



Case of The Well-Paid Receptionist

By, Roland B. Cousins, of LaGrange College. Management cooperated in the field research for this case, which was written solely for the purpose of stimulating student discussion. All individuals and incidents are real but names and data have been disguised at the request of the organization.

Harvey Finley did a quick double take when he caught a glimpse of the figure representing Ms. Brannen's salary on the year-end printout. A hurried call to payroll confirmed it. Yes, his receptionist had been paid \$127,614.21 for her services last year. As he sat in stunned silence, he had the sudden realization that, since his firm was doing so well this year, she would earn at least 10 to 15 percent more money during the current fiscal year. This was a shock, indeed.

With a second call to payroll, Harvey found out that Ms. Brannen's salary had been approximately \$112,000 the year before last and \$100,000 the year before that. She had been well paid for some time, he concluded.

Background

Harvey began his career as a service technician for a major manufacturer of copy machines. He received rather extensive technical training, but his duties were limited to performing routine, on-site maintenance and service for customers. After a year's experience as a service technician, he asked for and received a promotion to sales representative. In this capacity, he established many favorable contacts in the business community of Troupville and the surrounding towns. He began to think seriously about capitalizing on his success by opening his own business.

Then, seven years ago, he decided to take the plunge and start his own firm. He was tired of selling for someone else. When he mentioned his plan to his friends, they all expressed serious doubts; Troupville, a city of approximately 35,000 people located in the deep South, had just begun to recover from a severe recession. The painful memories of the layoffs, bankruptcies, and plummeting real estate values were too recent and vivid to be forgotten.

Undeterred by the skeptics, Harvey was optimistic that Troupville's slow recovery would soon become a boom. Even though his firm would certainly have to be started on a shoestring, Harvey thought his sales experience and technical competence would enable him to survive what was sure to be a difficult

beginning. He was nervous but excited when he signed the lease on the first little building. A lifelong dream was either about to be realized or dashed forever. Troupville Business Systems was born.

While he had managed to borrow, rent, lease, or subcontract for almost everything that was absolutely necessary, he did need one employee immediately. Of course, he hoped the business would expand rapidly and that he would soon have a complete and competent staff. But until he could be sure that some revenue would be generated, he thought he could get by with one person who would be a combination receptionist/secretary and general assistant.

The typical salary for such a position in the area was about \$14,000 per year; for Harvey, this was a major expense. Nevertheless, he placed what he thought was a well-worded ad in the "Help Wanted" section of the local newspaper. There were five applicants, four of whom just did not seem quite right for the position he envisioned. The fifth applicant, Ms. Cathy Brannen, was absolutely captivating.

Ms. Brannen was a twenty-seven-year-old divorcee with one small child. Her resume showed that she had graduated from a two-year office administration program at a state university. She had worked for only two employers following graduation, one for five years and the most recent for two years. Since returning to her hometown of Troupville two months ago, following her divorce, she had not been able to find suitable employment

From the moment she sat down for the interview, Harvey and Ms. Brannen seemed to be on exactly the same wavelength. She was very articulate, obviously quite bright, and, most important, very enthusiastic about assisting with the start-up of the new venture. She seemed to be exactly the sort of person Harvey had envisioned when he first began to think seriously about taking the big plunge. He resisted the temptation to offer her the job on the spot, but ended the hour-long interview by telling her that he would check her references and contact her again very soon.

Telephone calls to her two former employers convinced Harvey that he had actually underestimated Ms. Brannen's suitability for the position. Each one said without equivocation that she was the best employee he had ever had in any position. Both former employers concluded the conversation by saying they would rehire her in a minute if she were still available. The only bit of disturbing information gleaned from these two calls was the fact that her annual salary had risen to \$15,900 in her last job. Although Harvey thought that the cost of living was probably a bit higher in Houston, where she had last worked, he wasn't sure she would react favorably to the \$14,000 offer he was planning to make. However, he was determined that, somehow, Cathy Brannen would be his first employee.

Ms. Brannen seemed quite pleased when Harvey telephoned her at home that same evening. She said she would be delighted to meet him at the office the next morning to discuss the position more fully.

Cathy Brannen was obviously very enthusiastic about the job as outlined in the meeting. She asked all of the right questions, responded quickly and articulately to every query posed to her, and seemed ready to accept the position even before the offer was extended. When Harvey finally got around to mentioning the salary, there was a slight change in Cathy's eager expression. She stiffened. Since Harvey realized that salary might be a problem, he decided to offer Cathy an incentive of sorts in addition to the \$14,000 annual salary. He told her that he realized his salary offer was lower than the amount she had earned on her last job. And, he told her, he understood that a definite disadvantage of working for a new firm was the complete absence of financial security. Although he was extremely reluctant to guarantee a larger salary because of his own uncertainty regarding the future, he offered her a sales override in the amount of two percent of sales. He explained that she would largely determine the success or failure of the firm. She needed to represent the firm in the finest possible manner to potential customers who telephoned and

to those who walked in the front door. For this reason, the sales override seemed to be an appropriate addition to her straight salary. It would provide her with incentive to take an active interest in the firm.

Cathy accepted the offer immediately. Even though she was expecting a salary offer of \$16,000, she hoped the sales override might make up the difference. "Who knows," she thought, "two percent of sales may amount to big money someday." It did not, however, seem very likely at the time.

Troupville Business Systems began as a very small distributor of copy machines. The original business plan was just to sell copy machines and provide routine, on-site service. More extensive on-site service and repairs requiring that a machine be removed from a customer's premises were to be provided by a regional distributor located in a major city approximately 100 miles from Troupville.

Troupville Business Systems did well from the start. Several important changes were made in the services the firm offered during the first year. Harvey soon found that there was a greater demand for the leasing of copy machines, particularly the large expensive models which he originally planned to sell. He also soon discovered that his customers wanted to be able to contract directly with his firm for all of their service needs. Merely guaranteeing that he could get the machines serviced was not sufficient in the eyes of potential customers. In attempting to accommodate the market, he developed a complete service facility and began to offer leasing options on all models. These changes in the business all occurred during the first year. Growth during that year was steady but not spectacular. While sales continued to grow steadily the second year, it was early in the third year that Harvey made what turned out to be his best decision. He entered the computer business.

Harvey had purchased a personal computer soon after Troupville Business Systems was founded. The machine and its capabilities fascinated him, although he knew virtually nothing about computers. He was soon a member of a local users club, was subscribing to all the magazines, and was taking evening computer courses at the local university-in short, he became a computer buff. Harvey recognized the business potential of the rapidly growing personal computer market, but he did not believe that his original business was sufficiently stable to introduce a new product line just yet.

During his third year of operations, he decided the time was right to enter the computer business. He added to his product line a number of personal computers popular with small businesses in the area. This key decision caused a virtual explosion in the growth of his firm. Several key positions were added, including that of comptroller. By the fourth year of operations, computers produced by several other manufacturers had been added to Harvey's product line, and he had developed the capability of providing complete service for all products carried. His computer enterprise was not limited to business customers, because he quickly developed a significant walk-in retail trade. Rapid growth continued unabated.

During the first seven years of the company's existence, Cathy Brannen had proven truly indispensable. Her performance exceeded Harvey's highest expectations. Although her official position remained that of secretary/receptionist, she took it upon herself to learn about each new product or service. During the early years, Harvey often thought that she did a better job than he did whenever a potential customer called in his absence. Even after he acquired a qualified sales staff, Harvey had no concerns when Cathy had to field questions from a potential customer because a regular salesperson was not available. The customer never realized that the professional young lady capably handling all inquiries was "only" the receptionist.

Cathy began performing fewer sales functions because of the increased number of professional salespersons, but her secretarial duties expanded tremendously. She was still Harvey's secretary, and she

continued to answer virtually every telephone call coming into the business. Since her office was in an open area, she still was the first to greet many visitors.

Cathy took a word processing course at a local business school shortly after joining the firm. As she began working with Harvey's first personal computer, she, too, developed into a computer aficionado and became the best computer operator in the firm.

The Current Situation

Harvey was shaken by the realization that Cathy Brannen had been paid over \$127,000 last year. As he wondered what, if anything, should be done about her earnings, he began to reflect on the previous seven years.

Success had come almost overnight. It seemed as though Troupville Business Systems could do no wrong. The work force had grown at a rate of approximately 15 percent per year since the third year of operations. Seventeen people were now employed by the firm. While Harvey did acknowledge that some of this success was due to being in the right place at the right time, he also had reason to be proud of the choices he had made. Time had proven that all of his major decisions had been correct. He also could not overestimate Cathy's contribution to the success of the firm. Yes, certainly, one of the most important days in the life of the firm was the day when Cathy responded to his ad in the newspaper.

Success had brought with it ever increasing demands on his time. He had never worked so hard, but the rewards were certainly forthcoming. First there was the new Jaguar, then the new home on Country Club Drive, the vacation home on the coast, the European trips.... Yes, success was wonderful.

During these years Cathy, too, had prospered. Harvey had not thought much about it, but he did remember making a joking comment the first day she drove her new Mercedes to work. He also remembered commenting on her mink coat at the company banquet last December. Cathy had been dazzling.

Now that Harvey realized what he was paying Cathy, he was greatly disturbed. She was making over twice as much money as anyone else in the firm with the exception of himself. The best salesman had earned an amount in the low sixties last year. His top managers were paid salaries ranging from the high forties to the mid-fifties. The average salary in the area for executive secretaries was now probably between \$22,000 and \$25,000 per-year. A good receptionist could be hired for under \$20,000, and yet Cathy had been paid \$127,614.21 last year. The sales override had certainly enabled Cathy to share in the firm's success. Yes, indeed.

As Harvey thought more and more about the situation, he kept returning to the same conclusion. He felt something had to be done about her compensation. It was just too far out of line with other salaries in the firm. Although Harvey was drawing over \$200,000 per year in salary and had built equity in the business of more than \$1 million, these facts did not seem relevant as he pondered what to do. It seemed likely that a number of other employees did know about Cathy's compensation level. Harvey wondered why no one ever mentioned it. Even the comptroller never mentioned Cathy's compensation. This did seem quite odd to Harvey, as the comptroller, Frank Bain, knew that Harvey did not even attempt to keep up with the financial details. He relied on Frank to bring important matters to his attention.

With no idea of how to approach this problem, Harvey decided to begin by making a list of alternatives. He got out a piece of paper and, as he stared at the blank lines, overheard Cathy's cheerful exchange with a customer-in the next room.

QUESTIONS:

1. *Use the ideas of distributive fairness and equity theory to explain why Harvey Finley thinks he pays Cathy Brannen too much.*
2. *Use the ideas of distributive fairness and equity theory to explain why Cathy Brannen might think her pay is fair.*
3. *What are the likely consequences if Ms. Brannen's pay level is truly known to other organizational members? Use equity theory to support your answer.*
4. *Suppose that you had been in Mr. Finley's position at the time that he hired Ms. Brannen. What would you have done differently to avoid the current situation while still attracting her to join his fledgling firm?*
5. *What ethical or moral issue does this case raise?*
6. *What should Mr. Finley do now? Be sure to consider procedural fairness in framing your answer.*