

# ED464522 2001-12-00 Faculty Compensation Systems: Impact on the Quality of Higher Education. ERIC Digest.

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## Faculty Compensation Systems: Impact on the Quality of Higher Education. ERIC Digest.

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As institutional policy-makers develop an agenda for the new decade, faculty compensation should be viewed as a critical management tool for increasing faculty productivity, improving cost efficiency, and enhancing their institutions' public images (Benjamin, 1998; Marchant and Newman, 1994; Lillydahl and Singell, 1993; Miller,

1992; Taylor, Hunnicutt, and Keeffe, 1991.).



### Factors That Affect Faculty Compensation

Institutions possess limited control over the amount of funding available to finance faculty compensation. For example, decisions which determine the amount of funds available for faculty compensation are often affected by external or environmental forces that the institution cannot fully control. The variety of forces that affect the amount of funding for higher education faculty compensation suggests an ongoing, continual, cycle creating a loop. Figure 1 presents a hypothetical feedback model that calls attention to the wide range of factors that educators need to keep in mind when attempting to change faculty compensation.

See Figure 1 at end of Digest.

This model implies that each institution needs to scan its environment continuously to be aware of public perception and the attitudes of political actors in order to be able to respond effectively to the demands of these groups. The modern higher education environment forces each institution to be cognizant of its role as an economic, social, and cultural agent for the stakeholders it serves. The model presented in Figure 1 reflects the following:



1. The public's perception of how well an institution is fulfilling its mission will impact the amount of institutional funding the public will support (Foldesi, 1996, p. 30; Breslin and Klagholz, 1980, p. 44).



2. The level of funding an institution acquires directly affects the level of faculty compensation.



3. The level and the structure of the faculty compensation system affect the success the institution achieves in fulfilling its mission.



### Internal Factors That Determine Faculty Compensation

Internal to the institution are specific factors that determine faculty compensation. These are the various faculty attributes and activities that are rewarded within the institution including: academic rank, faculty productivity, discipline market pay, ability to obtain external grants, seniority or length of service to the institution, service in administrative positions, professional service, graduate teaching and guidance, and any other factors that cause differences in compensation among faculty members. For some institutions, there may be differences in compensation that result from purely subjective factors.

Empirical studies of factors that affect individual faculty compensation typically have found that the best predictor of salary within an institution and within any rank are an individual's years of experience (Lewis, 1996, p. 46). The number of articles published (Tuckman and Tuckman, 1976, p. 55) is the second best predictor. Publication of scholarly journal articles enables individual faculty members to be promoted more rapidly and once the top rank is reached, publication enables an individual's compensation to continue to rise. Book publication is not as rewarding as article publication. It appears that:



.... the marginal returns to research effort appear to be fairly low, even if the salary increments attributable to publication are projected over the faculty member's lifetime ... [and] the returns to book publication may be less than the returns to article publication (Tuckman and Tuckman, 1976, p. 62).

Evidence that research and publication significantly affect a faculty members' compensation level appears in a number of studies (Fairweather, 1993, p. 64; and Fairweather, 1995, p. 189; Hunnicutt, Taylor, and Keeffe, 1991, p. 19; Kasten, 1984, pp. 512-513; Marchant and Newman, 1994, p. 150; Prewit, Phillips, and Yasin, 1991, p. 413;).

These studies seem to suggest that faculty rewards for teaching are minimal at best. Kasten reports that "Research on the relationship between teaching and rewards has been inconclusive" (1984, p. 501), and cites eleven studies since 1970 that reached different conclusions about teaching and faculty rewards.

Working in an administrative position on campus directly increases an individual faculty member's compensation. The extra responsibilities of an administrative position are usually reflected in higher pay. Administrative positions are also typically funded for eleven or twelve months of the year, while teaching and research faculty are compensated for only nine months. And lastly: Those with a previous history of administrative activity also receive high salaries, primarily because the increases they receive while acting in an administrative role are not taken away when they return to a research or teaching position (Tuckman and Tuckman, 1976, pp. 59-60).



## Faculty Compensation Systems Used in Higher Education

Higher education institutions in the United States compensate faculty with one of three types of systems: (1) the contract salary system (CSS), wherein each faculty member negotiates his or her annual salary with the employing institution (Beaumont, 1985, p. 3). A CSS is often referred to as merit pay; (2) the single salary schedule (SSS) based on an officially specified salary for each academic rank. It includes a fixed schedule of salary steps within each rank and a normal, time-in-step specification for each salary step (Beaumont, 1985, p. 3); or (3) a non-traditional faculty compensation system which includes any compensation system other than a pure SSS or pure merit system.



## Summary of Advantages and Disadvantages of Traditional Compensation Systems

A merit compensation system for higher education faculty represents a plan that has great implicit appeal. Its biggest institutional advantage lies in its political and cultural acceptability, making it consistent with the basic cultural norms of the United States that link compensation to performance (Fassiotto, 1986; Hammond and McDermott, 1997; Clardy, 1988; Lauer, 1991; Calhoun, 1983). The advantage of a faculty merit compensation system represents a powerful and undeniable benefit for an institution. However, once in place, operational disadvantages may appear.

The operational disadvantages of a faculty merit compensation system range from difficulty in establishing an equitable or fair system, to excessive paperwork needed to comply with reporting requirements, to less collegiality, collaboration, and cohesiveness among faculty (Tharp, 1991; Hunnicutt, Taylor and Keeffe, 1991). In addition, merit systems increase opportunities for subjective compensation decision making by administrators. A reduction in the relative importance of teaching effectiveness, a reduction in service activity by faculty, and a reduction in scholarship quality while increasing quantity, have also been reported to be linked to a faculty merit compensation system.

A single salary schedule (SSS) has the advantages of being easily administered, generally accepted by faculty as fair and equitable and of promoting collegiality and cooperation among faculty (Hansen, 1988). Faculty report that a SSS bolsters faculty morale, results in more meaningful scholarship, and emphasizes teaching effectiveness. As for disadvantages, a SSS rewards faculty tenure more than performance; it bases an individual's compensation on historical data, which makes it somewhat culturally unacceptable and opens the institution to public censure (Aristotle, 1998).



## Characteristics of an Ideal Faculty Compensation System

The hypothetical faculty compensation funding feedback model presented in Figure 1 provides the foundation for determining characteristics of an ideal faculty compensation system. Such a system would include the following:



1. The value, vision, mission, and goals of the organization must be clearly and specifically defined so that objectives are clear to all the participants (Chaffee and Sheer, 1992, p. xix).



2. Each individual, in some way, must accept personal responsibility for achieving the goals and accomplishing the mission of the organization (Chaffee and Sheer, 1992, p. xx).



3. Faculty performing at a satisfactorily level must receive a compensation increase to maintain a constant standard of living, while faculty performing at an above satisfactory level should receive a compensation increase appropriately more than the satisfactory level.



4. Faculty must believe the compensation system to be administered in a fair and objective manner.



## Designing an Effective Higher Education Faculty Compensation System

The faculty compensation system that a particular higher education institution establishes will have a major impact on the future success and quality of the institution. Thus, it should be a plan which is widely discussed and supported before being implemented. Decisions must be reached on a number of policy issues: to react or not to the external marketplace, to rely exclusively on a core salary or to use the core as a base around which there is considerable room for incentives, to tie or not to tie annual salary changes to annual performance, to elevate or neglect teaching and public service as criteria for salary adjustments, to integrate or decouple compensation for merit evaluation and for faculty development, to invite or exclude faculty participation in the determination of merit pay increases, and to make public or keep private the actual

salaries provided to faculty (Hearn, 1999, pp. 404-407).

Once the direction of the institutional general faculty compensation policy has been determined, work can begin on the structure and details of the compensation system. An effective faculty compensation system meets the following criteria:

- 1. The system must fit appropriately with the mission statement of the institution (Diamond, 1993, pp. 18-19). For this alignment to occur, it may be necessary to rewrite the institution's mission statement, making it "realistic, operational, and sensitive to the unique characteristics and strengths of the institution (Diamond, 1993, p. 8). A strong connection or link between institutional goals, improved faculty performance, additional compensation, and acceptance of increased compensation as an incentive (Lauer, 1991, p. 52) should exist.
- 2. The system must be sensitive to the differences among the disciplines (Diamond, 1993, p. 19). Standards of appropriate faculty activity vary from one discipline to another. For some, basic research has the greatest value, while, for others, public service or undergraduate teaching may be more important. Recently, several authors have encouraged faculty in higher education to adopt a broader definition of scholarship, while broadening the activities for which a faculty member can receive reward (see Boyer, 1990 and Rice, 1991).
- 3. The system must be sensitive to differences among individuals (Diamond, 1993, p. 19). Higher education institutions sometimes hold every faculty member to the same standard and do not take advantage of the particular strengths of individual faculty members. However, according to Diamond, establishing a common standard by which to evaluate all faculty members is unrealistic and can undermine the quality of an academic unit. The truth is that outstanding researchers are not necessarily great teachers, and great teachers are not always exceptional researchers (Diamond, 1993, p. 9). Rather than force every individual into the same form, the goal for each department, school, or college should be to bring together talented individuals who can work together in a synergistic manner to reach the unit's goals (Diamond, 1993, p. 9).
- 4. The system must be sensitive to standards established by regional, state, and disciplinary accreditation associations (Diamond, 1993, p. 10).



5. The system must develop and incorporate an assessment program that is appropriate, perceived to be fair, and workable (Diamond, 1993, p. 21). Safeguards need to be built into any compensation system to ensure that decisions are based on objective performance criteria and not personal judgment.

Although these five characteristics of an effective compensation system are desirable, an institution deciding a change knows that the devil is in the details. As a consequence, an institution may be forced by conflicts among stakeholders (faculty, administration, governing board, state priorities, and state and regional leaders) to be unable to develop a compensation system that achieves all these strengths. There are always inevitable tradeoffs between what is desirable and what can actually be achieved.

## CONCLUSIONS

As we enter the new millennium, higher education decision-makers are focusing their attention on management practices and procedures to respond to the growing demands for academic quality and accountability from a variety of sources. Strategic planning and mission statements are widely accepted tools employed by institutions to respond to these demands. This report encourages the use of another management tool--faculty compensation. Institutions that align faculty behavior with the institutional mission will be more successful in avoiding public criticism, improving the public's perception of the quality of the institution, and as a result, securing increased funding. As pressure mounts for accountability, both from within an institution as well as externally, faculty compensation can be an effective tool to align faculty behavior with institutional mission. If a lack of congruity between mission and the faculty reward structure exists, it should be addressed and resolved. Resolving such incongruities is one of the challenges for higher education in the 21st Century.

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Figure 1: Institutional Funding Feedback Mechanism??



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| Institutional |??



----->| Mission |<-----??



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V | V??



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| Institutional | | Faculty | |Political |??



| Funding | | Compensation | | Actions |??



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