

Bonus Decision Making Exercise

by

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This exercise may be used by current adopters of:

S. L. McShane & M. A. von Glinow, *Organizational Behavior*, 3rd ed. (Boston: McGraw-Hill, 2005); S. L. McShane *Canadian Organizational Behaviour*, 5th ed. (Toronto: McGraw-Hill Ryerson, 2004); S. L. McShane & T. Travaglione, *Organisational Behaviour on the Pacific Rim*, 1st ed. (Sydney: McGraw-Hill Australia, 2003)

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Purpose

This exercise is designed to help you understand the elements of equity theory and how people differ in their equity perceptions.

Instructions

Four managers in a large national insurance company are described below. The national sales director of the company has given your consulting team (first individually, then together) the task of allocating \$100,000 in bonus money to these four managers. It is entirely up to your team to decide how to divide the money among these people. The only requirements are that all of the money must be distributed and that no two branch managers can receive the same amount. The names and information are presented in no particular order. You should assume that economic conditions, client demographics, and other external factors are very similar for these managers.

- Step 1: Students will form teams of 4 or 5 people. Working alone, read information about the four managers. Then fill in the amount you would allocate to each manager in the “Individual Decision” column.
- Step 2: Still working alone, fill in the “Equity Inputs Form.” First, in the “Input Factor” column, list in order of importance the factors you considered when allocating these bonus amounts (e.g. seniority, performance, age, etc.). The most important factor should be listed first and the least important last. Next, in the “Input Weight” column estimate the percentage weight that you assigned to this factor. The total of this column must add up to 100 percent.
- Step 3: After individually allocating the bonus money and determining the input factors and weights, team members will compare their results and note any differences. Then, for each job, team members will reach a consensus on the bonus amount that each manager should receive. These amounts will be written in the “Team Decision” column.
- Step 4: The instructor will call the class together to compare team results and note differences in inputs and input weights used by individual students. Discussion of these results in terms of equity theory will follow.

Manager Profiles

Bob B. Bob has been in the insurance business for over 27 years and has spent the past 21 years with this company. A few years ago, Bob's branch typically made the largest contribution to regional profits. More recently, however, it has brought in few new accounts and is now well below average in terms of its contribution to the company. Turnover in the branch has been high and Bob doesn't have the same enthusiasm for the job as he once did. Bob is 56 years old and is married with five children. Three children are still living at home. Bob has a high school diploma as well as a certificate from a special course in insurance management.

Edward E. In the two years that Edward has been a branch manager, his unit has brought in several major accounts and now stands as one of the top units in the country. Edward is well respected by his employees. At 29, he is the youngest manager in the region and one of the youngest in the country. The regional director initially doubted the wisdom of giving Edward the position of branch manager because of his relatively young age and lack of experience in the insurance industry. Edward received an undergraduate business degree from a regional college and worked for five years as a sales representative before joining this company. Edward is single and has no children.

Lee L. Lee has been with this organization for seven years. The first two years were spent as a sales representative in the office that she now manages. According to the regional director, Lee rates about average as a branch manager. She earned an undergraduate degree in geography from a major university and worked as a sales representative for four years with another insurance company before joining this organization. Lee is 40 years old, divorced, and has no children. She is a very ambitious person but sometimes has problems working with her staff and other branch managers.

Sandy S. Sandy is 47 years old and has been a branch manager with this company for 17 years. Seven years ago, her branch made the lowest contribution to the region's profits, but this has steadily improved and is now slightly above average. Sandy seems to have a mediocre attitude toward her job but is well liked by her staff and other branch managers. Her experience in the insurance industry has been entirely with this organization. She previously worked in non-sales positions, and it is not clear how she became a branch manager without previous sales experience. Sandy is married and has three school-aged children. Several years ago, Sandy earned a diploma in business from a nearby community college by taking evening courses.

Bonus Allocation Form

Name	Individual Decision	Team Decision
Bob B.	\$ _____	\$ _____
Edward E.	\$ _____	\$ _____
Lee L.	\$ _____	\$ _____
Sandy S.	\$ _____	\$ _____
TOTALS:	\$100,000	\$100,000

Equity Inputs Form

Input Factor*	Input Weight**
_____	_____ %
_____	_____ %
_____	_____ %
_____	_____ %
_____	_____ %
TOTAL:	100%

* List factors in order of importance, with most important factor listed first.

** The weight of each factor is a percentage ranging from 1 to 100. All factor weights together must add up to 100 percent.