publication opportunities for junior and senior instructors; greater experience would be more likely to lead to acceptance of articles in a greater number of highly respected publications. Should that be included in the decision-making process, however—particularly when an effort is made to motivate both levels of faculty members to attain higher performance, whenever possible? Standardizing the reward structure masks and dishonors the diversity of talents that naturally exist. A more compassionate system might seek to mete out rewards in a way designed to best support the growth and development of each individual, but an exact and equitable approach for doing this is not easy to establish.

- *Ensuring that reported activities represent substantive accomplishments.* Merit-based systems can reward people who know how to "play the game," rather than actually furthering the interests of the organization.

- *Including meritorious accomplishments that have not been delineated on the official evaluation list.* Although, it may be logical to add a catch-all category to the list, this increases the difficulty of assigning relative merit and the potential perception of biases. Another more democratic approach would be to solicit feedback from the whole faculty regarding the value of achievements associated with unlisted categories; however, the risk of interpersonal relationships skewing the input might diminish accomplishments of faculty members who are less popular or who are working on more controversial research.

Costs Inherent in Administering Merit-Based Pay Systems

Both administrative and emotional costs are associated with these compensation approaches. Either a department chair or an assigned group of faculty members sift through the achievements and determine which are meritorious. This can take quite a bit of time, which might be better spent engaging in more value-added activities. It is important not to underestimate this cost.[4]

There also may be considerable unintended emotional costs for this approach. Judgments are required when determining what achievements should be considered merit-worthy. It is inescapable that some faculty members will feel hurt by this process, and that can affect the decision makers as well. Enormous pressure may be experienced when involved faculty members know they are impacting their peers' futures. Furthermore, undervalued faculty members may vent their feelings in a variety of ways, creating a negative environment that can hurt the overall morale and cohesiveness of the department.

Alternative Methods

Under these circumstances, how can a university effectively recognize its faculty members for their outstanding accomplishments? This is a basic human need,[8] which involves acknowledging the person's humanity and connection with others, as well as specific strengths, gifts, and contributions to the community. Here are a few suggestions.

- *Make the reward reflect the contribution.* Suppose a faculty member finds satisfaction in performing a particular type of research or in guiding and inspiring students. Many departments have unnecessarily uniform expectations of the contributions that the faculty will make regarding teaching, scholarship, and service; however, individuals may not be equally capable in all these areas. Creating opportunities for those instructors to hone and develop their talents can make them feel recognized. Universities need to strive to foster environments that encourage faculty members to spend their days applying their unique qualifications.

- *Pay faculty members as much as possible.* First, people's basic needs for food, shelter, health, recognition, and clothing must be met, and these will differ based on individual circumstances. Then, the best practice is to provide the highest possible compensation and minimize the focus on monetary remuneration. Although people have to work for a living, this is generally not the primary reason they choose to work; therefore, it is important to decouple recognition from compensation. Recent research supports this approach.[6, 9] It is a fallacy to believe that ceasing to pay people would result in them not seeking opportunities to build and employ their gifts; people want to be engaged in meaningful work that contributes to society.[10]

Conclusion

Although it is encouraging that many universities now are able to increase faculty compensation, it is important to take this opportunity to break away from the well-intended, but misguided, compensation strategies of the past. The research in psychology and quality management indicates the following:

- Monetary rewards may increase quantity, but have little effect on (or may even decrease) the quality of knowledge or creative work.

- Merit-based pay systems are complex to implement and can lead to dubious gains that may not be worth the effort.

- Extrinsic rewards can have a corrosive effect on interpersonal relationships and the passion of the individuals within an organization when they are emphasized.

- Concrete recognition of faculty members' strengths and providing opportunities for them

to make contributions boosts effectiveness of individuals and the organization as a whole.

• Quality should be incorporated into performance management strategies, and compensation should be disconnected from performance assessments. More comprehensive and proactive attention should be given to how faculty members can identify and apply their abilities to enhance overall organizational performance.

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More Online

The online supplemental article, "Digging More Deeply Into Behaviorism," can be reviewed at **www.asq.org/pub/jqp/.**

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