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The changing nature of executive work and the implications for remuneration strategy

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Abstract

This paper looks at the evolution of executive work and how this has impacted on remuneration strategy within organisations today. The author's research into executive work and remuneration in the top fifty listed companies on the Australian stock exchange is used to show what is happening in this area in these companies. What was found is that the way work is done is far more important in these companies that what is actually done. Even when an organisation has a strict policy of using job evaluation to determine job size, the impact of the individual is a major influence on this.

Keywords – job evaluation, executives, remuneration

Introduction

As work and jobs have changed, so too have the ways organisations reward their employees. This researcher undertook a comprehensive study of a group of companies in the top fifty publicly listed companies on the Australian stock exchange and found that rather than *what* was being done, *how* work was being done was a much more important factor when it came to determining levels of executive remuneration.

MethodologyThe study was carried out in 2003 using the qualitative research method of grounded theory in order to understand the phenomenon and to explain what was happening. In addition, data was collected primarily using convergent interviewing which is a technique that is particularly useful when the researcher is in some doubt about the information to be collected. Convergent interviewing is a flexible and adaptable way to discover information, with a key being the option of modifying the line of inquiry to respond directly to the information provided by the informant.

How work and jobs have changed

Work and jobs have changed significantly, coming almost full circle since the pre-nineteenth century (Bridges 1994). At that time, people did not have jobs in the fixed and unitary sense, but this was followed by a period where jobs were clearly articulated and people worked within very narrowly defined boundaries. Today, jobs are again being described in general and less clearly defined ways. Prior to the nineteenth century people performed a constantly changing string of tasks brought about by the demands of everyday life, rather than being defined by an organisation’s needs. In this pre-industrial world, ‘jobs’ were essentially ad hoc activities, not positions (Bridges 1995, p. 33).

The concept of the ‘job’ as we understand it today emerged early in the 19th century to package the work that needed to be done in the expanding factories and bureaucracies of the industrialised world. Organisations began to base their work practices on an industrial engineering model, influenced by the thinking of Frederick W. Taylor and Max Weber and implemented by Henry Ford (Crandall & Wallace 1999). Fay (2001, p. 63) described the characteristics of this model as stable and unambiguous jobs, the optimisation of the production line rather than the employee’s work experience, and the focus on individual workers rather than groups of workers. Jobs became ‘boxes’ of clearly defined activity (Bridges 1995, p. 63) that were bounded by job descriptions, and employees viewed themselves as the occupants of that box, and were managed and assessed according to how well they stayed within its boundaries. In this job-based approach it was assumed that there were specifiable and regular duties that an individual needed to perform and that these could be captured and explicitly described in a job description (Lawler 2000).

This industrial engineering model had a great impact on the development of managerial techniques and processes of the time. It presupposed that people could not play a role in determining what had to be done or how, and that they only worked because they had to. Quinn Mills (1993, p. 14) suggests that ‘people were poorly educated and required precise direction. They were reluctant to work and poorly-self disciplined, so they needed close supervision’. This sentiment of the dependent worker was echoed by Pascale (1990, p. 14) who described the workforce of the industrial bureaucracy as a semi-skilled and semi-illiterate workforce that was not offered, and did not seek, any influence over the labour process.

Very quickly, employees began to identify strongly with the specific descriptions of jobs and hierarchies that the industrial engineering model provided, and this model of jobs and organisation structure remained in place for many years. However, for the job-based approach to be valid, a certain stability needed to exist in the tasks individuals were asked to perform (Lawler 2000). Thus they were very clearly specified. This is not the case in many organisations today, as there is little stability now in what people do, so the whole concept of using jobs as a basic building block and control device in an organisation is being challenged.

The shift in focus from the job to the person

The shift in focus from the job to the person grew out of the changes in the way organisations evolved and the types of work that needed to be done. In developed countries many traditional types of manufacturing work began to disappear, as the globalisation of production and the technological revolution forced employers into a post-industrial model for producing goods and services. To become more responsive to the ever-increasing demands of customers, and to deliver higher levels of performance, companies began to replace the functional specialisation in clearly defined jobs with activities organised according to complete, or end-to-end, business processes that cut across traditional departments, hierarchies, occupations and employment patterns (Bridges 1995; Crandall & Wallace 1999).

The role of a manager

The role of a manager was created in the late nineteenth century to oversee and direct the work of people who held jobs. Prior to that, there were masters, gang-bosses, commanders and overseers, but there were no managers (Bridges 1995, p. 166).The changing demands of the workplace, as detailed above, have meant that the work of managers has changed, with their success being described by Bridges (1995, p. 152) as dependent upon how well they facilitate the work done by the team or how they contribute to them as a regular member. This has also led to a less clear distinction between the work of managers and staff. Moss Kanter (1989, p. 85) described the growing ambiguity of managers' roles and questioned whether the title 'manager' was still relevant - 'With little precedent to guide them (managers) are watching hierarchy fade away and the clear distinctions of title, task, department, even corporation, blur'. In 1989, she said that there were no terms to describe the new working relationships; 'superior and subordinate' were not considered appropriate, nor were 'bosses and their people', which implied more control and ownership than managers actually possessed. No commentator since has developed better descriptive terms to describe this, so these terms are still used today.

Despite the absence of a suitable word to describe the role, the word 'manager' is still used in organisations and continues to be used in the literature, with the word 'executive' becoming popular to describe the work of senior managers. However, in much of the literature, the terms 'executive' and 'manager' are used interchangeably. Characteristics of managerial and executive work have been described in the literature as being different from those of workers at lower levels within organisations. The work of managers and executives involves planning, organising, co-ordinating work and people across the organisation, operating cross-functionally, looking after specific teams and dealing with those over whom they have no direct control (Dainty & Anderson 1996; Mintzberg 1998; Moss Kanter 1989). Moss Kanter (quoted in Abernathy 1998, p. 45) added that communication and negotiating skills for managers have become essential. They are expected to communicate in 'powerful and inspiring' ways and to lead by virtue of the relationships they are able to build.

Managers must also have the skills and abilities to manage knowledge work, that is work concerned with ideas and concepts rather than tasks, as its importance continues to increase. This means that managers are increasingly operating in situations where they have little experience to rely on; the increase in knowledge work 'can rob managers of their right to direct or even understand the work of their so-called subordinates. In any case, the shift from routine work….to knowledge work…..erodes a manager's claim to superior expertise.' (Moss Kanter 1989, p. 91).

Accordingly, management techniques have also changed. A number of writers have described one of the important emerging skills as coaching (Drucker 1992; Ghoshal & Bartlett 1997; Hogarty 1993; Moss Kanter 1989), where managers work *with* employees and provide inspiration and guidance rather than direct and close supervision of tasks. Without an intimate knowledge of the tasks being carried out by their employees, managers have found other ways to manage performance and achieve goals and targets. Managers must ensure that they have well-established contacts and networks within an organisation in order to get things done; Moss Kanter (1989, p. 89) suggested that 'The ability of managers to get things done depends more on the number of networks in which they're centrally involved than in their height in a hierarchy'. Dainty and Kakabadse (1992, p. 4) described the most senior management team as the most important influence in the company as it sets 'the agenda' for the whole organisation.

What was found in the top fifty companies on the Australian Stock Exchange

In the research undertaken during 2003, the researcher found that informants echoed the ideas expressed in the literature described above. Informants reported that the type of work carried out by executives has changed significantly in their organisations over the last decade or so. They suggested that executive jobs have become broader and less clearly defined, that the business world has become more complex and more global, and that for publicly listed companies, the scrutiny from investors was growing rapidly. These phenomena all impacted on executive jobs in the companies in this study and the informants described how jobs had changed in response to this. In addition to specific areas of responsibility, executive jobs in this study included accountability for a wide range of issues such as human resources, occupational health and safety and environmental issues as well as the specific area/s for which they were responsible.

Informants spoke of leadership being the most important competency for executives today and viewed the quality of leadership of executives as crucial in differentiating companies and increasing the probability of success. There is a wide body of literature on the importance of leadership, but there appears to be no widely accepted definition of the term (Dainty & Anderson 1996; Sinclair 1998). Nonetheless, leadership often tended to be referred to in relationship-oriented terms, with expressions such as "inspiring…lead by virtue of relationships" (Moss Kanter in Abernathy 1998, p. 44) and "…leadership, achieving a vision requires motivating and inspiring…despite major obstacles to change, by appealing to basic but often untapped human needs, values and emotions" (Kotter 1998, p. 41). So, while it is a critical feature of executive behaviour, recognising it measurable terms may be another issue.

Another important influence on executive jobs identified by the researcher is the blurring of the lines between work and home. The literature referred to this as the 'intrusion' on the personal life of executives (Kay & Rushbrook 2001; O'Neill 1999). Informants said that this has resulted in organisations developing more flexible work patterns and remuneration in order to accommodate the needs of executives, particularly those they wish to retain. Coupled with this, informants identified that executive turnover was high, burnout was common, and the security normally associated with superannuation ‘nest eggs’ has disappeared. Executives were increasingly demanding immediate reward rather than waiting for it to come towards the end of their working lives. The issues related to tenure and burnout tended to be universal problems (O'Neill 1999) but the particular issue relating to superannuation is specific to Australia and there appears to be a gap in the literature about the particular impact on executive remuneration. When the increase in relative remuneration for executives in Australia over the last decade or so was discussed in the literature, the argument appeared to be related to changes in the economy and jobs, and the growing influence of the global economy (O'Neill 1999; O'Neill & Berry 2002). However, the study’s findings are that the increase in relative remuneration can also be attributed to changes in superannuation.

In this study, the theme underpinning much of the discussion about the changes to jobs is that the changes to executive jobs suggested by informants were more specifically about *how* executives carry out their jobs rather than *what* they do. Accordingly, describing executive jobs and defining what makes a successful executive are becoming more and more difficult for the companies in this study.

Another finding is that the pressure from investors for more explanation about decisions concerning executive remuneration is having a major impact on job evaluation and on remuneration decisions. Some of the informants believed that investors like analytical job evaluation because it provided a rationale for remuneration decisions. Consequently they persevered with it, although all those companies in this study that use it modify the process.

The literature suggested that job evaluation, particularly analytical job evaluation, was a useful tool for companies to use in order to help justify these decisions (Bowers 2001; Lawler 1990). Armstrong and Murlis (1991) argued that formal job evaluation processes provided an objective means of examining jobs. However, the reality for the companies in this study is that, as well as examining the *job,* they want to include significant elements related to the *incumbent* as well. Therefore, job evaluation tools are inadequate, and they do not get to the heart of what the informants say they need to assist them to make decisions about executive remuneration. However, for most of these companies in this study, the alternatives available are not suitable either. They persevere with job evaluation processes and modify them by overlaying a significant element of judgment based on the specific and individual characteristics of the incumbent. This is in direct contrast to the literature which stated that job evaluation is a process based on issues about the job, not the person (Gomez-Mejia & Balkin 1992; Nethersell 2001; Schuster & Zingheim 1992). However the findings indicate that despite the presence of a job evaluation process, in reality judgment is the overriding characteristic or tool of the decision-making process when it came to evaluating executive jobs. In effect then, what was happening was that the value of a job was determined by the characteristics of the incumbent, and so the value of the job was likely to change every time the incumbent changed. In contrast, informants from those companies without formal job evaluation in place were more open about their use of judgment and seemed to be more comfortable with this. In these cases, they do not appear to be concerned with the value of the job at all – they are only interested in the incumbent. ‘Job size’, as identified under job evaluation, was of no real interest to them.

Overall, the data indicated that what was happening with respect to executive remuneration in all of the companies in this study could be summarised as follows. Remuneration decisions are largely based on a judgment of the leadership and other skills of the incumbent. The key competencies that ae looked for in an executive include leadership, interpersonal skills, general business acumen, and the ability to build relationships and manage teams. In addition, companies actively seek executives who have potential for other roles and responsibilities, and may recruit an executive who is 'overqualified' for the immediate job in order to have someone in place with potential for other jobs within the company. This impacts on remuneration levels in the short-term, with such executives typically being paid more than is appropriate for the specific job, according to the size of the job based on salary survey data. However, in the literature on job evaluation, there was a clear distinction between the job and the person and in a faithful application of job evaluation, characteristics of the person are not considered (Armstrong & Murlis 1991; Balkin & Gomez-Mejia 1987; Hilling 2003).

Conclusion

These findings have a number of implications. However the key implication for executive education is that organisational decisions about promotion and remuneration are largely based on issues about the incumbent rather than the outcomes of the work done. Since 'good performance' is very closely aligned with *how* the work is done rather than *what* is done, the challenge for educators is to provide course content that is relevant and that meets the needs of this particular market segment.

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