Can Corporate Transparency Inhibit Worker Productivity?

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How do companies get the most out an enlightened management practice? Perhaps by combining it with another management strength and reaping double benefits or more.

Sensible though this seems on the surface, some new research in a leading accounting journal suggests that, when it comes to two features associated with enlightened
corporate management – high transparency and strong group spirit – combining them may not work out as hoped.

Universally acclaimed today as among the highest of corporate virtues, transparency has few, if any, public detractors. And much the same is true of organizational spirit, where employees identify strongly with their company or their workgroup. But according to a paper in the current issue of *The Accounting Review*, a peer-reviewed journal of the *American Accounting Association*, employees with strong group identification may not perform best when group transparency is high; indeed, the most able of them are more likely to perform at their peak when transparency is low.

The reason is conformity.

As the study explains, "When employees have information about each other's performance (i.e., performance transparency is high), those with high group identity are motivated to adjust their actions to look more similar to other members in their group. That is, some employees may work harder, while others withhold their effort to conform with others in the group...Group identity [in such high-transparency groups] is associated with downward conformity for high-ability employees and an upward conformity for high low-ability employees... We do not find a similar pattern in the groups with low performance transparency.

Comments Ruidi Shang of Tilburg University, Netherlands, who co-authored the paper with Margaret A. Abernethy and Chung-Yu Hung of the University of Melbourne, Australia, "Managers need to be aware that the effect of employees' identification with their workgroup is complex and not always positive. We tend to assume that identifying strongly with one's group – what we call group identity, or GI – is a good thing, as it motivates employees to go beyond their strictly personal interests. What our findings suggest, though, is that how GI plays out depends on employees’ perception of the norms in their groups. To what extent will those norms pull performance up or down? Managers need to consider this carefully in deciding how much effort to devote to cultivating GI and how transparent workers’ performance should be.”

She adds: “It’s a good illustration of just how truly an art management is.”

The study’s findings are based on an analysis of employee performance over an extended period in three workgroups totaling 94 employees who constituted separate shifts responsible for equipment inspection, operation, and maintenance in a large, government-owned electrical power plant in China. The three groups not only had the same structure, tasks, and performance systems but were similar demographically. The professors write that “group identity played an important role in directing employee behaviors in settings where other controls (such as financial incentives and promotions) were weak.”

Similar though they were, the workgroups differed in a key respect: in one of them (the low-transparency group) the monthly report issued by the company on the individual
performance of each member was conveyed solely to that member; in the two other cases (the high-transparency groups) the individual reports were shared with the all members, so that all were cognizant of how others members were performing.

With this key difference in mind, and with access to the company’s monthly employee reports over a four and a half year period, the professors analyzed the relationship between workers’ identification with their workgroups (i.e., their GI) and their individual performances. GI was measured by individuals’ response (on a scale of 1=strongly disagree to 7=strongly agree) to such survey questions as “When someone criticizes my group, it feels like a personal insult,” or “Being a member of my group is a major part of who I am,” or “My group members and I always share the same ambitions and visions at work.” As would be expected, analysis controlled for an array of factors that could influence individual performance.

Employing data from company tests that rate employees on job skills, the professors found that in high-transparency groups strong GI translated to lowered performance among better workers while translating to enhanced performance by those of lesser ability. In low-transparency groups, by contrast, strong GI translated to enhanced performance by better workers without significantly affecting performance among the less skilled.

Comments Prof. Shang, “While our findings don’t amount to a judgment on the overall efficacy of transparency, they certainly do raise questions about it based on its interaction with individuals’ GI. By fostering conformity, high transparency can lead able workers with strong attachment to their workgroups to withhold their best efforts; in low-transparency situations, no fall-off appears to occur among either better- or lesser-skilled workers; indeed, the better workers’ performance shows enhancement. The key for managers in deciding on more or less transparency is how it will affect workers’ perceptions of group norms and how it will interact with their GI.”

She sees the study’s findings as offering lessons for workers as well as managers. “Having strong group allegiance should not require automatic assent or silence if one believes the majority is headed in a wrong direction. Workers do well to remember that the flip side of GI can be conformity, with its negative features.”

In that regard, the professors conclude the paper by asking whether, given the setting of the research in China, conformity might emerge as a more important factor than might be the case elsewhere. While acknowledging that “prior research suggests that conformity is more pronounced...in a collectivistic culture (e.g., China) than in an individualistic culture,” they note that evidence also suggests that “it exists and can be salient in individualistic cultures as well. Further, even if group identity and conformity were more pronounced in our setting than in other firms, we still find a variation in employees’ group identity, and that group identity is associated with different employee behaviors in groups with different levels of performance transparency.”

The study, “Group Identity, Performance Transparency, and Employee Performance,” is in the September issue of The Accounting Review, a peer-reviewed journal
