Executive Summary of the Compensation Committee Final Report

In this report, the University Compensation Committee responds to four charges provided by President Michael Nietzel. The report’s introduction provides the committee’s working philosophy and also the assumptions that shaped our recommendations. Any compensation plan that is adopted should demonstrate the high value the University holds for its employees, and in conjunction with other human resource strategies, should contribute to workplace conditions that support employees at all levels of the university in meeting or exceeding performance standards.

Section 1 is a response to the committee’s first charge: “To what degree should merit and equity be used in assigning salary increments?” The committee recommends a performance-based pay system to be implemented through the use of a Compensation Matrix that incorporates both performance-based pay and standards of equity into a single administrative process. Using the matrix, cost-center heads would have discretionary authority to reward merit and address equity concerns in a systematic way. Pay increases would be based on: 1) the amount of the University’s annual budget assigned to pay increases for that year; 2) an individual’s position within their pay range; and 3) individual performance evaluation results.

Section 2 responds to the second charge: “What kind of evaluation system needs to be in place to accompany the move to a merit- and equity-based system?” The committee recognizes that good and fair measurement of performance is essential in any performance-based pay plan and believes that the performance of all employees, including administrators, should be evaluated. Our recommendation for faculty evaluation builds on processes that are already in place, with untenured faculty, including lecturers, evaluated annually and tenured faculty biennially. For annual evaluation of staff, the committee recommends the refinement and eventual use of an evaluation tool that has been developed in-house, with interim use of the existing evaluation form provided by Human Resources. The committee also recommends that the University provide training for the University community in conducting sound performance evaluations.

Section 3 addresses the third charge: “What policy should be used for determining the salary for administrators’ return to faculty?” In general, the committee recommends that faculty members who have held one or more administrative positions continuously for three full academic years or more should return with a 9-month faculty salary of no less than 9/11 of their 12-month administrative salary.

Section 4 addresses the fourth charge: “How can the classified system (step and grade) be integrated into a move to a merit-based system? What would the processes and timeline be for such a change?” The committee recommends the existing step-and-grade compensation system for all classified employees be abandoned effective July 1, 2006 and that staff compensation be migrated in three broad phases to the Compensation Matrix approach. Proposed timelines, which are intended to provide a smooth transition to the new plan, are outlined in detail.

The Compensation Committee recognizes that these recommendations, if adopted, will require a significant culture shift for Missouri State University. The committee members do believe that adoption of a performance-based compensation plan would move the University in a direction that is in the best overall interest of the University and its employees.
Compensation Committee Final Report

Introduction

In August, 2005, the University Compensation Committee met for the first time with the charge to consider the following questions:

1. To what degree should merit and equity be used in assigning salary increments?

2. What kind of evaluation system needs to be in place to accompany the move to a merit-and equity-based system?

3. What policy should be used for determining the salary for administrators’ return to faculty?

4. How can the classified system (step and grade) be integrated into a move to a merit-based system? What would the processes and timeline be for such a change?

This Compensation Committee Final Report provides recommendations in response to the four charges listed above. The Introduction provides an overview of the committee and the process it followed, and also presents the committee’s working philosophy. Sections 1 & 2 address the first two charges, relevant to both faculty and staff. Section 3 addresses the third charge, which is specific to faculty. Section 4 addresses our final charge, specific to staff. Section 5 offers some final thoughts from the committee, followed by a glossary of terms and references for further reading. Two appendices to this report provide expansions of various aspects of the report.

Committee Membership and Process: The faculty, staff, and administrators who served on the Compensation Committee represent a broad cross-section of the campus community. The committee includes:

- Jeanne “Skip” Phelps: Compensation Committee Chair; Associate Provost; Professor of Psychology
- Greg Burris: Vice President for Administrative & Information Services; Compensation Committee’s Subcommittee on Staff Compensation Chair; Process Improvement Committee Chair
- Wendy Ferguson: Director of Donor Relations
- John Harms: Professor of Sociology, Anthropology, & Criminology; American Association of University Professors Representative
- David Hough: Dean of College of Education, Director of Institute for School Improvement
- Lyn McKenzie: Classification/Compensation Manager
- Phil Nichols: Skilled Trades Foreman; Staff Senate Budget and Priorities Subcommittee Chair; former Staff Senate Chair
- Mark Richter: Associate Professor of Chemistry; Chair-elect of the Faculty Senate
- Carol Shoptaugh: Professor of Psychology; Director of the Industrial/Organizational Psychology Graduate Program
• Garry Sorrell: Director of Business Services, West Plains Campus (now retired)
• Gary Stewart: Director of Residence Life & Services
• Steve Thomas: Professor of Management

Within the constraints of the time allotted, the committee encouraged an open process that included collecting input from the campus community. The committee used several approaches:
• During fall 2005, the committee hosted four open forums – two for staff and two for faculty – designed to collect input from the campus community regarding the desired compensation system.
• The committee reviewed the reports and recommendations issued by prior University committees assigned to address this topic.
• To collect input electronically, the committee created a web form and the following special e-mail addresses: FacultyCompensation@MissouriState.edu; StaffCompensation@MissouriState.edu;

Through this process, the members of the Compensation Committee gained an understanding of, and deeper appreciation for, the compensation-related challenges and issues faced by all University constituencies – faculty, staff, and administrators. To guide our work, the committee developed a compensation philosophy and articulated underlying assumptions and principles.

Working Philosophy, Guiding Assumptions, and Principles: A compensation philosophy is the starting point for the design of compensation systems and the touchstone by which all compensation decisions can be evaluated (Kelley & Gustat, 2006). The Compensation Committee proposes the following working philosophy, in accord with Dr. Nietzel’s public comments that he would like Missouri State University to become a “magnet for talent”:

Missouri State University’s workforce is its most vital resource and the compensation plan should demonstrate the high value the University holds for its employees. Therefore, the Missouri State University System will strive to maintain a total compensation package for faculty, staff, and administrators that is directed toward attracting, retaining, and rewarding a highly qualified, engaged, committed, and diverse workforce to serve the University’s students and the State of Missouri. Compensation shall be externally competitive when compared to the appropriate market, internally equitable, and based upon individual performance, qualifications required, and the complexity, scope, and impact of the work performed. Performance should be directly linked to obtaining pay rewards of sufficient magnitude to be valued. Strategically, the compensation system should, in conjunction with other human resource strategies, contribute to workplace conditions that support employees at all levels of the university in meeting or exceeding performance standards. Performance management and compensation increases will be directly linked with the furtherance and achievement of the University’s strategic goals; there should be a strong correlation between the strategic goals of the university and the goals and objectives set by supervisors and their employees. Employee performance will be evaluated in relationship to achievement of employee goals and objectives.
The committee recommends that this working philosophy be discussed by the campus community and refined. Because a compensation philosophy must be an expression of the beliefs of an organization’s most senior leadership (Kelley & Gustat, 2006), the Compensation Committee recommends that the University’s Board of Governors consider adopting a formal compensation philosophy. The committee is aware that specific salary goals will be set by the Ad Hoc Process Improvement Committee and recommends that performance measures be included in the new long-range plan to track the University’s progress toward its salary goals.

In addition to the above philosophy, the Compensation Committee has been guided by an overarching set of assumptions about the relationship between pay and performance. This set of assumptions includes the following:

- Any plan that the Compensation Committee advances must support behaviors and outcomes valued by the University. First and foremost, the compensation recommendation is strategic. The committee recognizes that any proposal must reflect the mission and values of the University and reinforce behaviors and outcomes that will make the University more effective.

- Reviews of the compensation literature indicate that well-designed performance-based pay systems are associated with increased performance and organizational effectiveness (Heneman & Gresham, 1998; Milkovich & Newman, 2005). In addition, there is substantial evidence that, in general, people agree that pay should be tied to performance (Milkovich & Newman, 2005). The pay for performance philosophy is embraced at the highest level of Missouri State University, which is an essential key to its success. The pay for performance philosophy was accepted by the University Compensation Committee as the guiding principle in the design of the University’s new compensation system.

- Governing boards, legislators, and accrediting agencies demand accountability and evidence of performance. The recommendations advanced here are seen primarily as a mechanism to recognize and reward performance; however, they also serve the important function of performance documentation.

- The proposed compensation plan, if adopted, signals a significant change in culture and values. The proposals represent a move to an era of accountability where performance is valued and non-performance has implications. The Compensation Committee recognizes that the great majority of faculty and staff perform at a meritorious level. Thus, it is important to note that the committee’s recommendations are explicitly not a post-tenure review system and are not in any way intended as an assault on faculty tenure. It is also important to recognize that no employee will suffer a reduction in current pay as a result of implementing the committee’s recommendations.

- Motivation models clearly dictate that no performance-based pay system will have the potential to align behaviors with organizationally defined objectives unless a direct link between employee efforts and organizational rewards exists. To establish this link, the dimensions of performance within each unit must be clearly defined and the standards for
each dimension appropriately established and effectively communicated to individual employees. The committee acknowledges that no single set of criteria or standards will be appropriate for all units.

- Models of performance-based pay typically state that the preconditions for a motivational pay system include (1) that performance is instrumental in obtaining rewards, and (2) that rewards must be of sufficient magnitude to be valued (Milkovich & Newman, 2005). Thus, if the University adopts a performance-based pay system, it must also make a strong and sustained commitment to develop salary funding sufficient to satisfy these preconditions. The committee recognizes that it is not our task to identify the source or amount of future salary funding, as this is the responsibility of the Executive Budget Committee.

- As communicated by the committee’s philosophy statement, the committee recommends accountability at all levels of the University. Each unit administrator will also be evaluated by their supervisor, and that performance evaluation must include an assessment of the quality and accuracy of the performance evaluations the unit administrator conducts in their unit. Employees should have an opportunity to participate in the assessment of their unit administrator’s compliance with good performance evaluation guidelines. Favoritism must not be tolerated. This accountability must be demanded and supported at the highest levels of the University. The culture of careful and meaningful performance evaluation that underlies a performance-based compensation system must extend to all levels of the University.

The philosophy, assumptions, and principles that have guided the work of the Compensation Committee represent conditions necessary for any performance-based pay system to be successful. The following four sections address the committee’s charges. Please evaluate our proposals in the context of our working philosophy and assumptions. The members of the Compensation Committee firmly believe that adoption of our recommendations will benefit Missouri State University if implemented in such a way that the campus community has time to discuss, understand, refine, and prepare. The timelines that are proposed are intended to provide that time.

1. **To what degree should merit and equity be used in assigning salary increments? (This section applies to both faculty and staff.)**

In response to this charge, the Compensation Committee recommends a performance-based pay system to be administered through the use of a Compensation Matrix approach to determining variable salary increases for faculty and staff. The Compensation Matrix incorporates both performance-based pay and standards of equity into a single administrative process. (Note: Equity is not the same as equality. It does not mean that certain individuals should or will have equal salaries. For more information, see Appendix A: General discussion of the concept of equity.)
We recommend the Compensation Matrix as an operational means to distribute pay increases to both faculty and staff for two reasons. First, the Compensation Matrix addresses equity concerns because a portion of one’s salary increase is based on a comparison of one’s pay to “market” pay for the position. Those that are further below market, all other things being equal, will receive a larger pay increase. Second, this system rewards performance. Employees who perform at elevated levels will receive higher percentage increases.

**Overview of the Matrix:** The Compensation Matrix is developed each year by creating a grid that places each employee into a specific cell within the grid. The cell in which an individual is placed is determined by two specific criteria:

- The individual’s performance evaluation rating
- The individual’s current position within the pay range for that individual’s position, established using appropriate market data

**What Determines Individual Pay Increases?** The Compensation Matrix bases pay decisions on the following criteria:

- The overall pay increase budget (the amount of the University’s annual budget assigned to pay increases for that year)
- An individual’s position within the pay range
- Individual performance evaluation results

**The Logic of the Pay Increase Percentages:** The Compensation Matrix is based on two assumptions:

- Pay should be based on performance and individuals who perform better than others should receive higher percentage pay increases.
- Standards of pay equity dictate that people at the bottom of a pay range who are performing as well as people at the top of a pay range should be able to progress to the top of the pay range over time, and pay differentials of comparably performing individuals should be reduced over time.

**The Pay Ranges:** To apply the Compensation Matrix, pay ranges must be specified. For faculty, pay ranges will be established by college deans in collaboration with the Provost, based on current pay levels and labor market salary survey data.

Pay ranges for staff will be developed based on job evaluation and labor market salary survey data. Ranges will be set for pay relative to market. Positions considered substantially equal based on job evaluation will be placed into pay ranges that reflect both internal alignment and external competitiveness. The midpoint of the pay range will reflect the competitive pay level for positions in that pay range (i.e., the midpoint will be slightly above, at, or below market pay level for all positions in that pay range). Employees will be grouped into quartiles based upon their position in their salary range. For example, for a pay range of $17,388 to $25,848 (the current grade 28), those earning $17,388 to 19,503 would be in Q1, those earning $19,504 to 21,618 would be in Q2, those earning $21,619 to 23,733 would be in Q3, and those earning $23,734 to 25,848 would be in Q4.
Pay ranges for both faculty and staff should be reviewed and adjusted annually to the CPI or some other agreed-upon index of wage growth. The committee recommends that the University give consideration to adopting wage and salary growth indexes provided by the Department of Labor’s Bureau of Labor Statistics (see http://stats.bls.gov/ncs/home.htm) rather than the CPI because the wage and salary indexes provide a more stable and relevant index of wage growth. The Compensation Committee also recommends the University fund the “Data on Demand” service available from CUPA to allow higher education salary data to be queried as needed to help establish market salary levels and appropriate pay ranges. The Compensation Committee recommends the University’s subscription to this service begin annually every February (when updated data becomes available) at an annual cost of approximately $1,600. A separate, customized CUPA salary survey should be commissioned for the “peer” institutions identified by the Missouri State University-West Plains campus. Information will be provided to cost-center administrators to assist them in placing all personnel into the proper quartile.

*The Performance Evaluation Ratings:* All faculty and staff will be assigned an annual (or in the case of tenured ranked faculty, biennial) composite performance rating from 1-5 on a numerical scale. For tenure-track faculty and lecturers, the composite rating will be established by the department head with input from the department’s personnel committee. Performance ratings will be reviewed and approved by the college dean. For staff, the composite performance rating will be established by the immediate supervisor and will be reviewed and approved by that person’s supervisor.

Following is the performance rating scale that the committee recommends:

<table>
<thead>
<tr>
<th>Rating</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td><strong>Exceptional</strong> Performance/results consistently exceed competent levels. A high degree of proficiency is shown in most aspects of performance.</td>
</tr>
<tr>
<td>4</td>
<td><strong>Commendable</strong> Performance/results frequently exceed competent levels. A high degree of proficiency is shown in certain aspects of performance.</td>
</tr>
<tr>
<td>3</td>
<td><strong>Competent</strong> Performance/results are consistently at expected levels. Meets job requirements.</td>
</tr>
<tr>
<td>2</td>
<td><strong>Development Needed</strong> Some performance deficiencies exist. Performance Improvement Plan is to be established and improvement is required.</td>
</tr>
<tr>
<td>1</td>
<td><strong>Unsatisfactory</strong> Performance is consistently below acceptable levels. Performance Improvement Plan is to be established and immediate improvement is required.</td>
</tr>
</tbody>
</table>

*Sample Compensation Matrices:* The three examples below use the five recommended performance ratings and divide the pay range into four pay quartiles, with values in the matrix indicating the following:
• Within each pay-range quartile, the first row of values displays the distribution of employees who fall in particular cells, so that each cell value is the proportion of all employees within the cost center who are in that particular cell. The sum of these values is 100%.
• The second row of values (labeled % increase) is the result of decisions on pay increases made by each cost-center administrator – each cell value represents the percent pay increase for individuals in that cell, as determined by the cost-center head. (Note: The pay increase values are bolded and italicized.) By changing any of the percentage pay increases assigned to particular cells, the cost-center head can alter the effect of designated salary increase percentages on the funds available in the salary increase pool (Total Actual Increase).
• The final row of values with each quartile (labeled budget impact) indicates the percentage increase in the cost center’s budget resulting from raises given to the employees in that cell.
• The last two rows of the matrix show the summed budgetary impacts of various salary increases and the total actual increase that would result from implementing those particular increases.

SAMPLE COMPENSATION MATRIX #1
NOTE: THIS IS ONLY AN EXAMPLE PROVIDED TO SHOW HOW A MATRIX WORKS
NUMBERS SHOULD NOT BE INTERPRETED LITERALLY

<table>
<thead>
<tr>
<th>Performance Categories (5=Exceptional)</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>employee distributions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pay Quartile distributions</td>
<td>15%</td>
<td>35%</td>
<td>48%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Q4</td>
<td>15%</td>
<td>2.3%</td>
<td>5.3%</td>
<td>7.2%</td>
<td>0.3%</td>
</tr>
<tr>
<td>% increase</td>
<td>5.0%</td>
<td>3.6%</td>
<td>2.4%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Budget impact</td>
<td>0.1125%</td>
<td>0.1890%</td>
<td>0.1728%</td>
<td>0.0000%</td>
<td>0.0000%</td>
</tr>
<tr>
<td>Q3</td>
<td>25%</td>
<td>3.8%</td>
<td>8.8%</td>
<td>12.0%</td>
<td>0.5%</td>
</tr>
<tr>
<td>% increase</td>
<td>5.4%</td>
<td>4.0%</td>
<td>2.6%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Budget impact</td>
<td>0.2025%</td>
<td>0.3500%</td>
<td>0.3120%</td>
<td>0.0000%</td>
<td>0.0000%</td>
</tr>
<tr>
<td>Q2</td>
<td>40%</td>
<td>6.0%</td>
<td>14.0%</td>
<td>19.2%</td>
<td>0.8%</td>
</tr>
<tr>
<td>% increase</td>
<td>5.8%</td>
<td>4.4%</td>
<td>3.0%</td>
<td>1.4%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Budget impact</td>
<td>0.3480%</td>
<td>0.6160%</td>
<td>0.5760%</td>
<td>0.0112%</td>
<td>0.0000%</td>
</tr>
<tr>
<td>Q1</td>
<td>20%</td>
<td>3.0%</td>
<td>7.0%</td>
<td>9.6%</td>
<td>0.4%</td>
</tr>
<tr>
<td>% increase</td>
<td>6.2%</td>
<td>4.8%</td>
<td>3.4%</td>
<td>2.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Budget impact</td>
<td>0.1860%</td>
<td>0.3360%</td>
<td>0.3264%</td>
<td>0.0080%</td>
<td>0.0000%</td>
</tr>
<tr>
<td>Impact on Pay Increase Budget</td>
<td>0.8490%</td>
<td>1.4910%</td>
<td>1.3872%</td>
<td>0.0192%</td>
<td>0.0000%</td>
</tr>
<tr>
<td>Total Actual Increase</td>
<td>3.7464%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Note that in Example #1, the University is allocating a 3.75% salary increase pool. In this example, someone who is at the expected level of performance (competent, composite rating of 3) and also close to the top of their pay range (Q4) would receive a 2.4% salary increase.

A unique matrix will be developed annually for each cost center. Each cell will contain a specific proportion of the cost-center’s employees. In the example above, 15% of all employees are rated as “5” in performance while 20% of employees are in Q1, the lowest quartile of their respective pay ranges. Calculations show that 15% x 20% = 3% of all employees are in both the top performance category (rated 5) and the bottom of their pay range (Q1). In the example, each of these employees (top performers whose current salaries are furthest below market) would receive a 6.2% salary increase for that year. (Please note that each employee’s current salary will be compared to their position’s pay range, not a “master pay range” that applies to all positions within their cost center.)

In general, individuals rated at the top of the performance scale (those rated a 5) will receive a larger percentage increase than those at the bottom of the performance rating system (those rated a 1). Also, those individuals at the bottom of the pay range (in the bottom pay quartile, or at Q1) will receive a larger percentage increase than those at the top of the pay range (those at the top pay quartile, or Q4). Those in cell Q4-1 (the lowest performers whose current salaries are closest to or above market) will always receive the lowest percentage increase (usually no increase), while those at Q1-5 (the highest performers whose current salaries are furthest below market) will always receive the largest percentage increase.

The impact of pay increases on the total budget is determined by multiplying the proportion of employees who are in each cell by their pay increase percentage – this yields the bottom number (“budget impact”) noted in each cell within the matrix. Once that is done, the “budget impact” cell values are added to arrive at a total pay increase percentage. Reconsider the example of the individuals in the bottom pay quartile (Q1) who are rated a “5” in performance. In the above example, these 3% of employees each receive a 6.2% pay increase. The total pay budget within that cost center will then increase by 3% x 6.2% = .1860%. To calculate the total overall pay increase, the increases in each of the cells (the number at the bottom of each cell) are added together. In the example, the cells in each column are totaled in the row labeled “Budget Impact.” If all individuals rated a “5” in performance receive the percentage pay increases that are noted in the matrix cells, the overall impact on pay will be to increase the overall salary pool within that cost center by .849%. The total actual budget increase is the sum of the totals for each column:

\[ .849\% + 1.491\% + 1.3872\% + .0192\% + .000\% = 3.7464\% \]

The example shows possible individual pay increase percentages of zero to 6.2% using an overall salary pool budget of 3.75%. Please note that, in reality, the overall salary increase percentage will be set by the Executive Budget Committee and the President, then each cost-center administrator will develop his/her Compensation Matrix. Each cost center will have one Compensation Matrix per year, and each will be unique based upon the distribution of employees.
within the cells as determined by their most recent performance evaluations and their current position within their respective pay ranges.

Sample Compensation Matrix #2 (below) is provided to illustrate the impact of a different overall salary increase pool on the salary increases that can be given. Example #2 assumes an overall salary pool increase of 3%.

**SAMPLE COMPENSATION MATRIX #2**

**NOTE:** THIS IS ONLY AN EXAMPLE PROVIDED TO SHOW HOW A MATRIX WORKS

NUMBERS SHOULD NOT BE INTERPRETED LITERALLY

<table>
<thead>
<tr>
<th>Performance Categories (5=Exceptional)</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>employee</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pay Quartile distributions</td>
<td>15%</td>
<td>35%</td>
<td>48%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Q4</td>
<td>15%</td>
<td>2.3%</td>
<td>5.3%</td>
<td>7.2%</td>
<td>0.3%</td>
</tr>
<tr>
<td>% increase</td>
<td>3.6%</td>
<td>3.0%</td>
<td>2.0%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Budget impact</td>
<td>0.0810%</td>
<td>0.1575%</td>
<td>0.1728%</td>
<td>0.0000%</td>
<td>0.0000%</td>
</tr>
<tr>
<td>Q3</td>
<td>25%</td>
<td>3.8%</td>
<td>8.8%</td>
<td>12.0%</td>
<td>0.5%</td>
</tr>
<tr>
<td>% increase</td>
<td>3.8%</td>
<td>3.2%</td>
<td>2.5%</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Budget impact</td>
<td>0.1425%</td>
<td>0.2800%</td>
<td>0.3000%</td>
<td>0.0000%</td>
<td>0.0000%</td>
</tr>
<tr>
<td>Q2</td>
<td>40%</td>
<td>6.0%</td>
<td>14.0%</td>
<td>19.2%</td>
<td>0.8%</td>
</tr>
<tr>
<td>% increase</td>
<td>4.0%</td>
<td>3.4%</td>
<td>2.6%</td>
<td>1.4%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Budget impact</td>
<td>0.2400%</td>
<td>0.4760%</td>
<td>0.4992%</td>
<td>0.0112%</td>
<td>0.0000%</td>
</tr>
<tr>
<td>Q1</td>
<td>20%</td>
<td>3.0%</td>
<td>7.0%</td>
<td>9.6%</td>
<td>0.4%</td>
</tr>
<tr>
<td>% increase</td>
<td>4.2%</td>
<td>3.5%</td>
<td>2.7%</td>
<td>2.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Budget impact</td>
<td>0.1260%</td>
<td>0.2450%</td>
<td>0.2592%</td>
<td>0.0080%</td>
<td>0.0000%</td>
</tr>
</tbody>
</table>

**Impact on Increase Budget**  
| 0.5895% | 1.1585% | 1.2312% | 0.0192% | 0.0000% |

**Total Actual Increase**  
| 2.9984% |

Both Examples 1 and 2 operate under the assumption that all employees performing at an “Expected” level or above (i.e., performance ratings of 3, 4, or 5) will receive a pay increase at least equal to the annual average growth in wages and salaries (in our example, 2.4%). Although that goal is desirable, it will not necessarily be met when pay increase budgets are small and increased emphasis on performance-based pay is desired. Example 3 below illustrates this situation.

Using the same assumptions as Example 2 above (i.e., a pay increase budget of 3.00% and compensation cost increases of 2.4% for the year based upon either a Department of Labor wage index or a consumer price index), Example 3 describes a scenario in which no pay increases are given to employees performing at a below-expected level of performance (performance rating of
Additionally, employees who perform at the expected level (performance rating 3) who are already in the top two pay quartiles (Q4 and Q3) will receive pay increases slightly below the average annual increase in wages and salaries of 2.4%. These decisions shift pay increase dollars to top performers, particularly those at the bottom of their pay range, who will receive larger percentage pay increases. For example, an individual at performance rating 5 who is at the bottom of the pay range would receive a pay increase of 4.2% in Example 2, but would receive 5.2% using the pay decisions illustrated in Example 3, even though the overall pay increase budget is the same in both examples.

**SAMPLE COMPENSATION MATRIX #3**

**NOTE:** THIS IS ONLY AN EXAMPLE PROVIDED TO SHOW HOW A MATRIX WORKS NUMBERS SHOULD NOT BE INTERPRETED LITERALLY

<table>
<thead>
<tr>
<th>Performance Categories (5=Exceptional)</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay Quartile distributions</td>
<td>15%</td>
<td>35%</td>
<td>48%</td>
<td>2%</td>
<td>0%</td>
</tr>
<tr>
<td>Q4</td>
<td>15%</td>
<td>2.3%</td>
<td>5.3%</td>
<td>7.2%</td>
<td>0.3%</td>
</tr>
<tr>
<td>% increase</td>
<td><strong>4.00%</strong></td>
<td><strong>3.0%</strong></td>
<td><strong>1.8%</strong></td>
<td><strong>0.0%</strong></td>
<td><strong>0.0%</strong></td>
</tr>
<tr>
<td>Budget impact</td>
<td>0.0900%</td>
<td>0.1575%</td>
<td>0.1296%</td>
<td>0.0000%</td>
<td>0.0000%</td>
</tr>
<tr>
<td>Q3</td>
<td>25%</td>
<td>3.8%</td>
<td>8.8%</td>
<td>12.0%</td>
<td>0.5%</td>
</tr>
<tr>
<td>% increase</td>
<td><strong>4.20%</strong></td>
<td><strong>3.3%</strong></td>
<td><strong>2.00%</strong></td>
<td><strong>0.0%</strong></td>
<td><strong>0.0%</strong></td>
</tr>
<tr>
<td>Budget impact</td>
<td>0.1575%</td>
<td>0.2888%</td>
<td>0.2400%</td>
<td>0.0000%</td>
<td>0.0000%</td>
</tr>
<tr>
<td>Q2</td>
<td>40%</td>
<td>6.0%</td>
<td>14.0%</td>
<td>19.2%</td>
<td>0.8%</td>
</tr>
<tr>
<td>% increase</td>
<td><strong>4.60%</strong></td>
<td><strong>3.60%</strong></td>
<td><strong>2.40%</strong></td>
<td><strong>0.0%</strong></td>
<td><strong>0.0%</strong></td>
</tr>
<tr>
<td>Budget impact</td>
<td>0.2760%</td>
<td>0.5040%</td>
<td>0.4608%</td>
<td>0.0000%</td>
<td>0.0000%</td>
</tr>
<tr>
<td>Q1</td>
<td>20%</td>
<td>3.0%</td>
<td>7.0%</td>
<td>9.6%</td>
<td>0.4%</td>
</tr>
<tr>
<td>% increase</td>
<td><strong>5.2%</strong></td>
<td><strong>4.0%</strong></td>
<td><strong>2.60%</strong></td>
<td><strong>0.0%</strong></td>
<td><strong>0.0%</strong></td>
</tr>
<tr>
<td>Budget impact</td>
<td>0.1560%</td>
<td>0.2800%</td>
<td>0.2496%</td>
<td>0.0000%</td>
<td>0.0000%</td>
</tr>
<tr>
<td>Impact on Increase Budget</td>
<td>0.6795%</td>
<td>1.2303%</td>
<td>1.0800%</td>
<td>0.0000%</td>
<td>0.0000%</td>
</tr>
<tr>
<td>Total Actual Increase</td>
<td><strong>2.9898%</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Reasons to Utilize a Compensation Matrix:**

- **Fairness.** The Compensation Matrix is a systematic manner in which to apply a performance-based pay system. It offers a set of decision rules that can be consistently and uniformly applied, and reduces the role of chance and favoritism.

- **Performance and equity are addressed concurrently.** Because the Compensation Matrix uses both an individual’s performance evaluation and position in their respective pay range to establish pay increase percentages, it ensures that better performers get higher percentage increases. At the same time, it reduces pay differentials among individuals at
the same performance level by granting larger percentage increases to individuals at the bottom of the pay range. Over time, this system increases pay differences across individuals who perform at different levels, but reduces pay differentials across individuals of the same performance level.

- **Flexibility.** The Compensation Matrix is an extremely flexible process. It can be applied to any job family. Additionally, when budgets, performance, or pay distributions change, the matrix can be adjusted to match the changes by altering the pay raise percentages in each cell.

**Issues Associated with the Compensation Matrix:**

- **It is not a substitute for performance evaluation.** The Compensation Matrix is not a performance evaluation tool. It is a means to apply performance evaluation results in a systematic manner. Successful implementation of the Compensation Matrix is dependent upon the adequacy of the underlying appraisal instrument and its conscientious use.

- **It is dependent on performance and pay range distributions.** The matrix system works best when employees are distributed throughout the performance categories and pay ranges. If the appraisal system suffers from severe leniency to the extent that a large percentage of employees are in the top two appraisal categories, the differences in pay raise percentages will be negligible. A similar situation occurs if employees are aggregated in the same pay quartile rather than being distributed across the pay range. Of these two issues, failure by unit managers to make performance distinctions across employees is probably the most troublesome threat to the integrity of this type of system.

- **It works best when distribution guidelines are followed.** As a guideline, the committee offers distribution “caps” that can be used to assess whether unit managers (i.e., supervisors, department heads, etc.) are failing to make performance distinctions. In general, if meaningful performance evaluation is taking place, performance ratings can be expected to be distributed as follows: no more than 15% of the employees in the cost center would receive a composite performance evaluation score of “5”; no more than 35% would receive an evaluation score of “4”; and no more than 50% would receive an evaluation score of “3”. Although valid individual performance evaluations should not be altered to fit a forced distribution, marked deviations from these guidelines (for example, if all employees in a unit receive an evaluation score of 5) should be justified. Marked deviations at the cost-center level may indicate that the performance evaluation process is not being taken seriously, which is a problem that must be addressed by the cost-center head. (Note: The committee recognizes that these distribution guidelines are difficult or impossible to follow in units that have a low number of employees.)

- **Other means of addressing equity issues may still be necessary.** Over time, use of the Compensation Matrix will address all non-performance-related salary inequities irrespective of the underlying cause (i.e., internal or external); however, other approaches to addressing salary inequity may also be necessary if there are long-standing systemic inequities (for example, gender inequity in salaries). Therefore, the proposed matrix is not meant to eliminate the traditional equity-adjustment, which may still be used to correct inequity in individual cases.

- **It does not guarantee a cost-of-living raise for all employees.** The matrix approach, if adopted, would not guarantee a cost-of-living allowance (COLA) for all employees equal to the increase in the Consumer Price Index (CPI) or other agreed upon index of wage
growth. The availability of a small salary increase pool in any given year may result in most or all employees receiving salary increases less than the increase in the CPI or other agreed-upon index of wage growth. It is, however, expected that when salary pools are adequate, satisfactorily performing employees will receive increases approximately equivalent to cost-of-living increases.

Overall salary targets will be proposed by the Ad Hoc Process Improvement Committee, and the targets that the University adopts will define salary objectives relative to external markets. The committee acknowledges that in certain circumstances, pay increases may be given to high performers who are already above market level (as determined by salary surveys) if the University’s policy decisions regarding salary targets lead to anchoring market somewhere below the top of the pay range. The committee also acknowledges that top performers may bump up against the top of a pay range for a particular job because the top of that pay range reflects what the University is willing to pay for sustained performance in that job.

The committee acknowledges that with the new compensation plan, cost centers will have the flexibility of paying different salaries to individuals in the same positions based on differences in job performance; however, as mentioned in the previous paragraph, salaries should still remain within the appropriate salary ranges and pay grades. Cost-center heads cannot grant salary increases that place people outside of the salary range for their pay grade, nor should cost-center heads use salary increases to effectively accomplish a de-facto reclassification of a particular position. Reclassification requires prior review of the position by the Office of Human Resources to determine if the position should be put in a different pay grade because the work has changed and is no longer appropriate for the current grade. The job evaluation and placement of positions into pay grades and ranges that will be undertaken by Human Resources for the next two years will actually be a reclassification analysis performed on all staff positions. Therefore, the committee recommends that requests for reclassifications be suspended until the new pay grades and ranges are established.

The committee recognizes that cost-center administrators may need to “hold back” a small percentage of the available salary pool in order to accommodate performance evaluation appeals that may be resolved after the Compensation Matrix and budgets are set. These “hold back” percentages should be as small as possible.

The committee recommends the same percentage of the total salary pool be made available for staff and faculty each year. For example, if the salary increase pool for staff in a given year totals 3% of the staff salary total, then the salary increase pool for faculty in that same year should equal 3% of the faculty salary total. The Compensation Committee feels that allocating different percentages would have a detrimental impact on morale.

The committee recommends that a standing University Compensation Committee be formed to monitor and refine the University’s compensation system as changes to current practice are put into effect. A standing committee could serve several functions. For example, the committee could meet annually with the Executive Budget Committee to assist in evaluating the depth of the salary pool for the coming year and assist in determining an appropriate course of action in years when the pool is too shallow for meaningful performance-based compensation. If it is
determined that the salary pool in a given year is so low that temporary suspension of the matrix approach for that year is warranted, the performance evaluation cycle recommended in Section 2 of this report should nevertheless continue. The committee recommends that performance evaluations earned during a year when the matrix approach to distributing raises has been suspended be averaged with performance evaluation ratings for subsequent years, so that an employee who earns a good performance rating in a low-salary year may still reap benefits from that good performance in a subsequent year when salary pools are better.

**Timeline for Implementation of the Compensation Matrix:** Section 2.10.1.3 of the *Faculty Handbook*, which requires part of the salary pool be distributed as across-the-board pay increases, precludes the immediate implementation of our recommendations, at least for faculty. Therefore, for the coming fiscal year (FY07, beginning July 1, 2006), the committee recommends that the available salary pool be distributed to both faculty and staff in a manner that is generally consistent with the constraints of the current *Handbook*. Specifically, it is proposed that for the coming year, ¾ of the available salary pool for both faculty and staff be distributed as an across-the-board increase and the remaining ¼ of the pool be allocated by cost-center heads based on the basis of performance evaluations and/or equity considerations. The committee recommends that cost-center administrators not be permitted to allocate the remaining ¼ of the salary pool in an across-the-board manner and also recommends that cost-center heads be prepared to justify their salary distribution decisions on the basis of considerations of performance and/or equity rationales. The committee further recommends that to gather performance evaluation information for use in FY07, all staff and administrators who have not received a performance evaluation in the past 12 months be evaluated by April 1, 2006, using the existing one-page performance evaluation tool that is provided by the Office of Human Resources. (In Section 4, the committee provides an additional recommendation regarding distribution of the across-the-board portion of the staff salary pool for FY07 as a fixed-dollar amount rather than a percentage increase.)

For faculty, the committee recommends transition to full implementation of the Compensation Matrix for salary increases that would go into effect on July 1, 2007. This timeline is recommended because the current *Faculty Handbook* does not allow immediate adoption of the committee’s proposals (as noted above). The committee identified the following eleven sections of the *Handbook* that would require revision if the committee’s recommendations are to be adopted: Section 1.7; Section 2.3, including 2.3.1.2.1; Section 2.4, including 2.4.1 and 2.4.1.2 and 2.4.2; Section 2.5, including 2.5.1; Section 2.10.1.3; Section 2.14.1. There may also be other sections of the *Handbook* that would be impacted by the adoption of the recommendations in this report. An alternate approach would be for a revised *Faculty Handbook* to address compensation issues more generally, which would make a detailed section-by-section revision process unnecessary.

For staff, the committee proposes a one-year transition period for staff (from July 1, 2006 to June 30, 2007) with full implementation of the Compensation Matrix for salary increases that would go into effect on July 1, 2008. The longer transition period for staff is necessary to allow time to update job descriptions, perform job evaluations, establish pay ranges for positions currently lacking pay ranges, refine the proposed new performance evaluation tool, and train the workforce to use the new performance evaluation tool. Additionally, the *Employee Handbook*
and the *IBEW Memorandum of Agreement* must be revised. During the transition period, salary increases for staff would be distributed based on performance and equity rather than as across-the-board increases; however, it may not be possible to fully employ the Compensation Matrix for compensation decisions until spring 2008.

*Cost-Center Advisory Committees:* To foster communication and increase understanding and acceptance of the matrix concept, the committee recommends that each cost-center head form an advisory committee composed of employees from that cost center to advise the cost-center head as the matrix is established. (In academic colleges, the College Personnel Committee would serve as the cost-center advisory committee.) Cost-center heads will have final authority to determine matrix values.

2. **What kind of evaluation system needs to be in place to accompany the move to a merit- and equity-based system? (Section 2 applies to both faculty and staff.)**

One fundamental principle underlies this entire section of our report: Good and fair measurement of performance is essential in any performance-based pay plan. The focus of this report is on the use of performance evaluations for the purpose of compensation decisions. The committee recognizes that information gathered during performance evaluations is also important for developmental purposes and should be used for assisting employees in performance improvement; however, that is not the focus of this report.

In 2a, the committee proposes guidelines for staff performance evaluation; in 2b, the committee proposes guidelines for faculty performance evaluation; and in 2c, performance evaluation for all levels of administration is recommended. In each of these groups, it is important to recognize that the performance evaluation system must be in place prior to implementation of the Compensation Matrix (Heneman & Gresham, 1998).

2a) **Staff Performance Evaluation:** As stated above, the committee agrees that the development and implementation of a fair performance evaluation system is one of the keys to a successful staff compensation system. The performance evaluation tool and process must be trusted by the employee and supervisor, must be effectively and consistently used, and should incorporate individual goal setting. After a review of various models, the committee recommends the performance evaluation tool developed in-house a few years ago be reviewed, refined, and implemented. The committee believes that the recommended in-house tool, which so far has only been pilot tested, will accomplish these goals.

*Timeline for Implementation of Staff Evaluation Tool:* As soon as possible, the new evaluation tool should be made available to the campus community for review, discussion, and refinement. (For example, the committee agreed the performance evaluation system should be refined to clarify the value of out-of-job service such as service on Staff Senate or participation in the USA Program.) As noted above, the committee recommends all staff and administrators who have not received a performance evaluation within the past 12 months receive an evaluation between now and April 1 using the existing performance evaluation tool. (This will allow FY07 salary increases – which begin July 1, 2006 – to be based, in part, on performance.) The committee
recommends use of the new performance evaluation tool beginning during summer 2006. The existing performance evaluation tool will continue to be used as the new tool is phased in over a number of months.

Human resource industry best practices indicate that performance evaluations should not occur near the time raises are given. Thus, the Compensation Committee recommends that effective in FY07, all performance evaluations occur October 1-January 31 of each fiscal year. The results of each year’s performance evaluations (occurring October through January) would be used as input to development of the following fiscal year’s Compensation Matrix during the annual budget development cycle that typically begins in earnest in February of each year. For example, performance evaluations will occur October 1, 2006, through January 31, 2007, and the results of these performance evaluations will be used during the budget development process that starts February, 2007, to determine salary increases that will be implemented July 1, 2007.

Providing Training for Supervisors on Conducting Performance Evaluations: During spring 2006, training courses should be offered to those supervisors who have not given a performance evaluation (i.e., a supervisor who supervises only unclassified staff). During summer 2006, prior to implementation of the new performance evaluation tool, the committee recommends that all supervisors (including upper-level administrators) be required to attend training on conducting effective performance evaluations. The committee proposes that the University’s Management Development Institute and Training & Development Coordinator be involved in the development and coordination of the training and that a funding source be identified for these training expenses, which are estimated at $50,000. To accommodate new staff and faculty supervisors hired/promoted in the future, the committee recommends these types of training workshops be offered periodically during future years. An annual budget line item will need to be established to fund these periodic workshops.

Proposed Performance Evaluation Appeal Process: There is a concern that many employees associate the existing grievance process (as outlined in the Employee Handbook) with more egregious acts and may be hesitant to use it for a performance evaluation-related grievance. The Compensation Committee recommends the following performance evaluation appeal process be considered:

- An employee desiring to appeal a performance evaluation must place their appeal in writing to their direct supervisor and deliver it to their direct supervisor within 10 days of receiving the performance evaluation.
- The employee and supervisor will meet shortly after receipt of the written appeal to discuss the issues raised. If, after the meeting with their supervisor, the employee remains unsatisfied and desires to escalate the appeal, the employee may place their appeal in writing to the “second-level supervisor” (e.g., their direct supervisor’s supervisor) and deliver it to this person within 10 days following the employee’s appeal meeting with his/her direct supervisor.
- This process may continue to the level of the unit’s Vice President, or Provost for staff in academic units, whose decision will be final.
- The committee recommends that the actual compensation decision (the percent salary increase) not be subject to appeal.
At any time, any employee who believes they have been discriminated against for any reason not related to job performance may consult the Office for Equity and Diversity.

**Important caveat:** If this appeal process is adopted, it will require modification of the current *Employee Handbook* grievance procedures, as well as modification of the bargaining unit’s *Memorandum of Agreement*. In our research, we discovered that these types of compensation-related appeals for staff are not common practice at other universities, and it may be that the appeal process could be considered a temporary measure that could be abandoned over time as experience with the new compensation system addresses the mistrust that may initially be present. It is recommended that a working group be formed to evaluate and refine the committee’s suggested appeal processes, review them for legal concerns, and make recommendations regarding appropriate modifications to University policy. Alternatively, a standing University Compensation Committee could work with appropriate constituencies to develop a sound process.

2b) **Faculty Performance Evaluation:** In recognition that no single performance evaluation system will meet the needs of all academic units, the committee recommends that the process of developing performance measures and designing the performance management system be decentralized to the level of the department and college. Each department and college will have considerable discretion to establish its own performance management system consistent with the needs of that department and college, as long as the system does not conflict with the philosophies, policies, and expectations of the University. If there is a college-wide performance evaluation system in place, departmental evaluation systems that deviate from the college-wide system must be approved by the college dean. Deans must assure that each department’s performance evaluation standards are consistent with existing University and college guidelines for reappointment, tenure, and promotion.

The best way to accomplish the necessary consistency with existing guidelines for reappointment, tenure, and promotion is for each department to develop a single departmental document that includes the acceptable departmental parameters for negotiated roles in teaching, research, and service (and occasionally other roles such as administrative service), the agreed-upon performance dimensions and evaluation criteria, and the related reappointment, tenure, and promotion guidelines. Departments should strive for clarity, conciseness, and consistency. The committee recommends that the same evaluation processes and criteria be used for compensation and reappointment, tenure, and promotion decisions – there is no need to conduct separate performance evaluations upon which to base these closely interrelated decisions.

**Establishing Departmental Personnel Committees:** The Compensation Committee recommends that each department establish an evaluation process involving Departmental Personnel Committees. The Departmental Personnel Committee should be selected by the faculty to provide performance input to the department head on all ranked faculty and non-temporary lecturers. We make no recommendation on committee size or composition other than recommending that non-tenured faculty should generally not serve on Personnel Committees. The committee recognizes that departments already have personnel committees in place – we are not really proposing anything new at the departmental level; however, if the Compensation Committee’s recommendations are adopted, the functions of departmental Personnel Committees
will broaden to include providing input into performance ratings that will become the basis for compensation decisions.

*Establishing College Personnel Committees:* The Compensation Committee recommends that each dean appoint a College Personnel Committee, with membership chosen by the dean from names forwarded by each department head. The committee recommends that departments conduct elections to determine who will be nominated to be put forward for membership. The College Personnel Committee would not need to have representation from each department; however, ideally, the committee should have at least five members. The College Personnel Committee would be charged with assisting and advising the dean in the administration of the Compensation Matrix, as noted at the end of Section 1. As noted later in this section, the committee could also advise the dean on performance evaluation appeals.

*Defining Performance Dimensions and Standards:* The recommendation of the Compensation Committee is that each department and college should have considerable latitude in establishing performance dimensions and evaluation criteria, although those dimensions and criteria must be consistent with the *Faculty Handbook* and with University expectations. We recognize that no single set of performance criteria can apply uniformly to the diversity of fields, backgrounds, duties, and responsibilities represented in a diverse faculty. Our recommendation, therefore, is that operational definitions of performance criteria be developed within each department and college to apply to the faculty therein. Each college may develop evaluation criteria that apply uniformly to all faculty members in that college, or require each department to develop its own performance evaluation system, which must be approved by the college dean. Consistent with the *Faculty Handbook*, Section 2.3, in the examples that follow, the committee has considered the basic dimensions of performance for faculty to be teaching, scholarship/research/creative activities, and service. (For an expanded discussion, see Appendix B: Evaluating dimensions of faculty performance.)

*Establishing College and Department Evaluation Procedures:* Each department, in collaboration with the college dean, should establish specific procedures for performance evaluation consistent with the policies of the University and also consistent with relevant college and department guidelines. An important step in this process is the negotiation of individual roles, which become the basis for the performance evaluation. The committee proposes that the University provide what Arreola (2000) calls “institutional parameter values” that set minimum and maximum weights for each of the faculty performance dimensions. For example, the institutional parameters for ranked faculty might be:

<table>
<thead>
<tr>
<th>Minimum Weight</th>
<th>Performance Dimension (Role)</th>
<th>Maximum Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>45%</td>
<td>Teaching</td>
<td>75%</td>
</tr>
<tr>
<td>20%</td>
<td>Research/scholarship/creative activities, including grant activity</td>
<td>50%</td>
</tr>
<tr>
<td>5%</td>
<td>Service</td>
<td>20%</td>
</tr>
</tbody>
</table>
The college may set different parameters than the University as long as those values fall within the limits of the institutional parameter values. In addition, the committee recognizes that a different set of parameters may be appropriate for clinical faculty, another set will be necessary for lecturers, and still another set of parameters will be necessary for faculty holding administrative appointments. The committee recommends that the Office of the Provost establish performance dimensions and institutional parameter weights within which colleges and departments may operate.

Using the relevant college parameters, each faculty member must negotiate his or her specific role with the department head. The Compensation Committee makes no recommendation regarding the magnitude of these parameters or when they should be negotiated. We do, however, point out that the weights that are negotiated are important for compensation purposes because they will be used by the department head to arrive at a composite rating for an individual. Assume that Professor Z has the following:

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Performance Rating</th>
<th>Role Weight</th>
<th>Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teaching</td>
<td>3</td>
<td>50%</td>
<td>1.5</td>
</tr>
<tr>
<td>Research/scholarship/creative activities, including grant activity</td>
<td>4</td>
<td>40%</td>
<td>1.6</td>
</tr>
<tr>
<td>Service</td>
<td>2</td>
<td>10%</td>
<td>0.2</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>3.3</td>
</tr>
</tbody>
</table>

Professor Z will likely get an overall composite rating of “3” based on the role weights and the performance ratings. As detailed in Section 1 above, the performance evaluation process must result in an overall composite rating ranging from one (1) to five (5) for each faculty member.

**Performance Documentation:** Each department and college must establish the nature and extent of the documentation required for the performance evaluation process. The Compensation Committee recommends that each department/college establish their own policies regarding the extent of documentation required and the time frame for providing documentation, as long as the time frames allow decisions to be made in accord with the Academic Work Calendar published each year by the Office of the Provost.

**Performance Evaluation Timelines:** The committee recommends that performance evaluations for faculty be conducted from December through February of each year as follows:

- First-year faculty: Newly hired tenure-track faculty or lecturers who receive reappointment will be assigned a performance rating of “3” (the expected level of performance) in their first year unless there is compelling evidence for a higher rating.
First-year probationary faculty or lecturers not recommended for reappointment will not be eligible for performance review or pay increases.

- **Tenure-track probationary faculty:** In their probationary period, tenure-track faculty will be eligible for annual performance evaluation beginning in their second year. For purposes of reappointment, tenure, and promotion decisions, the evaluation period for non-tenured faculty will be cumulative from year-to-year using all performance data from the date of hire to ensure consistency with the promotion, tenure, and reappointment processes; however, for the purposes of establishing the annual performance rating upon which compensation will be based, an annual evaluation period should be employed. Reappointment, tenure, and promotion decisions are cumulative; compensation decisions are annual.

- **Tenured faculty:** The committee recommends all tenured faculty members be evaluated biennially (every two years) unless an individual faculty member requests an annual review or the performance evaluation the previous year was unsatisfactory. Performance evaluations will include all evidence of performance over the two calendar years prior to the year of evaluation.

- **Lecturers:** All lecturers for whom there is a likelihood of reappointment will be evaluated annually. Lecturers in temporary appointments will not be evaluated.

- **Staff in academic units:** Staff will be evaluated by their supervisors in accordance with the staff guidelines and procedures.

*Performance Evaluation, Reappointment, Tenure, and Promotion:* The performance evaluation process is separate from, but closely related to, reappointment, tenure, and promotion decisions. To withstand the test of legal scrutiny, all reappointment, tenure, and promotion decisions must be based on, and consistent with, the performance evaluation results. As stated above, it is not necessary to do another separate performance review for the purposes of these decisions. Note: This recommendation represents a deviation from the language of the current Faculty Handbook, Section 2.4, which recommends five separate but interrelated evaluative processes. As mentioned earlier in this report, if the Compensation Committee’s recommendations are adopted, revision of Section 2.4, including 2.4.1 and 2.4.1.2 and 2.4.2, will be necessary.

It is important for all unit administrators to be aware of the relationship between performance evaluation and other decisions and require accountability and consistency in this area. The following specifies the roles of the parties responsible for the evaluation process.

- **Departmental Personnel Committees:** As described above, each department will establish one or more committees to review individual faculty member performance annually (or in the case of tenured faculty, biennially) and present formal findings to the department head. The committee will not be required to recommend a composite rating, but will provide input for each performance dimension. That input will be considered for reappointment, tenure, promotion, and compensation decisions.
• **Department Head:** The department head oversees the formation and implementation of departmental evaluation guidelines. For compensation purposes, each department head will be responsible for negotiating role weights with each faculty member for amount of effort in teaching, research/scholarship/creative activities, including grant activity, and service. The department head will consider the faculty member’s role weights, the input of the faculty Personnel Committee(s), and other relevant performance information to recommend a composite performance rating for each faculty member. For any faculty member receiving a composite rating indicating less-than-acceptable performance, the department head will establish a written developmental plan. The department head is also responsible for making written recommendations on reappointment, tenure, and promotion decision.

• **Dean:** The dean will ensure that departmental evaluation guidelines are consistent with college and university expectations and will ensure that departments comply with evaluation processes outlined in those guidelines. The dean will meet with department heads to establish college role parameters. The dean will meet in an open forum of department heads to establish the final performance ratings in each unit and ensure that rating distribution falls within expected distribution guidelines. After performance ratings have been determined, the dean will meet with the College Personnel Committee to establish the Compensation Matrix values. It is acknowledged that the specific pay increases are the product of a decision-making process and those decisions are the responsibility of cost-center heads. Under the proposed appeal process, deans also consider and decide on performance evaluation appeals.

• **College Personnel Committee:** In addition to other functions that a College Personnel Committee might perform, the College Personnel Committee meets with the dean to participate in establishing the Compensation Matrix. The committee acts in an advisory capacity to the dean. The committee reviews each Department’s evaluation plan for consistency and adequacy for compensation purposes. The committee also acts as an advisory board to the dean on appeals of performance ratings.

• **Provost:** The Provost develops University role parameters and reviews college outcomes for consistency and compliance. Under the proposed appeal process, the Provost is the final authority on performance evaluation appeals.

*Proposed Performance Evaluation Appeal Process:* The committee recommends that an appeal process specific to performance evaluations be developed, or alternatively, that existing appeal processes explicitly include performance evaluation appeals. The appeal process proposed by the committee follows:

• Faculty should be allowed to provide a written response to a performance evaluation.

• Additionally, we recommend faculty be allowed to request a review of the departmental evaluation process and the resulting evaluation.

• The committee proposes that the faculty member’s request for review, along with any supporting materials, be evaluated by the College Personnel Committee, which would advise the dean.
• The request for review should be allowed to continue to the Provost, whose decision on the appeal would be final.
• The committee recommends that the actual compensation decision (the percentage salary increase) not be subject to appeal.
• At any time, any employee who believes they have been discriminated against for any reason not related to job performance may consult the Office for Equity and Diversity.

Important caveat: If this appeal process is adopted, it will require modification of the current Faculty Handbook grievance procedures. As suggested above, it is recommended that a working group be formed to evaluate and refine the committee’s suggested appeal processes, review them for legal concerns, and make recommendations regarding appropriate modifications to University policy, or, as noted above for staff appeals, a standing University Compensation Committee could work with appropriate constituencies to develop a sound process.

The final recommendation in this section is provided in 2c and is based on the committee’s belief that the performance culture must extend to all levels of the University.

2c) Evaluation of Administrators: The Compensation Committee recommends the formation of a Presidential committee that includes representatives from faculty, staff, and administration, to develop a performance evaluation approach and a performance assessment instrument to evaluate the performance of all University administrators (except the President, who is evaluated by the Board of Governors).

3. What policy should be used for determining the salary for administrators’ return to faculty? (Section 3 applies only to faculty.)

Full-time academic administrative assignments involve negotiated salaries based on market and the nature and level of the administrative position. The following recommendations describe the salary adjustments affecting administrators who hold faculty rank and leave their administrative positions to return to faculty. These recommendations are intended to apply in situations in which there is no written contract establishing specific conditions and are not meant to supersede written contractual provisions.

Administrators holding an administrative or acting administrative position fewer than three years: The committee recommends that faculty members who have been in an administrative position for fewer than three full academic years (six regular semesters) return to faculty at the salary they were earning prior to moving into the administrative position adjusted for 1) annual salary increases based on performance evaluations during the administrative appointment; and 2) additionally adjusted to provide a permanent salary increase in the amount of three percent (3%) of the salary prior to moving into the administrative position added for each full year of service in the administrative role (assuming that there is no documented record of unsatisfactory performance in the administrative role). For example, a faculty member who serves as department head for two full years and who was earning $60,000 prior to assuming the headship would return to faculty with a salary of $63,600 plus any annual salary increases granted during the term of the headship; for three full years of service, the return salary would be $65,400 plus annual salary increases for the three years of the headship.
Administrators holding an administrative position for three years or more: The committee recommends that faculty members who have held one or more administrative positions continuously for three full academic years or more should return with a 9-month faculty salary of no less than 9/11 of their 12-month administrative salary in the final year of the administrative appointment or with a salary equal to the average salary of those in the same rank in the Department to which the faculty member will be assigned, whichever is higher. If returning to a 12-month faculty appointment, an appropriate salary adjustment should be applied.

This recommendation is offered as a general guideline rather than a hard-and-fast rule. If a proposed return salary deviates from this guideline, the rationale for the salary decision should be provided to the Faculty Senate leadership. A return salary for a department head that deviates in either direction from these guidelines must be approved by the Provost; a return salary for a faculty member holding an administrative position above the level of department head that deviates in either direction from these guidelines must also be approved by the University President.

4. How can the classified system (step and grade) be integrated into a move to a merit-based system? What would the process and timeline be for such a change? (Section 4 applies only to staff.)

Reasons for Changing the Existing System: First, the Compensation Committee feels it is necessary to change the existing compensation system to make the University more competitive in an increasingly competitive environment. Second, the existing system is unfair to many staff members. Currently, people in classified positions generally start well below market, experience nine years of relatively automatic above-average increases as they move through the steps (and sometimes also an across-the-board increase in addition to the step increase), then lose ground over time as incumbents are “topped out” at Step 9 and market increases overtake them. Unclassified positions generally start closer to market, but then tend to fall behind market over time by receiving lower-than-market annual salary increases. Thus, the existing system is unfair to classified staff at the time they are hired, unfair again to classified staff when they reach Step 9 (approximately one-third of classified staff are “topped out” at step 9 and no longer receive step increases) and also unfair to unclassified staff.

The existing system does not promote competitive starting salaries; this results in difficulty recruiting new employees. Also, the existing system does not reward long-time employees who are performing well, thus it does not encourage retention of good employees. Finally, the existing system does not encourage employee satisfaction.

Target Characteristics of a New System: The committee identified some target characteristics of a desired compensation system:

- Emphasizes fairness and compensates employees based upon level of responsibilities and their performance
- Emphasizes pay for performance – those staff performing well should receive larger pay increases; poor performers should receive lower or no increases
- Emphasizes fair, objective evaluation processes and tools to measure performance
Abandoning the Step Portion of the Existing Step-and-Grade Compensation System for Classified Employees: The Compensation Committee recommends that the existing step-and-grade compensation system for all classified employees be abandoned effective July 1, 2006. If our recommendation is accepted and implemented, there would be no more delineation between classified and unclassified staff – all staff will be in the same compensation system. The Compensation Committee determined that the Employee Handbook permits this action and that there is no “implied contract” to provide step increases to classified employees. The exempt and non-exempt delineation will remain (see Glossary at end of this report), so provisions for paying overtime will be retained; however, the Office of Human Resources will need to evaluate the impact on vacation accrual rates. The pay ranges corresponding to grades in the current system will be retained for those positions assigned to those grades until the new compensation system and associated pay grades and ranges for all staff (exempt and nonexempt) are developed and implemented. These existing, but temporary, pay ranges may be adjusted by the CPI or other wage index in order for starting salaries (formerly step 0) to keep pace with inflation. The individual salaries of employees within these pay ranges will not be increased in such a pay range adjustment; rather employee pay increases will be derived as described in Phase I and II later this section. The upper limit of the existing, but temporary, pay ranges will be suspended during the transition period in order to recognize and reward the performance of those at the top of the pay ranges.

It is acknowledged the University will not be able to get all staff positions to market levels during the one-year transition period (July 1, 2006-June 30, 2007), just as we will not be able to get all faculty positions to market during this period. Nevertheless, we do recommend the University address the staff positions furthest below market during the One-Year Transition in an attempt to get these positions closer to market prior to implementation of the Compensation Matrix.

The Compensation Committee acknowledges that multiple years may be required to raise the salaries for some positions up to the new pay ranges once they are established, since some staff positions (like some faculty positions) are significantly below market; however, cost-center administrators are encouraged to address these market equity issues as much as possible during the One-Year Transition.

The Compensation Committee recognizes that some of the positions furthest below market may be brought closer to market levels as pay ranges are established during the recommended job evaluation process. During this process, positions being paid below the bottom end of the
recommended pay range will have “first call” on the next staff salary pool funds to move them into the recommended pay range. The committee proposes that pay ranges be evaluated and reset as appropriate every year based on CPI or some other index as well as the market value of positions in the ranges. This will allow the University’s pay ranges to remain in the range of market. Employees being paid less than the bottom end of the reset pay range should receive an increase to move them back into the new pay range (assuming acceptable performance).

The Compensation Committee understands that the job evaluation process prescribed to occur during the one-year transition is a large, time-consuming task. It is recognized that the University’s salary problems have been many years in the making, that the University has only one compensation manager on staff, and that the University’s staff compensation system has been out-of-date for the past 20 years. Many higher education institutions have hired consultants to assist in the migration to a new compensation system, which can cost $150,000 or more. The committee recommends exploring less expensive options such as purchasing release time for one or more faculty with expertise in this area and/or committing to a limited contract with a consultant with a successful record of guiding higher education institutions through similar compensation system migrations.

In light of these considerations, it is recommended that staff compensation be migrated to the new system in three broad phases, as follows:

- **Phase I** – Now-June 30, 2006 – Addresses salary increases that will go into effect July 1, 2006.
- **Phase II** – July 1, 2006-June 30, 2007 – The One-Year Transition period, during which job descriptions will be updated, job evaluations will be performed, the new performance evaluation tools will be refined, the workforce will be trained to use the new performance evaluation tools, and the new performance evaluation tools will be implemented. Addresses salary increases that will become effective July 1, 2007, which will be determined by cost-center heads based on performance evaluations and/or equity considerations.
- **Phase III** – July 1, 2007-June 30, 2008 – Continue and complete the tasks outlined above in Phase II, and initially use the new Compensation Matrix to establish salary increases to become effective July 1, 2008.

A detailed timeline for these three phases of implementation is presented below:

**Phase I: Recommended timeline to establish FY07 salary increases (to become effective July 1, 2006):**

- Freeze the step increases and abandon the classified Grade-and-Step System effective July 1, 2006.
- March/April 2006 – Recommend all staff and administrators who have not received a performance evaluation within the past 12 months receive an evaluation using the existing, one-page performance evaluation tool. A few training sessions will be provided to those supervisors who have never administered a performance evaluation.
- April, 2006 – Recommend that the FY07 (July 1, 2006-June 30, 2007) staff salary pool be allocated as mentioned above, in accord with the faculty allocation process that is
dictated by the current Faculty Handbook (Section 2.10.1.3). The Compensation Committee recommends that faculty and staff both follow this process for allocating the FY07 increase except as follows: The Faculty Handbook dictates that faculty salary increases be distributed as percentage increases; however, just for FY07, the Compensation Committee recommends the portion of the increase for staff that is distributed across-the-board be allocated as a fixed dollar amount instead of as a percentage increase. (The amount per full-time employee would equal \( \frac{3}{4} \) of total staff salary pool divided by the number of full-time staff employees.) Allocating the across-the-board component as a fixed amount will provide a larger percentage increase to those employees at the lower end of the salary scale. The Compensation Committee feels this action is appropriate to ensure staff employees who are in lower paid positions receive relatively greater salary increases. The Compensation Committee acknowledges this across-the-board increase may temporarily move some positions above the “market midpoint” level and/or near the top of that position’s eventual pay range; however, this will create a temporary situation and the new compensation system will correct for this over time.

- April-May, 2006 – Recommend a comprehensive performance evaluation training curriculum be developed.
- May-June, 2006 – Recommend Financial Services and Human Resources perform the data entry necessary to make the recommended salary adjustments effective July 1, 2006 (FY07). Both of these units have indicated 60 days will be required to complete this process.

**Phase II: Recommended timeline for FY08 salary increases (to become effective July 1, 2007):**

- This is the year (July 1, 2006-June 30, 2007) referred to as the “One-Year Transition” since it will not involve use of the Compensation Matrix in establishing the salary increases to become effective July 1, 2007. See below (“March 1-April 30”) for a description of process proposed to be used to determine salary increases during this year.
- June-October, 2006 – Recommend performance evaluation training sessions be provided on each campus. Both employee and supervisor training sessions will be provided. Recommend attendance by all staff and administrators be made mandatory.
- October, 2006-January, 2007 – Perform all staff performance evaluations using the new performance evaluation tool. The initial use of the new performance evaluation tool will need to be somewhat modified since it assumes specific, mutually agreed-upon goals have been set previously and are to be evaluated along with a set of behavioral dimensions. The first instance of goal setting by supervisors and their employees will occur during this period which will culminate in the performance evaluation related to these goals, occurring one year later.
- March 1-April 30, 2007 (tentative timeline) – Cost-center administrators review job performance evaluations, compare current salaries to market, analyze internal salary distributions for fairness, determine individual salary adjustments, and submit salary spreadsheets to Financial Services by April 30. Cost-center administrators will have the flexibility to consider performance, market equity, and/or internal equity when allocating the entire FY08 salary pool.
- May-June, 2007 – Recommend Financial Services and Human Resources perform the data entry necessary to make the recommended FY08 salary adjustments effective July 1, 2007.
- Only employees hired prior to January 15, 2007 would be eligible to receive the salary adjustments that will go into effect July 1, 2007.

**Phase III: Recommended timeline for FY09 salary increases (to become effective July 1, 2008):**
- October, 2007-January, 2008 – Perform all staff performance evaluations. This will be the first set of performance evaluations in which progress toward the mutually agreed-upon goals set the prior year will be evaluated.
- March-April, 2008 – Cost-center administrators use the Compensation Matrix to determine FY09 salary increases effective July 1, 2008. This is the initial use of the Compensation Matrix for determining staff salary increases.
- May-June, 2008 – Recommend Financial Services and Human Resources perform the data entry necessary to make the recommended FY09 salary adjustments effective July 1, 2008.
- Only employees hired prior to January 15, 2008 are eligible to receive FY09 salary adjustments that will go into effect July 1, 2008.
- Note: The Compensation Committee acknowledges the faculty will likely be in a position to implement the new “Compensation Matrix” in FY08 (for salary increases effective July 1, 2007), while the Compensation Matrix for staff will not be implemented until FY09 (for salary increases effective July 1, 2008) because updating job descriptions, performing job evaluations, and slotting positions into pay ranges are prerequisites for implementation of the Compensation Matrix and additional time will be required to accomplish these tasks.

It is proposed that new staff employees serve a six-month probationary period and undergo two evaluations during this period, at three months and six months of employment. Probationary evaluations are primarily developmental and assess the new employee’s progress in learning the job. For purposes of determining salary increases, any new staff employee who has received a three or six month evaluation with an overall score of 3 or higher (acceptable progress in learning the job) by April 15 when the compensation matrices are finalized, will be placed into Performance Category 3 of the Compensation Matrix for salary increase purposes. New staff employees who were hired after January 15 will not have a three-month evaluation by April 15, when cost-center matrices are finalized and are, therefore, not eligible for a salary increase on the common increase date of July 1 of the current year.

The committee recognizes that establishment of a target salary pool percentage each year requires that auxiliary units raise additional funds to cover the increases for their staff. Establishment of the target salary pool percentage as early as possible in the budget cycle is encouraged as this will better allow units to build these amounts into their budgets.

If the recommendations within this report are accepted, it must be recognized that a significant amount of work will be required to implement them. Key personnel will be expected to make significant time commitments to serve on job evaluation committees within each cost center as part of the implementation process. Thus, the committee recommends that consideration be
given to (a) reducing the existing operational workload for these individuals/units during the implementation of these recommendations and (b) providing funding for external assistance (e.g., consultants, staff training, learning materials, etc.) that will allow the University to take advantage of industry best practices during the implementation.

The Compensation Committee recommends that the University continue performing reclassification analyses for the requests submitted through December 31, 2005 (for funding consideration in the FY07 budget process), but, as mentioned in Section 1, suspend all future reclassification analyses during the development of a new compensation system, during which all positions will be evaluated for correct placement in pay grades.

5: Concluding thoughts

The Compensation Committee recognizes that the recommendations contained in this report represent a significant culture shift for Missouri State University. If these recommendations are adopted, Missouri State University will move from a culture of equal, across-the-board pay increases and an entitlement attitude toward annual increases to one of differential pay based upon performance, a move that the Compensation Committee believes is in the best overall interest of the University and its employees.

The Compensation Committee feels strongly that one key to the successful implementation of a new compensation system will be to keep the campus community informed. If these recommendations are adopted, regular and open communication must occur throughout the transition process. The committee recommends that the Public Relations Advisory Team assist in development and implementation of a plan for communicating with the campus community throughout the implementation process.

The recommendations in this report are targeted to faculty and staff performance evaluation and compensation. The Compensation Committee did not address the performance evaluation of administrators. As mentioned in Section 2, the committee recommends the formation of a Presidential committee that includes representatives from faculty, staff, and administration, to develop a performance evaluation approach and a performance assessment instrument to evaluate the performance of all University administrators at the level of Dean and above (except the President, who is evaluated by the Board of Governors). The committee recognizes that administrative compensation involves salary negotiations based on market and also on the nature and level of the administrative position; however, the committee believes that performance evaluation should be an important consideration in determining salary increases for administrators, just as with faculty and staff.

Finally, as noted earlier, the Compensation Committee recommends that a standing University Compensation Committee be appointed to monitor and refine the University’s compensation system as changes to current practice are put into effect. A standing Compensation Committee could assist in monitoring and assessing the sufficiency of the annual salary pools and could also assist in determining an appropriate course of action in years when the salary pool is insufficient to warrant full implementation of the Compensation Matrix approach for distributing salary increases (see Section 1). The standing committee could also work with other appropriate
constituencies to determine processes for appealing performance evaluations (see Section 2). The committee continues to be concerned about finding ways to provide assurances of fairness, especially during the transition to a new system, without creating a burdensome and unworkable system. The members of the Compensation Committee recognize that no compensation system is perfect, and we do not presume to have thought of and anticipated every ramification of the proposals that are put forward in this report.

Glossary:

Across-the-board increase: Wage increase granted to all employees, regardless of performance

Ad Hoc Process Improvement Committee: The Ad Hoc Process Improvement Committee consists of the original Process Improvement Committee (see Change@Missouri State) plus two additional faculty representatives assigned by Faculty Senate, two additional staff representatives assigned by Staff Senate, and the Director of Institutional Research.

Annual Compensation Change: The Annual Compensation Change is based on the Bureau of Labor Statistics Employment Cost Index data on Wages and Salaries for Civilian Workers, ECU2001A. This index provides quarterly year-to-year percentage changes in wages and salaries for workers and is a more stable and realistic indicator of year-to-year changes in pay than are CPI measures.

Cost Center: Any unit of activity, such as a group of employees, isolated or arranged in order to allocate and assign costs more easily

COLA: Cost-of-living increase, which is an across-the-board increase, based on change in cost of living

CPI: Consumer Price Index; measures changes in prices over time

CUPA: College and University Professional Association

Exempt Status: Employees who do not earn overtime as determined by the Fair Labor Standards Act

FY07: Fiscal Year 2007, from July 1, 2006 to June 30, 2007

FY08: Fiscal Year 2008, from July 1, 2007 to June 30, 2008

FY09: Fiscal Year 2009, from July 1, 2008 to June 30, 2009

IBEW: International Brotherhood of Electrical Workers
Internal Equity: the internal hierarchy of jobs within an organization based on the value of the job to the organization in terms of required knowledge, skills, difficulty, scope, and impact of work (does not necessarily mean that all people doing the same job will earn equal pay; pay may vary due to length of time in the position and variations in levels of performance)

Job Evaluation: Procedure that is useful for determining the relative value of jobs in an organization

Market Equity: Fair wage in comparison to what other employers are paying outside of the organization; also referred to as external equity

Merit Pay/Adjustment: A reward granted to the employee in the form of a wage increase that recognizes outstanding performance; appropriate modification to an employee’s salary as determined by performance evaluations

Non-exempt Status: Employees who do earn overtime as determined by the Fair Labor Standards Act

Pay Differential: Pay differences among employees, specifically between employees performing the same job

Pay Equity: Employees performing jobs judged to be equal on some measure of inherent worth being paid the same, assuming all other factors influencing pay being equal

Pay-for-Performance Plan: Pay that varies with measures of individual (or organizational) performance, including various forms of merit pay

Pay Range: The range of pay rates from minimum to maximum set for a job; indicates the worth of the job to the organization and (within the limits of the pay range) allows the organization to recognize individual performance differences with pay

Performance Evaluation: A process to determine correspondence between worker behavior/task outcomes and employer expectations (performance standards)

Performance Evaluation Tool: Framework or system for evaluating employee job performance

Performance Rating: Score from a performance evaluation, often used to determine salary adjustments

Salary Increase Pool: Amount of funds available to be used for wage increases
References:


http://www.missouristate.edu/human/Relations/Employeehandbook.htm

http://www.missouristate.edu/provost/FacultyHandbook/Faculty%20handbook%202003.pdf

Acknowledgments:

Thank you to the faculty and staff who provided thoughtful input to the committee. Thanks to Greg Burris for his diligent work chairing the staff compensation subcommittee, and to Dr. Steve Thomas for sharing his expertise on compensation with us. Thanks, too, to Steve and Greg for writing significant portions of this report, and to Sally Mason for her support of the committee’s work. And the chair extends gratitude to the committee members, who have labored long, hard, thoughtfully, and collaboratively to develop this proposal.

Appendix A: General discussion of the concept of equity

The Compensation Committee recognizes that the following approach to defining equity depends on analysis of external markets to determine the appropriateness of pay levels and acknowledges that the validity of this type of analysis is dependent on the validity of the market data. The committee also recognizes that no mechanical formula can capture all the factors that influence pay levels and we acknowledge that subjective judgment plays a necessary role in salary determinations.

Definitions of Equity: There are many ways of defining equity. The Compensation Committee summarizes our definition of pay equity as a guide to unit administrators to offer a workable operational definition of pay equity as it relates specifically to our committee’s proposals and recommendations.

In the compensation field, equity is defined in terms of both processes and outcomes. Employees’ perceptions of fairness come from having a compensation system that has both fair processes (procedural justice) and fair outcomes (distributive justice).
Procedural Justice in the Recommendation: The aspect of procedural justice implies that policies for establishing pay and pay increases are developed with opportunity for input by those affected by the policies, that the policies are well communicated and understood, and that they are perceived as policies that are applied equally and uniformly across all individuals.

Distributive Justice in the Recommendation: Distributive justice is more complex. This refers to the outcomes: the pay decisions and, ultimately, the pay levels and differentials that are established through the application of pay policies. Equity in outcomes is defined in terms of both internal and external equity. Internal equity focuses on pay relationships among jobs within the organization. External equity describes how pay levels within the organization compare to some set of relevant external labor market data. Thus, employees may be satisfied with internal equity because pay differentials within the organization are perceived to be fair; however, if all employees are 30% below market means, external equity will be perceived as unfair. Similarly, employees may be generally paid above market but still experience perceptions of inequity as they make pay comparisons with other employees in the same organization. In practice, it is often difficult to separate problems of internal and external equity. Pay relationships at Missouri State University are complicated by the fact that problems of both internal and external equity exist. Internal equity problems often stem from the fact that pay levels in external markets change at different rates than do internal pay levels.

Appendix B: Evaluating dimensions of faculty performance

Evaluating Teaching Performance: Although all Colleges and Departments have teaching evaluation procedures in place, the Compensation Committee recommends that each College review dimensions of teaching performance to ensure that they are consistent with contemporary research on teaching effectiveness. In particular, the committee recognizes that some Colleges continue to rely heavily on student evaluation instruments that are both contaminated and deficient measures of teaching effectiveness. Our recommendation for defining teaching roles and teaching effectiveness is taken from Raoul A. Arreola’s Developing a Comprehensive Faculty Evaluation System (2000). Arreola’s book provides an excellent approach to evaluating teaching effectiveness. He suggests the following dimensions of teaching, along with suitable sources for gathering information about that dimension:

- Instructional Delivery Skills: This includes the instructor’s ability to clearly communicate information and concepts, and the ability to facilitate learning. In general, this is a student-reaction measure that can be measured appropriately through student evaluation items.
- Instructional Design Skills: This is the set of technical skills involved in designing, sequencing, and presenting experiences that induce student learning, and in developing tools for assessing learning outcomes. About 25% of this dimension can be assessed based on student reactions to questions relating to the relationship between course objectives and test and assignment design and difficulty. Most of this dimension, the remaining 75%, should come from peer assessment of course content, including syllabus, assignments, exams, grade distributions, etc.
- Content Expertise: This is defined as the body of skills, knowledge, and competencies specific to the discipline. Students are not competent to assess this dimension and
student evaluation forms should not include these types of questions. This dimension should be assessed through peer and department head review.

- Course Management: This relates to course administration, including the timely grading and returning of exams and assignments and the bureaucratic management of course grades and forms. This can be assessed through items on student evaluations and by the department head.

The Compensation Committee recommends that all units review their policies regarding the assessment of teaching to ensure consistency with these performance dimensions and criteria. Each College or Department should set specific weights for each of the four dimensions. According to Arreola, the evaluation of teaching effectiveness should not weigh student evaluation results more than 35-40% of the overall rating. The evaluation results should provide separate scores on each of the four dimensions of teaching performance described above for developmental purposes, and a composite teaching rating should be obtained using the specific dimension weights. The committee recommends that Colleges or Departments that currently use evaluation methods which do not recognize these separate dimensions consider revising their methods to be consistent with this framework.

_Evaluating Scholarship/Research/Creative Activities:_ The current Faculty Handbook, using a taxonomy developed by Ernest L. Boyer, makes distinctions among Scholarship of Discovery, Scholarship of Integration and Application, and Scholarship of Teaching. This taxonomy has been offered as an alternative to the traditional teaching/research/service dimensions. The Compensation Committee made no attempt to incorporate Boyer formally into our recommendations; however, in Departments that have found the Boyer model useful, the performance criteria for evaluating teaching, research, and service may reflect the Boyer framework as long as the criteria are also consistent with College and University expectations.

_Evaluating Service:_ Each faculty member is expected to make professional contributions through service as one of the requirements for reappointment, promotion and tenure. Service activities will also be evaluated for purposes of establishing performance ratings. The Faculty Handbook provides a taxonomy of service activity that forms the basis for promotion and tenure criteria in Section 2.3.1.3. In addition, the Faculty Senate’s 1996 Faculty Roles and Rewards document described categories of service activities based on the Boyer model: Service as Scholarship and Service as Citizenship. The possibility for confusion exists. Performance criteria for the service dimension should be clarified within each College or Department consistent with the University mission, the Faculty Handbook, and the specific needs and values of that unit. Service criteria should continue to be established based on the degree of one’s contribution to his or her profession, the community, the University, the College, and the Department.