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ponderingsto “ponder” means

1. to think and consider something,
2. carefully and thoroughly,
3. over a lengthy time,
4. before reaching a conclusion or making a decision.”

How performance incentives reward ordinary employees, not top performers

Ask the top performers of a company if having a performance incentive scheme in place affects the way they work. Would the lack of an incentive scheme make them put in anything less than the top performance they now produce? Chances are they'll say it doesn't and it wouldn't.

There are numerous surveys indicating that money is not a prime motivator for most people. There are other factors that motivate and inspire them to work well. Despite what the surveys say, however, some employers clearly believe that their employees *are* motivated by money. Why else would performance incentive schemes exist? If we really believe people are not motivated by money, why dangle the carrot of financial reward to inspire greater performance?

And if we truly believe that performance incentives work, then we must believe that employees will do whatever it takes to achieve the bonus. Herein lies one of the dangers of putting such schemes in place - employees may focus on achieving the bonus at the expense of other aspects of the business, including any long-term goals. This is not supposed to happen, but it should not come as a surprise when it does. People can become obsessed with meeting targets, doing whatever is necessary so that the benefits of the bonus can be attained.

An example: an airline offered an incentive to its staff in order to get planes to depart on time. Each person was given a bonus payment if they moved from 75 percent on-time departures to 95 percent on-time departures - a laudable measurable goal. The airline was successful in reaching this target in a reasonably short space of time. However issues arose when it was discovered that baggage was not always turning up on the same airplane as the passengers. An investigation soon found that, in an attempt to meet the target, staff were departing planes on time by putting baggage onto later flights so they would meet the 95 percent on-time target.

Negative effects

The Enron scandal highlighted the negative effects of an incentive-based environment at an extreme level. Lynn Brewer, a forensic accountant and the whistle-blower at Enron, testified at the subsequent court hearings of things being “swept under the carpet”. She claimed a culture had emerged where unethical practices were occurring because of the incentive environment within the company. “the culture at Enron was one of incredibly bright graduates being given free reign to secure business pretty much how they wanted. That environment and the promise of lucrative stock options and annual bonuses turned good people into greed-obsessed, ruthless employees,” she said. The recent global banking crisis was brought about by a similar culture.

Unfortunately, reaching the performance target does not always equate with a job well done. In fact, such targets can be a nonsense - take the example of an airline which went into receivership yet still paid some of its executives a performance bonus because they had met required targets. The problem is, performance bonuses don't necessarily reward those who do good work, possibly just those who can make their personal targets look good.

Do performance-based incentives work?

The question to ask is whether performance based pay improves performance throughout an organisation, not just for a few individuals? There don't appear to be any long-term studies to

show that overall performance increases. Rather there are a number of variables that the increased performance could have been attributed to. Economic researchers at the regional Federal Reserve Bank of St Louis discovered that a belief in hell contributes to economic growth - they found a direct relationship between the two. Does this then mean we should now be preaching about hell in the corporate world?

It is because of this lack of clear evidence of overall improved performance that requires a good hard look of the true effectiveness of performance-based pay to be taken. A great amount of time, energy and resources are spent putting in place apparently objective systems with no definitive evidence that they work. When companies do not perform and shareholder worth drops, people are quick to give a range of reasons for lack of performance. No one disputes that there may have been factors beyond the control of staff - for example, an increase in oil price, increased competition at the time, an oversupply of a particular product, a natural disaster - but it is interesting to note how quickly people point out they were not to blame. Equally as interesting, is how quickly credit is taken - and performance incentives justified - when there is an increase in profits. Was it something beyond their control? If so, then, if it's acceptable not to take the blame for things out of your control, then it should also be acceptable not to take the credit.

Former New Zealand basketball coach Tab Baldwin was not interested in a performance element in his remuneration package. He didn't believe that he could categorically say that if the team performed well, it was his doing. Why, he said, should he be the one to receive the credit in remuneration? He believed that it was more important to negotiate the worth of the job and to pay accordingly. That is a good lesson for the business community to consider. The existence of a performance bonus does not guarantee a world cup triumph for the New Zealand rugby team. The All Blacks play to achieve the ultimate prize - the performance incentive is less relevant and cannot guarantee the desired end result.

What to do instead?

Firstly, it is important that staff are paid their true worth. If employers are tempted to pay what they think they can get away with rather than what a person deserves (what the job is worth), then staff will soon seek ways to address this apparent unfairness. If a person's worth increases because of improved performance, pay them more - if *you* don't recognise their worth, someone else will. Chances are that top performers will be headhunted and you may not get a second opportunity to set the salary.

Secondly, it is absolutely essential that additional performance is rewarded. Recognition of a job well done with appropriate praise leads to that performance being repeated.

Positive behaviour must be recognised if you want to reinforce it (as and when it occurs, at the next best available opportunity). Be willing to reward staff with some monetary recognition for excellent performance or exceeding targets, etc. This is quite different from the incentive, which acts as a 'bribe'. It is in recognition of the good job - it's not expected, it wasn't the focus, but it will be very well received. Such rewards provide tangible thanks for exceeding expectations.

There is a distinct difference between incentives and recognition. Incentives suggest "if you do this, you will get that." Recognition says "thanks for what you did, here is something to confirm that appreciation." Recognition and acknowledgement is a far more effective tool in creating a happy and productive workplace.

When thinking of ways to recognise and reward staff, it's also worth considering 'retrospective recognition'. This is where the initial salary set at the beginning of the negotiation was lower than what the company came to discover was the worth of the employee. This can be corrected at the end of the year with an additional 'catch up' payment. The chosen staff will not be expecting further payment (they should not, because they had agreed to a certain salary at the outset). But, because of their increased contribution, their worth can be recognised retrospectively. This is a useful means of rewarding top performers and will be greatly appreciated.

It is also important not to limit staff to focus on a few prescribed aspects of a job. Free thinking, using initiative and developing innovative ideas is more important than restrictive targets. These targets should not become the focus - the excellent performance of the job must be.

Targets should be like the scoreboard in a sports game. The players do not play watching the scoreboard. They focus on giving a great performance in the game and the scoreboard tends to take care of itself. It is important to be aware of the scoreboard so that extra effort can be exerted when necessary, and to prevent complacency when ahead during the match.

The point to remember is that many staff *want* to exceed expectations. When they are provided with greater ownership (autonomy), they will come up with ideas not even considered before, but they need to feel that they have some control over their work.

What about the rest?

At the beginning of the article the question was asked: would top performers work any more or less or differently if the performance incentives were not in place? For an organisation's top performers, the quality and quantity of work would be the same, whether or not an incentive scheme was in place. That is the way top performers work. They are intrinsically motivated by excellence and are not too concerned about the extrinsic factors. They perform to the best of their ability and, more often than not, go beyond what is required. So if an incentive programme won't change how top performers work, who *are* we seeking to reward? It is possible that the people most likely to focus on the incentives are the ordinary employees and, possibly, the poor performers. By manipulating their work output to ensure that their targets are met, they will enjoy the incentive. This may mean targets are met but may it only be a short-term solution? (as in the case of the airline luggage) More importantly, is this really the behaviour we want to reward? Do we want to tap into people's greed (remember Enron etc.) and make them lose sight of the real issues and performance at work. Is this the reason for the misrepresentation which has been occurring in organizations where the focus has been on ensuring that performance targets are met even at the expense of integrity and honesty? Does it contribute to fraud as people find the temptation too great to resist? They might not set out to defraud, but the incentive system can, in fact, increase the temptation.

Good work should be expected from an employee all the time - not only when extra is paid. Ordinary and poor performers must not be rewarded. Performance incentives remain one of the 'sacred cows' in many workplaces. It's time we looked at it critically to see if it really is the way to get the best from staff.

