**65 CASE: *The Overpaid Bank Tellers***

State Bank is located in a southwestern town of about 50,000 people. It is one of four banks in the area and has the reputation of being the most progressive. Russell Duncan has been the president of the bank for 15 years. Before coming to State Bank, he worked for a large Detroit bank for ten years. Duncan has implemented a number of changes that have earned him a great deal of respect and admiration from bank employees and townspeople alike. For example, in response to a growing number of Spanish-speaking people in the area, he hired Latinos and placed them in critical bank positions. He organized and staffed the city’s only agricultural loan center to meet the needs of the area’s farmers. In addition, he established the state’s first “uniline” system for handling customers waiting in line for a teller.

Perhaps more than anything else, Duncan is known for establishing progressive human resource practices. He strongly believes that the bank’s employees are its most important asset and continually searches for ways to increase both employee satisfaction and productivity. He feels that all employees should strive to continually improve their skills and abilities and, hence, he cross-trains employees and sends many of them to courses and conferences sponsored by banking groups such as the American Institute of Banking.

With regard to employee compensation, Duncan firmly believes that employees should be paid according to their contribution to organizational success. Ten years ago, he implemented a results-based pay system under which employees could earn raises from 0 to 8 percent each year, depending on their job performance. Raises are typically determined by the bank’s HR committee during February and are granted to employees on March 1 of each year. Six years ago, in addition to granting employees merit raises, the bank also began giving cost-of-living raises. Duncan had been originally opposed to this idea but could determine no alternative.

One February, another bank in town conducted a wage survey to determine the average compensation of bank employees in the city. The management of State Bank received a copy of the wage survey and was surprised to learn that its 23 tellers, as a group, were being paid an average of $22 per week more than were tellers at other banks. The survey also showed that employees holding other positions in the bank (e.g., branch managers, loan officers, and file clerks) were being paid wages similar to those paid by other banks (see [**Exhibit 4.1**](https://jigsaw.vitalsource.com/books/9781133637554/content/id/Ex65-4-1)).



After receiving the report, the HR committee of the bank met to determine what should be done regarding the tellers’ raises. The committee knew that none of the tellers had been told how much their raises would be, but that they were all expecting both merit and cost-of-living raises. They also realized that, if other employees learned that the tellers were being overpaid, friction could develop and morale might suffer. The committee knew that it was costing the bank over $26,000 annually to pay the tellers. Finally, they knew that as a group the bank’s tellers were highly competent, and they did not want to lose any of them.

## QUESTIONS

1.

If you were on the HR committee of State Bank, what decisions would you suggest regarding raises for the tellers?

2.

How much faith should the HR committee place in the accuracy of the wage survey?

3.

Critique State Bank’s policy of giving merit raises that range from 0 to 8 percent, depending on job performance.

4.

Critique the bank’s policy of giving cost-of-living raises. Do you think that they should be eliminated?