

Of entitlements and privileges

Organisations flourish only when members feel privileged about their workplace

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Recently, I was congratulating a friend for having the privilege to work in a professional organisation. I thought he would be enjoying the opportunity to do intricate work to perfection, provide valued service, and have the autonomy and respect that professionals enjoy in society.

But my friend was offended. "What privilege!" he expostulated. "I do everything that is asked of me, still I earn less than several of my peers; I can afford to live only in a modest apartment, and my retirement savings are worth nothing. I am not even getting a fraction of what I am entitled to."

I felt sad for my friend and for his organisation. Rather than operate in a professional's world where the dominant logic is one of responsibilities and privileges, my friend was following the archaic employment logic of duties and entitlement.

Duties and entitlements

In traditional commercial or industrial organisations, owners invest capital and hire workers. Their labour, combined with capital, helps create valued goods or services. The 'strategic' asset — element that distinguishes the organisation from other providers of similar goods — typically is capital. Workers contribute undifferentiated labour.

Here, the contract between owners and workers is that owners offer entitlements, including wages and other employment related benefits, and, in return,

on the entitlements they are owed. Not surprisingly, many of these organisations have earned the sobriquet of sweatshops.

Bureaucracies follow the logic of duties and entitlements for a different reason. The state hires public servants and gives them powers to take decisions that significantly affect social welfare. Given the impact of their decisions on the public, bureaucrats must be seen to exercise their powers fairly and transparently.

Thus, their duties are clearly identified. To ensure that the bureaucrats do not gain privately from exercise of their public responsibilities, their entitlements, including emoluments and perks, are sharply circumscribed. So, bureaucrats operate with an acute sense of the scope and limitations of their duties and entitlements.

Knowledge-intensive organisations operate on a different logic. They focus on privileges and responsibilities. My research has focused primarily on professional organisations, which is a subset of this category. Hence my illustrations are limited to professional organisations, although I believe the logic holds for all knowledge-intensive organisations.

Human capital at work

In professional organisations — law firms, consultancies, investment banks, accounting firms, academic institutions, and so on — the strategic asset is not plant or machinery, but human capital. Financial capital is undifferentiated; the skills and capabilities the professionals bring to bear distinguish these organisations. For ex-

ample, to a dominant market presence, economic returns, social respect, and professional autonomy.

Not surprisingly, most professional organisations, even some of the largest — the Big Four accounting firms — are partnerships of professionals. Partners in Ernst & Young, for example, work to strengthen the reputation that the firm enjoys. Its reputation leads to more business from better clients, better quality recruits, and respect that its professionals enjoy in society. A professional organisation's brand is strengthened by the excellent work of its members. A member who strengthens the organisation's brand generates a 'positive externality' that benefits other members of the organisation.

This dynamic can lead to what economists call a 'public goods' problem. All members of the organisation benefit from leveraging its brand, but returns from investing in the brand cannot be fully internalised by those who build it. Unless encouraged to contribute, the organisation's members are likely to underinvest in the brand.

To overcome this challenge, professionals develop norms of contribution. Through their work and conduct, they are expected to burnish the reputation of their organisation and, in exchange are able to leverage their organisation's brand. Well-regarded professional organisations operate as collegial partnerships, with goodwill among members, but also expectation of contribution to the brand. Thus they perform their responsibilities to the best of their

moderate compensation, feel privileged to be part of an institution that contributes immensely to society.

Unlike in traditional com-

mercial or industrial organisations, there are no bosses and subordinates in professional organisations.

Leaders derive their power from rights delegated by members and they employ these powers with gentle levers. Harvard University's president Drew Faust leads through persuasion and dialogue, not orders and edicts. Their key role as leaders is to strengthen their organisation's culture by ensuring that professionals who have the privilege of membership are also discharging their responsibility of strengthening the organisation. Chairman of global executive search firm Egon Zehnder Rajeev Vasudeva's key responsibility is to ensure that partners adhere to the company's core pillars: client first, professional character,

If performance is poor, they find it convenient to blame 'the powers that be' rather than ask difficult questions of themselves. Such individuals are acutely conscious of the 'duties' they are performing and the 'entitlements' they are owed. Unfortunately, sometimes, leaders of professional organisations

also find it easier to lead through command and control rather than through persuasion and exhortation. Whether members or leaders initiate such a dynamic, if it persists, such organisations develop hierarchical structures of command and control, bureaucratic systems that balance rights against entitlements, an antagonistic culture of leaders versus members, and tolerance for mediocre performance through blaming others.

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Duties and entitlements

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Here, the contract between owners and workers is that owners offer entitlements, including wages and other employment related benefits, and, in return, workers perform duties so that they can contribute labour in a prescribed manner to ensure efficient production. Owners, often represented by managers, supervise the workers to ensure they are performing contracted duties.

Such organisations tend to be hierarchical: managers act as principals focused on workers' duties, workers as agents focused

on their own professional organisations, which is a subset of this category. Hence my illustrations are limited to professional organisations, although I believe the logic holds for all knowledge-intensive organisations.

Human capital at work

In professional organisations — law firms, consultancies, investment banks, accounting firms, academic institutions, and so on — the strategic asset is not plant or machinery, but human capital. Financial capital is undifferentiated; the skills and capabilities the professionals bring to bear distinguish these organisations. For example, what distinguishes McKinsey from other consulting firms is the quality of its consultants.

In such organisations, the "owners" are the human capital providers. They team together to form a professional organisation and build for their organisation shared reputation, which can be called the 'brand' of the organisation. A strong brand translates in-

creased loyalty by those who build it. Unless encouraged to contribute, the organisation's members are likely to underinvest in the brand.

To overcome this challenge, professionals develop norms of contribution. Through their work and conduct, they are expected to burnish the reputation of their organisation and, in exchange are able to leverage their organisation's brand. Well-regarded professional organisations operate as collegial partnerships, with goodwill among members, but also expectation of contribution to the brand. Thus they perform their responsibilities to the best of their capacity; in exchange, they have the privilege of working in their organisations.

Partners in Wachtell, Lipton, the most profitable law firm in the world, work collegially on complex M&A transactions, but they also have high expectations of one another. Doctors in Aravind Eye Hospital, despite their heavy work responsibilities and

demands, leaders derive their power from rights delegated by members and they employ these powers with gentle levers. Harvard University's president Drew Faust leads through persuasion and dialogue, not orders and edicts. Their key role as leaders is to strengthen their organisation's culture by ensuring that professionals who have the privilege of membership are also discharging their responsibility of strengthening the organisation. Chairman of global executive search firm Egon Zehnder Rajeev Vasudeva's key responsibility is to ensure that partners adhere to the company's core pillars: client first, professional character, and one firm partnership.

Entitlements versus privileges

Sometimes, members of professional organisations find the demands of self-discipline and meeting peer expectations too onerous. They would rather take comfort in treating their professional organisations as hierarchies.

Leaders also find it easier to lead through command and control rather than through persuasion and exhortation. Whether members or leaders initiate such a dynamic, if it persists, such organisations develop hierarchical structures of command and control, bureaucratic systems that balance rights against entitlements, an antagonistic culture of leaders versus members, and tolerance for mediocre performance through blaming others.

Professionals who bemoan the entitlements they are owed and count the duties they perform, by their faint commitment do inferior work and consign their organisations to sub-par performance.

Professionals who feel a sense of responsibility arising from feeling privileged to be members of their organisation, through their excellent work flourish as professionals and strengthen their organisations.

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