EXPERIENTIAL EXERCISE

Merit Pay Increases

Purpose
1. To examine the application and problems of merit pay increases.
2. To consider the impact of multiple performance criteria in managerial decision making.

Required Understanding
The student should understand the different methods in performance evaluation.

How to Set Up the Exercise
Set up groups of four to eight students for the forty-five to sixty-minute exercise. The groups should be separated from each other and asked to converse only with members of their own group. The participants should then read the following:

Coastal Instrument Corporation is a small manufacturing company located in San Jose, California. The company is nonunionized and manufactures laboratory analysis equipment for hospitals.

 Approximately one year ago, the manager of the assembly department established three manufacturing goals for the department. The goals were: (1) reduce raw material storage costs by 15 percent; (2) reduce variable labor costs (i.e., overtime) by 20 percent; and (3) decrease the number of quality rejects by 15 percent. The department manager stated to the six unit supervisors that the degree to which each supervisor met or exceeded these goals would be one of the major inputs into his or her merit pay increases for the year. In previous years, merit increases were based on seniority.

The six department supervisors worked on separate but similar production lines. A profile of each supervisor is as follows:

Jim Owens: black, age twenty-four; married with no children; one year with the company after grad-
Evaluating from a local college. First full-time job since graduation from college. He is well liked by all employees and has exhibited a high level of enthusiasm for his work.

Mary Beck: white; age twenty-eight; single; three years with the company after receiving her degree from the state university. Has a job offer from another company for a similar job that provides a substantial pay increase over her present salary (15 percent). Coastal does not want to lose Mary because her overall performance has been excellent. The job offer would require her to move to another state, which she views unfavorably. Coastal can keep her if it can come close to matching her salary offer.

Jack Turner: white; age thirty-two; married with three children; three years with the company; high school education. One of the most stable and steady supervisors. However, he supervises a group of workers who are known to be unfriendly and uncooperative with him and other employees.

Joseph Koch: white; age thirty-four; married with four children; high school equivalent learning; one year with the company. Immigrated to this country ten years ago and has recently become a U.S. citizen. A steady worker, well liked by his co-workers, but has had difficulty learning the English language. As a result, certain problems of communication within his group and with other groups have developed in the past.

Maria Juarez: Hispanic; age twenty-nine; divorced with three children; two years with the company; high school education. Since her divorce one year ago, her performance has begun to improve. Prior to that, her performance was very erratic, with frequent absences. She is the sole support for her three children.

Frank Wedman: white; age twenty-seven; single; two years with the company; college graduate. One of the best liked employees at Coastal. However, has shown a lack of initiative and ambition on the job. Appears to be preoccupied with his outside social life.

Exhibit 16-13 presents summary data on the performance of the six supervisors during the past year. The data include current annual salary, performance level on the three goals, and an overall evaluation by the department manager.

The new budget for the upcoming year has allocated a total of $16,200 for supervisory salaries in the assembly department, a $15,200 (or 10 percent) increase from last year.

Exhibit 16-13
Individual Performance for the Six Supervisors During the Past Year

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<thead>
<tr>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Storage Costs [15%]</td>
<td>Labor Costs [20%]</td>
</tr>
<tr>
<td>Owens</td>
<td>$24.5</td>
<td>18%</td>
<td>19%</td>
</tr>
<tr>
<td>Beck</td>
<td>$26.0</td>
<td>18%</td>
<td>21%</td>
</tr>
<tr>
<td>Turner</td>
<td>$26.0</td>
<td>12%</td>
<td>8%</td>
</tr>
<tr>
<td>Koch</td>
<td>$24.5</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Juarez</td>
<td>$25.5</td>
<td>16%</td>
<td>15%</td>
</tr>
<tr>
<td>Wedman</td>
<td>$23.5</td>
<td>12%</td>
<td>10%</td>
</tr>
</tbody>
</table>

*Numbers designate actual cost and quality reject reduction. The possible ratings are poor, fair, good, and excellent.
in making the merit pay increase decisions, consider the following:

1. The decisions will likely set a precedent for future salary and merit increase considerations.
2. Salary increases should not be excessive, but should be representative of the supervisor’s performance during the past year.
3. The decisions should be concerned with internal equity; that is, they ought to be consistent with each other.
4. The company does not want to lose these experienced supervisors to other firms. Management not only wants the supervisors to be satisfied with their salary increases, but also to further develop the feeling that Coastal Manufacturing is a good company for advancement, growth, and career development.

Instructions for the Exercise

1. Each student should individually determine the dollar amount and percentage increase in salary (4 percent, 8 percent, or 12 percent) for each supervisor. Individual decisions should be justified by a rational or decision rule.
2. After each individual has reached a decision, the group will convene and make the same decision as in (1) above.
3. After each group has reached a decision, a spokesperson for each group will present the following information to the class:
   a. The group’s decision concerning merit pay increases for each supervisor (percentage)
   b. The high, low, and average individual decisions in the group
   c. A rationale for the group’s decision