

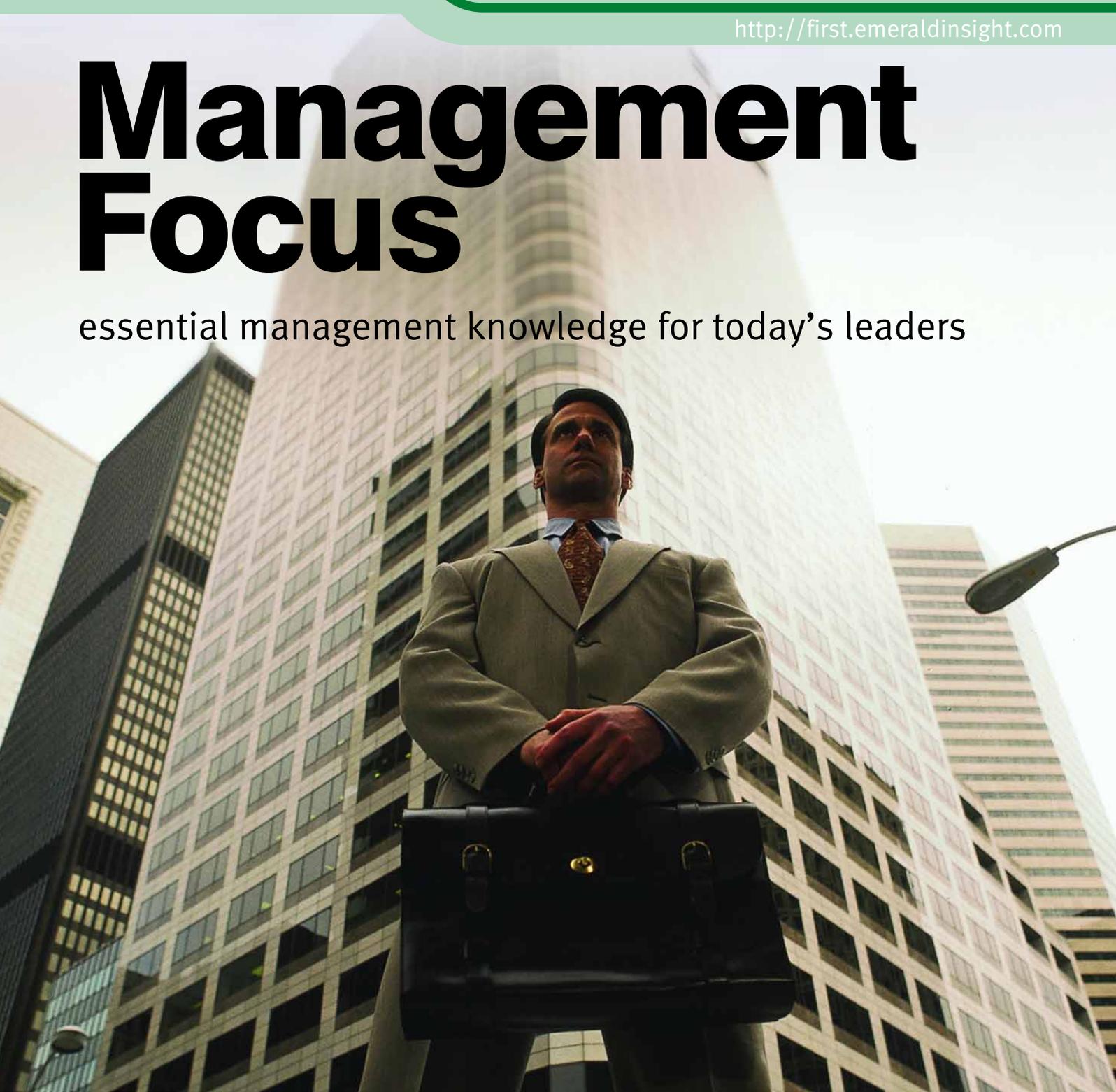
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Management Focus

essential management knowledge for today's leaders



Featured article

Pay communication: is
ignorance bliss?

Guru interview

David Maister – *Strategy
and the Fat Smoker*



Welcome to **Management Focus**

... and welcome to the March/April issue.

In the light of increasing organizational openness resulting from participative management strategies, of interest is the effect that communication of pay systems has on workplace outcomes. Although there are some notable exceptions, even in the proliferation of open management strategies, most organizations do not communicate about pay with employees.

Knowing how and why pay systems are developed, or even what others in the organization are paid, may enhance employee understanding of the business, minimize rumours and inaccurate estimations of others' pay, and satisfy employees' feeling that they have a "right to know". Find out more in our featured article.

For 25 years David Maister has advised firms in a broad spectrum of professions, covering all strategic and managerial issues. He is widely acknowledged as one of the world's leading authorities on the management of professional service firms, and in 2002 he was identified as one of the top 40 business thinkers in the world.

Read what David has to say about strategic management and his new book *Strategy and the Fat Smoker*, in this interview.

Finally, in this issue of *Management Matters* our in-house expert gives you a few tips to ensure that you provide good customer service.

Remember, to expand on the topics highlighted in *Management Focus*, log on to our website at <http://first.emeraldinsight.com>, where you will find an extensive collection of articles, interviews, executive summaries and management briefings.

Best wishes,

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Pay communication: is ignorance bliss?

In the light of increasing organizational openness resulting from participative management strategies, of interest is the effect that communication of pay systems has on workplace outcomes. Although there are some notable exceptions, even in the proliferation of open management strategies, most organizations do not communicate about pay with employees.

A study of 149 *Fortune* 1000 companies reported that only 3.5 per cent had “open pay information” systems, and an internet survey of employers found that over one-third prohibited talking about pay. Further, a survey of over 1,000 WorldatWork member companies found that less than a quarter released organization-wide salary ranges, and only 3 per cent made employee pay levels public.

Why communicate about pay?

Although pay communication does not seem to be prevalent in contemporary organizations, not everyone agrees that open pay systems should be avoided. Indeed, in the USA, the National Labor Relations Act prohibits pay secrecy policies, since talking about salaries is a key activity by which employees decide that they may want to consider unionization. In fact, given electronic access to data, keeping salary information secret may be a losing proposition.

Knowing how and why pay systems are developed, or even what others in the

organization are paid, may enhance employee understanding of the business, minimize rumours and inaccurate estimations of others’ pay, and satisfy employees’ feeling that they have a “right to know”.

Making pay transparent may also support the strategy of pay structures, which are designed to encourage employees to acquire more skills in order to increase salary. By requiring honesty, open policies may “force” organizations to pay every worker fairly. Indeed, in an effort to close its gender pay gap, the UK has passed legislation allowing employees to request that their employer divulge pay information about other incumbents, predecessors or successors in their job, and the GMB (the UK’s general workers’ union) has called for a halt to pay secrecy in order to equalize men and women’s pay.

Finally, organizations that utilize open strategies such as “empowerment” and an emphasis on teamwork usually attempt to develop an employee ownership mentality. Even in these open environments, however, organizations often require employees to maintain secrecy about their individual pay levels, which may defeat the purpose of open strategies and diminish employees’ perceptions of fairness.

Why not communicate about pay?

Employers may be reluctant to share pay information for many reasons. They may be concerned about protecting private employee data, maintaining control and freedom in pay

administration, maximizing efficiency by providing less pay explanation to avoid conflict, minimizing external threats to competitiveness through making salary information unavailable to outsiders, decreasing employee mobility by limiting their knowledge of pay both internal and external to the organization, or avoiding misinterpretation of others’ pay allocation in relation to performance.

Probably the most critical reason why organizations do not actively communicate about pay is to discourage workers from making comparisons with fellow employees. By inhibiting such comparisons, organizations hope to limit perceptions of inequity, thereby, at best, creating positive attitudes and behaviour, or, at worst, avoiding negative attitudes and behaviour.

Under open pay communication, perceived unfairness is much more likely, since inevitably every pay system has elements of subjectivity. Because awareness of inequities threatens perceptions of distributive and procedural justice, pay secrecy may be more likely to elicit higher justice perceptions than open communication.

A large body of research, supported by both equity theory and relative deprivation theory, asserts that people make comparisons regarding pay and that these comparisons have an impact on employee behaviour and attitudes. A fundamental component of equity theory is that individuals will make comparisons of ratios of their outcomes and

“Probably the most critical reason why organizations do not actively communicate about pay is to discourage workers from making comparisons with fellow employees”

inputs with those of a relevant other. Such comparisons in a work setting can include self-referents (pay in a past or future job; how well the person provides for his or her family), system referents (where pay is within the grade), and “other” referents (other people, both within and outside the organization).

Equity theory asserts that, if inequity is perceived, the individual will attempt to relieve or reduce the resulting dissonance. In the case of pay inequity, efforts to alleviate dissonance may manifest themselves as complaints to supervisors, grievances, allegations of discrimination, union organization attempts, poor morale, and even turnover. Policies restricting pay information attempt to reduce access to comparative data, thus theoretically minimizing dissonance and decreasing the likelihood of undesirable outcomes.

Similarly, relative deprivation theory asserts that individuals will feel deprived on comparing their level of outcomes with one or more comparisons, including others who have more, what they have versus what they want, their own past experiences and future expectations, and to what they are entitled. Thus, both theories predict that, through a

variety of comparisons, individuals will evaluate their current situation, and negative comparisons will result in negative affect and potentially undesirable behaviour.

Pay communication, attitudes and outcomes

Although evidence regarding pay communication and work outcomes is scarce, some have found relationships between information available to employees and pay satisfaction. For example, managers may feel more equitably paid than others, perhaps because they have more access to pay-related information. However, lower pay knowledge has also been associated with more positive pay attitudes.

Additionally, access to information may contribute to perceptions of instrumentality, which are critical for effective pay-for-performance perceptions, and, in partial support of this contention, many have found that workers who believe they understand the pay system better are more likely to report satisfaction with both the process and outcomes of pay. Indeed, limited evidence exists that the lack of information about pay may be related to lowered performance

motivation and pay satisfaction. Finally, advocates of open pay communication systems often believe that access to

information increases organizational trust, which has been shown to be associated with stronger pay-for-performance perceptions and more positive assessments of merit pay.

Thus, contrary to the practices of many organizations, evidence suggests that more communication is conducive to fostering more positive work attitudes, since greater knowledge is associated with enhanced pay-for-performance perceptions as well as higher satisfaction with pay.

However, open pay knowledge may have unintended consequences in terms of other employee behaviours. In a study of professional sports in which both performance and pay levels are well-known to all, under-rewarded individuals exhibited highly competitive behaviours, while over-rewarded players were more cooperative. Thus, less openness about pay may also minimize both competitive and cooperative behaviours.

Communication is a one-time phenomenon: Once something is communicated, it cannot be taken back. Thus, managers are wise to communicate conservatively, choosing to err on the side of divulging less information rather than more. □

This is a shortened version of “An investigation into pay communication: is ignorance bliss?”, which originally appeared in *Personnel Review*, Vol. 36 No. 5, 2007.

The author is Nancy E. Day.

David Maister – *Strategy and the Fat Smoker*

Interview by Alistair Craven



David Maister is widely acknowledged as one of the world's leading authorities on the management of

professional service firms.

For 25 years he has advised firms in a broad spectrum of professions, covering all strategic and managerial issues, building a global practice that finds him spending about 40 per cent of his time in North America, 30 per cent in Western Europe, and 30 per cent in the rest of the world.

His first book, *Managing the Professional Service Firm*, was published in 1993. It was followed in 1997 by *True Professionalism*. In 2000 he wrote *The Trusted Advisor*, with Charles H. Green and Robert M. Galford. In 2001 he published *Practice What You Preach*.

Maister's new book *Strategy and the Fat Smoker* explores "the Fat Smoker syndrome" and how individuals, managers and organizations can overcome the temptations of the short-term and actually do what they already know is good for them.

Q: Hello and welcome. Can you briefly explain your "Fat Smoker" metaphor?

A: The problem that organizations have in choosing and executing their strategic plans is similar to the (very human) challenges we have as individuals: we know what to do, why we should do it and even how to do it (eat less, exercise more, for example). None of that predicts whether we will actually get on the diet and exercise programme and achieve our goals. Success involves a lot more than wanting a goal and knowing what to do to get it.

Q: Early in the book you state that much of what companies do in the name of strategic planning is "a complete waste of time." Why do you say this?

A: Most companies do a very good, sensible job of analysing their market opportunities. The trouble is that most of the competitors are usually equally smart, and are also aware of which market segments are growing, and which products or services have rising demand. Companies also tend to come to very similar, if not identical, conclusions about what they need to do to compete (listen to customers, provide seamless service, be innovative, create a great place to work). None of these conclusions is incorrect – they are just unlikely to be much different from those to which your best competitors will come. It's a waste of time if you think you have obtained a competitive advantage by figuring out what needs to be done. That only gets you to the real starting-gate of competition.

Q: You find that many more firms have mission statements than actually have missions. What's the danger of this and what can be done about it?

A: If people in the organization see top management as men or women of expediency (willing to compromise a mission, purpose or values for short-term gain), they tend to adopt a similar attitude: "I'll do what you pay me for, but don't expect me to stretch for a cause that you don't seem willing to sacrifice for." So, everyone does a good job of taking care of today, but no one takes a risk on building for the future.

That's perhaps acceptable, but it makes it hard to get somewhere new. What can be even worse is when top management pretends to have a mission, a purpose or a set of values to which the organization can see top management is not really committed. That just breeds cynicism, which is a double negative: you lose the power of building through collective effort, and you reduce the amount of trust that people have in management.

Q: What do you mean by strategy being a journey, not a destination?

A. You can't tell whether someone is really serious about an improvement programme if they just tell you their goals ("lose weight, give up smoking.") That's just a wish about a destination. You can only predict whether they are likely to get there if they can tell you the rules by which they will live their lives ("eat no more than 1,500 calories per day," "exercise for 30 minutes five times a week"). If they have (non-negotiable, minimum) rules of operation, then you (and they) will know whether they have a strategy that is likely to get them to the benefits they seek. The strategy is in the rules, not the goals.

Q: You spend 40 per cent of your time in North America, 30 per cent in Western Europe, and 30 per cent in the rest of the world. What key differences in management styles have you observed between these regions?

A. More than I originally expected, I have learned that national stereotypes have a lot of truth to them, and it is a rare manager who is effective across cultures. What needs to be done (energize people, earn trust) is often the same, but *HOW* it is done can be very different. It's not just national cultures – it can be regional. In the USA, you can energize a New Yorker and you can energize a Midwesterner or a Southerner, but you would do it in very different fashions. You need to understand other people and their culture and background if you are going to engage them. □

To read the full interview with David Maister visit <http://first.emeraldinsight.com> and select the "Strategy" community.

Management Matters

Welcome to our Q&A section – *Management Matters*, where you can find actionable advice on current management topics. In this issue our resident expert answers your question on customer service.

Q. According to Mike Low, Director of BSI British Standards, “poor customer service is the largest cause of customers moving from one provider to another”. What tips would you give to ensure good customer service?

A quick Internet search for “customer service” will reveal thousands of results in the form of books, articles, courseware, DVDs, presentations and a plethora of other material claiming to offer the next big breakthrough in managing customer relationships. Some of it you may find useful, some patronizing and over-simplified. And right from the outset we run into difficulties. What exactly is meant by customer service? Do customers even want “relationships” with us as companies? In looking for answers you may instead return more questions!

Let’s get back to basics for a second. Many of the articles trawled up in your Web search will begin by proclaiming that satisfied customers are loyal customers, and so high levels of satisfaction naturally lead to repeat business and increased

sales – a familiar tale. However, it is perfectly plausible that a customer’s changing needs may influence his or her intention to repurchase from a given provider, regardless of whether he or she is satisfied. In other words there may be instances where certain elements remain outside your control as a business. Knowing this fact and accepting it can only assist you in getting the things you can control as good as they can possibly be.

Accepting the fact that you can’t play God is a sensible place to start, but where do we go from there? Practically, you are well advised to invest some effort in understanding your customers’ attitudes and behaviours. You can do this in many ways, for example by a detailed analysis of your own customer records or by going

one step further and employing a company to design a customized customer attitude survey for your organization. You must ensure, though, that you participate closely in the process so that the resulting survey accurately measures attitudes that affect real business metrics such as customer retention rates and turnover.

Many of us have suffered the exasperation of dealing with a staff member inadequately versed in the products on offer or the processes needed to solve a particular problem. Don’t let this be the case in your company. In today’s business climate, increasingly the first port of call for a customer is either your website or your call centre/office, so take care to invest extra effort in getting these elements reliable, friendly and up to date. Run regular product awareness days for staff and reinforce them with hand-outs. Maintain a solid investment in training, and, equally important, make it easy for customers to get in touch with you. No matter how ordinary your business you must also be able to motivate your workforce.

Good customer service is a colossal field in which there are no right or wrong answers. However, it is important to bear in mind one key fact: increasing competition means greater choice, and savvy consumers chasing a hard bargain are hard to satisfy. Competing on price is no longer enough; embrace customer centricity and instil it in your people. If you don’t, you can be sure your competitors will. □

If you would like our resident expert to answer your question, write an e-mail to Web Content Manager Debbie Read at dread@emeraldinsight.com and the best submissions will be featured in a future issue of *Management Focus*.

point of view

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Emerald Management First delivers information from the world's top companies, leading business schools and most respected management thinkers direct to the desktops of all your managers. Around a *quarter of a million* linked case studies, executive summaries, articles, management briefings and reviews are sorted by relevance and practical usefulness, so your managers can turn instantly to the information they need and *know* that it's of the highest quality.

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Final thought ...

“Recently, I was asked if I was going to fire an employee who made a mistake that cost the company \$600,000. No, I replied, I just spent \$600,000 training him. Why would I want somebody to hire his experience?”

Thomas J. Watson

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