



Excesses of Executive Pay

By Barry Deane, PeopleFit Australasia, 2009

Interest in what is seen as excessive executive pay, has been gathering over a number of years now - at least ten years. The current financial melt-down provides emphasis as attempts are made to reconcile excesses of pay with business results.

Watching this game of executive justification for excess (e.g. "My job is really, really big, and I deserve as much as I can get.") being met by public anxiety ("It sure seems a lot, but then maybe I couldn't do such a really big job, or maybe I'm just envious"), one could be forgiven for thinking that the question, "What is fair pay?" can't possibly be answered.

Why does it appear (i.e. through all of the current public debate on this subject) that it is beyond us to come up with an objective, evidence-based link between the work being done and the assignment of pay? If there is outrage about executive pay, what underpins that feeling, and is it justified? Could it be that there exists a community-based idea about fair pay?

The 'fact' is that these questions do appear relevant, can be answered - and **have** been answered. At the very least one might say that there is compelling science-based evidence that this question has been answered substantially (accounting for those who might quibble at the margins of any claimed construct in the social sciences).



Lord Wilfred Brown and Dr Elliott Jaques investigated this matter - among other organisational and leadership matters - as part of an extensive piece of workplace-based research known as the Glacier Project (UK 1948 to circa 1976). Here is a useful quotation:

"If the problem of differential payment is as critical an issue as experience would suggest, what then is to be done? A possible lead has been provided by the curious finding which first suggested that level of work might be measurable in terms of time-span of discretion; namely, that for each time-span level there is a corresponding level of pay felt by employed persons to be fair."

"In work over a period of some twenty years in the Glacier Metal Company a correlation of about 0.90 has been found between time-span and felt-fair pay, for all types of work - manual, technical, managerial, research, sales, finance, etc.

"In a study at the headquarters of Honeywell Corporation in Minneapolis, U.S.A., Richardson found a correlation of 0.86 for managerial and staff personnel in manufacturing, sales and research. He further found by means of regression analysis that time-span explained some 75% of the variation in felt-fair pay, as compared with actual pay (10%), and 28 other variables, none of which accounted for more than 1.5% of the variation. There is further support for the validity and reliability of these studies in work in Holland and in Canada, and in less systemic and unpublished testing in a number of other countries besides."

Elliott Jaques (1976, '77, '81, '83) A
General Theory of Bureaucracy

The 'time-span levels' referred to above concerns the recognition/discovery of levels of complexity of work, a necessary construct informing the layering of organisations i.e. what is the nature of the work to be done by the organisation and how many levels of management should there be to achieve the work.

The Glacier project is well documented.
Felt-fair pay is well documented.

The whole body of work of which felt-fair pay is a component is now known as Requisite Organization (RO). This body of work was introduced into Australia late in the 1970s by Sir Roderick Carnegie, then CEO of CRA Ltd (now Rio Tinto).

There is a large amount of academic and other professional documentation of the CRA experience (and others) and RO, much of which is listed in an extensive bibliography published by the Global Organization Design Society, a not-for-profit organisation based in Toronto Canada. You can download this bibliography free from GO's website at www.globalro.org.

A few key texts which deal with felt-fair pay in some detail are:

- A General Theory of Bureaucracy (noted above)
- Executive Leadership Elliott Jaques and Stephen D Clement (1991 - 2002)
- Social Power and the CEO Elliott Jaques (2002)
- Requisite Organization Elliott Jaques (1987 - 1998)

And RO in Australia (part story):

- The Line in the Sand J.T.Ludeke QC (1996)

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