When a motivational compensation plan becomes demotivating: a case study

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ABSTRACT

Pay, though not the only motivator for working individuals in contemporary organizations, is a central means of motivation. However, even well-intended pay policies may prove counterproductive. This case highlights the demotivating effects of a compensation plan aimed at motivating employees at a major Chinese private business university. The focus is not only what the compensation plan entails, but also how it was perceived among the employees. This case offers an opportunity for instructors, students, researchers and policy makers to reflect on the potential unintended consequences of new policies and to explore the reasons behind and countermeasures for such consequences.

Key words: Compensation plan, motivation, justice, business school

INTRODUCTION

In the fall of 2018, China Central University of Business (CCUB), a leading private business university located in central China, decided to institute a new compensation plan to combat the rising turnover among contract instructors. After the several months' work by a consulting company and the university's human resources team, a thorough plan was formulated, which included performance-linked bonuses highly favorable to the university's contract instructors.

However, several months before the policy took actual effect, the proposed new policy had already begun causing problems. While it was envisioned as a way to improve employees' motivation to stay, the staff suffered from low morale, with many instructors calling in sick, showing up late in classes, taking annual leaves in the middle of a semester, postponing service tasks, or actually starting looking for new jobs elsewhere.

The top management was baffled and wondered what could have gone wrong.

BACKGROUND

Founded in 2002, CCUB is a unique private higher education institution located in central China with the mission to provide an academic environment in which students, staff and faculty can explore, preserve and transmit the knowledge that will help to realize their potential in the future. It is privately funded by CCUB Holding LLC, a leading Chinese investment management firm that operates in wide range of industries, including education, media, entertainment, and real estate. In early 2018, managers in human resources department observed a relatively high turnover rate among teaching staff compared to similar private universities (e.g. 40 of 900 teaching staff quit the job in 2017). To cap it all off, during the same year, two deans left the university.

THE NEED FOR A NEW COMPENSATION PLAN

The high turnover in its teaching staff, coupled with the career move of two deans, prompted the CCUB top leadership to consider the development of a new compensation plan that would motivate and retain its administrative employees.

With reducing turnover as a priority, the human resources department initially spent 4 months to design the compensation plan with the help of a famous consulting firm, which, in addition to carefully analyzing the information provided by the university, dispatched a team to work with the university for about 2 months. The consulting team performed a series of formal interviews with instructors and administrative employees to gain a better insight to the situation. At the end of the two-month period, they provided a detailed report proposing change to the current compensation plan to combat turnover.

The consultants suggested that performance-based pay scheme with generous bonuses be introduced and that all administrative staff should sign a new contract with the university. This is because, per the consultants' findings, most employees were worried about the career prospect at this university, since their salaries have not changed in the past 4 years, and there was little sign of promotion. It was also brought to the notice of the consultants that the HR department had been having a hard time recruiting new teaching faculty for many years, which might be attributed to the fact that the HR department was obliged, under current pay policy, to minimize the cost when recruiting new staff in each recruitment category.

To address these issues, the HR department was recommended to invest over $10,000,000 to finance overall payment raise for all full-time instructors in a bid to provide a salary package well above the industry average. What is noticeable is that the policy entails a sophisticated bonus plan, which involves three criteria, i.e. tenure at the university, rank of position, and the amount of administrative service one performs, as indicated in Table 1 (Appendix). Specifically, during each academic year, each instructor is paid, at first, 5% less of their annual salary. However, at the end of each contract period (typically ranging from 3 to five-year s) they will receive the previously deducted 5% of their salary, in addition to bonuses. Typically, the first bonus will be worth a certain percentage of the employee's entire salary during the contract period, provided that his or her performance (teaching, research and/or service) is not below the average university average. The percentage in question is 4 for intermediate instructors with tenure of less than five-year s, 5 for instructors having worked at the university for 6-10 years, and 3 for longer than 11 years. The figure is 1 percent lower for junior instructors and 1 percent higher for senior instructors. On top of these, each instructor with extra service responsibilities will receive an extra bonus worth of 5% of their highest earning annual income multiplying the number of years they work.

For example, Mr. Johnson is a senior instructor (i.e. "high" in rank) on a five-year contract. He has worked in the university for 2 years, and he is serving currently as the chair of the Teaching Excellence Committee (i.e. extra service responsibility). If he signs a new five-year contract, then, per his new pay scheme, he is going to have 5% of his income held up (which is to be returned at the end of his five-year contract, if he did not quit the job). If he continues to perform satisfactorily as he has so far, he is expected to receive extra 6% of the entire income he made during the five-year s, and 5 times 5% of his income for 2021, which is the year of his highest annual income. In total, his end-of-five-year -contract bonuses could be around 55% of his annual income.

Consider another example. Ms Yan, an intermediate instructor without any administrative responsibilities, has already worked at the university for 12 years (at the end of her fourth three-year contract). Under the new compensation plan, if she renews her contract and continues to perform satisfactorily, she is expected to receive extra 4% of the entire income she made during the three years, plus 3 times 5% of her income for 2020, which is her best evaluated performing year. The previously deducted 5% of her annual income will also be paid back. At the end of MS Yan's new three-year contract, she can expect a bonus worth roughly 27% of her annual income.

According to the design, this new compensation plan should mitigate the university's current turnover issue and enhance employees' morale, with bonus and deduction elements clearly incentivizing instructors to sign a longer term contract, stay until the end of the contract, assume more service responsibilities, and strive to perform better.

NEW PLAN IN THE AIR: RESPONSES FROM THE EMPLOYEES

To avoid unnecessary confusion, during the process of plan making, most instructors were deliberately kept in the dark. The university hoped to organize briefing sessions when the policy was ready to be implemented. However, there were soon rumors about the pay scheme change.

Many instructors, without knowing the details of the new compensation plan, thought that they would be forced to work under stricter supervision and that they will be penalized if their performance falls short of the new requirement. Questions abound as to how they will be evaluated.

Some instructors worried that the university may prompt them to do more research. In China, publishing in SCI or SSCI-indexed journals is becoming the new norm at major public universities, and individuals working at private universities, at least contract instructors, had previously not been required to publish much research.

One junior instructor at the university's design school expressed her concern, "to get a payment raise in our school, it will from now on depend on the number of papers you publish. For those who major in design, there are not many journals. Besides, it can be very expensive to publish in one. We are already at a disadvantage. What if they required more?"

Another instructor voiced a similar concern: "If we are required to publish more papers, considering the money and time it might cost us, the bonuses we will receive, at least most of them, will be used to cover our research cost. At the end of the day, the university gains academic reputation, and we get nothing."

Rapidly sensing the mounting pressures from the instructors, the university top management began to be more open about the policy change and communicate to the instructors during a university level faculty meeting that the new compensation plan's introduction was to entice talented employees to stay and work for long term. However, such disclosure of information did not appease the instructors.

Mr. Cheng, a senior instructor from the economics department, felt there must have been some confidential information that was not disclosed, "I feel that I am being betrayed. The management clearly doesn't trust us. If they really want to raise our pay, why did they keep it a secret at the beginning?"

In the defense of the new compensation plan, however, some senior managers stressed that generous bonuses were involved, and the top recipients would receive a large amount of money, one third more than what he or she would make in one year. And this would show that the university really valued the employees. Indeed, according to the new compensation plan, certain employees (i.e. newly recruited senior instructors on a five-year contract with extra service responsibilities) would receive as much as 60% of their annual income as end-of-contract bonuses. Even the least attractive scenario (i.e. an instructor who remains in the junior rank after working at the university for 11 years and who have three-year contracts without any extra service responsibilities) would entail bonuses worth 24% of the instructor's annual income.

Ironically, when this new compensation plan was officially in place in the fall of 2018, it proved to be demotivating. The introduction of the new plan prompted some instructors to quit their job or to further dissociate themselves from their job. For example, Mr. Li, an instructor from the university's architecture school, remarked that he had been hoping for a payment raise almost every year, but now decided to start his own business, and would only teach on a part-time basis.

While many employees opted to sign new contract under the new policy, many more employees voiced their discontent and wanted to stay on their old contract, despite that they now had all the information and were clear about the bonuses schemes. Low morale was easy to observe among many instructors, and even among instructors who accepted the new policy, some were discussing new ways to retaliate.

One upset instructor expressed that, "I will give some of my students a hard time if they do not behave. You know, more work, more reading, stricter marks, which are what we should have done all along. And when I invigilate exams, you know how I love to catch cheating students". Another instructor mentioned, "Because they (the school) have paid me to do this. Let's make my tedious work a bit more fun."

It wasn't long before the university noticed that their work so far was becoming counterproductive, and now they are looking for ways to readdress the issue.

DISCUSSION QUESTIONS

1. What might have caused the lowering of employee morale and the rise of turnover?
2. Consider organizational justice theory. Explain what kind of justice has been violated?
3. Which other motivation theories do you think has the most relevant for understanding the responses of the employees to the new policy?
4. Do you think that the morale and the turnover issue might have been improved had this new policy been undone? What do you think could be done, if anything, to enhance the effectiveness of the new compensation plan?

TEACHING GUIDE AND SUGGESTED ANSWERS

This case shows the huge impact an organizational policy, even before its implementation, could have on employees of an organization. Instructors could begin their classroom discussions with the question of how important motivation is for contemporary organizations, and then proceed to the first warm-up question, before delving into deeper theory-driven discussions on motivation, organizational justice, and pay issues in relation to this case.

To answer Question 1, instructors should mention that there are several issues related to fairness that have been neglected by the organization in question. For example, there appears to have been a lack of performance-related incentives before the compensation plan change. It is also not difficult to fathom that employees might have been consistently excluded in previous policymaking in this organization, and that employees were left out in the decision-making process in this present case is just another example. Such a systematic lack of fairness consideration could contribute to employees' distrust and hostility toward the management. In fact, in this case, the 5% salary retention in the new compensation plan might only add insult to injury, further impeding the employee's ability to understand the organization's new policy in good faith.

Answering Question 2 entails discussing thoroughly organizational justice (Colquitt, Wesson, Porter, Conlon, & Ng, 2001), which is primarily concerned with how employees understand how authorities and decision makers treat them. Instructors may introduce the original conceptualization (Greenberg, 1987) and then discuss contemporary views on organizational justice. The first item to discuss is Distributive Justice, which tackles the fairness of outcomes of distribution, such as rewards and salary. In this case, it can be inferred from the high turnover that the organization might have had suffered from the lack of distributive justice for a long time, with few incentives in place for employees to work harder on their job or even to simply remain on their job.

Although employees care a great deal about what the distribution outcomes are, they also care about how the outcomes are distributed, which is what Procedural Justice examines. There are many factors affecting the fairness perception of organizational procedures. First, employees feel that the decision-making process is fair if they are part of the process, or if they have a direct influence on decision making. Failing that, if they are given opportunities to articulate their views in front of decision makers, employees will have a sense of control and empowerment. In the present case, however, employees were excluded from the entire decision-making process, which, coupled with the lack of distributive justice, contributed to their further dissociation from their work and organization.

In addition to Distributive Justice and Procedural Justice, research also highlights the importance of Interactional Justice, which refers to the treatment of individuals affected by decisions. This kind of justice can typically be maintained or improved by managers providing explanations for decisions and by publishing news in a sensitive and respectful manner (Bies & Moag, 1986). In this case, because the pay policy change was deliberately kept as a secret, employees were likely to become suspicious and even hostile towards the management. Research also shows that the lack of interactional justice may lead to retaliations (Skarlicki & Folger, 1997), which can be used to explain the quotations of employees at the end of the case study.

Later research on organizational justice suggests that Interactional Justice be divided into two constructs: Interpersonal Justice and Information Justice (Colquitt, 2001). Information Justice refers to whether decisions are adequately explained by decision makers and whether employees are informed about important issues in organization's operations, whereas Interpersonal Justice refers to fairness in the daily interaction between managers and employees.

Question 3 presents an opportunity to evaluate prominent motivation theories, such as Equity Theory, Expectancy Theory, and Self-Efficacy Theory. Instructors, for example, could focus on equity theory, and connect it to the theory of organizational justice, which can be said to have been based on the equity theory. One teaching idea is that instructors could lead the class in discussing how employees will respond to unfairness in this case. For instance, employees might change the input by making less effort when income is perceived as too low, change their perception of others, or simply change fields (i.e. quitting their job).

The last question highlights the subjectivity and perceived nature of justice. Research shows that employees' perception of justice is of great significance to performance. When employees feel they are being treated fairly, they make more positive efforts on their job (Barsky & Kaplan, 2007). Studies also affirm that perceived justice or fairness are associated with better corporate citizenship behavior, and lower resistance behaviors, such as slacking off (Karriker & Williams, 2009; Sharoni et al., 2012). However, when justice is broken, simply reversing the decision will not eliminate the employee's injustice perception. When employees feel unfairly treated in the first place, they would often regard the organization as not caring about their wellbeing and would start viewing themselves as being exploited by their organization. To enhance the perception of justice, more need to be done to gain the trust from employees that are already sensitive to injustice. It is important for managers to be very open about sharing information, to have unbiased procedures, and to treat employees with care and dignity.

Managers could design a comprehensive motivation program, which includes *training* aimed at increasing employees' ability to succeed, coaching that would increase their self confidence, and *assigning tasks* that would boost employees' experience of success. Managers should also ensure that rewards be linked to performance, and, more importantly, that such rewards are indeed those valued by employees. Because not everyone's needs are the same, managers should also avoid providing one-size-fits-all solutions to motivation. According to McClelland's Theory, for example, employees with high power demands should be given the opportunity to exercise their influence, while those with high demand for achievement should be allowed to do well at work.

ACKNOWLEDGEMENT

Both authors contributed equally to this case study.

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APPENDIX

Table 1 Elements of the Proposed Compensation Plan

	Performance Bonus			**Service Bonus**	**Deduct Repayment**
Basic Scheme	5% of entire salary earned during contract term (i.e. 3 to five-year s)			5% of the annual income of the best performing year	All the previously held-up 5% annual salaries
Tenure Factor	*1~five-year s*	*6~10 years*	*11+ years*	Note: Both bonuses and deduct repayment are paid at end of the contract.	
	+1%	*+0%*	*-1%*		
Rank Factor	*Junior*	*Intermediate*	*Senior*		
	-1%	*+0%*	*+1%*		