



CUTTINGS

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Bonuses need the right Measures

There has been a lot of very negative press recently, especially in the UK, about performance bonuses. One of the regular rallying cries is that people should not be rewarded for failure. I agree, but the cries for there to be no bonuses is also flawed. Bonuses do work.

OK, there is a lot of evidence that performance related pay does not work in the long term - the bonuses become regarded as an expectation and not an incentive. But in the short term, they do help to focus attention and reward performance. For me, the issue is about using the right measures, and goes to the heart of performance management, whether or not we give bonuses.

Peter Drucker coined the term "what gets measured gets managed", and he gets proved right every time. If we measure the wrong things we get the results we deserve: measure profit and we get people taking excessive risk; use internally focused measures and we get reward for financial failure.

We need to use the right measures. I saw some data recently where a major multinational was going bankrupt, yet the performance appraisal ratings of all of the management were skewed towards excellent. Something did not match between the corporate measure and the individual measures.

Another press item in the last month quoted a senior manager in the Student Loan Company defending their organisations' payment of bonuses when performance targets were not being met saying "we need to reward our hardworking staff". Performance

bonuses should reward performance, not hard work.

Working with a major bank in recent years (one that has fared better than most in the recent crisis), we spent a lot of time and effort making sure that performance measures were properly linked throughout the organisation to the strategic success criteria for the bank. The rallying cry of their then Chief Executive was that he wanted a 'clear line of sight' between what someone did on the front line with the key success criteria of the bank. The measures needed to be clearly linked, in the process that Drucker also envisaged: Managing by Objectives.

Most organisations I work with pay lip service to the principles of MBO - they have performance management systems that have SMART objectives, but there is no participative, strategic link. As a result, one of the fundamental features of MBO is lost, and it becomes the bureaucratic exercise that most managers will recognise today. They set objectives in isolation of their impact on delivering real success, and focus on what can be measured easily not what would measure the achievement of the organisation goals. So the doctor's effectiveness is measured by the length of waiting list not the health of the patient; the sales branch is measured by the accuracy of the daily reports not by customer satisfaction and sales; the Student

Loan Manager is measured by hard work not whether students have received their loans or whether the process is effective; the public sector worker is measured on the efficiency of the bureaucracy not on successful service delivery.

Instead of focusing on paying bonuses or not, we should focus more on making performance management effective, which means cascading objectives and measures through the organisation so that the sum of the individual parts adds up to total organisation success. This will help line managers see the benefit of the process as a whole and monitor measures that are relevant and important enough to be in focus for the whole year, not just for the performance appraisal interview. Then we can keep paying bonuses for exceeding targets, as it automatically means that the organisation will have exceeded its target. We will be rewarding success not failure. And we will have a performance management process that works.

For help and advice on setting up or revitalising your performance management system, please call me...



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Snippets

A bumper collection of thought provokers and quotations...

- ✂ “Each one has to find peace from within. And peace—to be real—must be unaffected by outside circumstances.” *Gandhi*
- ✂ “Never promise more than you can perform.” *Publilius Syrus*
- ✂ “Deeds, not stones, are the true monuments of the great.” *John L. Motley*
- ✂ “I have been impressed with the urgency of doing. Knowing is not enough; we must apply. Being willing is not enough; we must do.” *Leonardo da Vinci*
- ✂ “If there were one word that could act as a standard of conduct for one's entire life, perhaps it would be ‘thoughtfulness.’” *Confucius*
- ✂ “Be like the fountain that overflows, not like the cistern that merely contains.” *Paulo Coelho*
- ✂ “Beauty is not in the face; beauty is a light in the heart.” *Khalil Gibran*
- ✂ “Words mean exactly what you want them to mean, no more and no less. It's all a question of showing them whose master, that's all.” *Lewis Carroll*
- ✂ “We can let the circumstances of our lives harden us so that we become increasingly resentful and afraid, or we can let them soften us, and make us kinder. We always have the choice.” *HH Dalai Lama*
- ✂ “We must be our own before we can be another's.” *Ralph Waldo Emerson*
- ✂ “When you are sorrowful look again in your heart, and you shall see that in truth you are weeping for that which has been your delight.” *Kahlil Gibran*
- ✂ “When you realise how perfect everything is you will tilt your head back and laugh at the sky.” *Buddha*
- ✂ “The possibilities are numerous once we decide to act and not to react.” *George Bernard Shaw*
- ✂ “You do ill if you praise, but worse if you censure, what you do not understand.” *Leonardo da Vinci*
- ✂ “Your vision will become clear only when you look into your heart. Who looks outside, dreams. Who looks inside, awakens.” *Carl Jung*
- ✂ “Only in quiet waters do things mirror themselves undistorted. Only in a quiet mind is adequate perception of the world.” *Hans Margolius*
- ✂ “If the only tool you have is a hammer, you tend to see every problem as a nail.” *Abraham Maslow*
- ✂ “To invent, you need a good imagination and a pile of junk.” *Thomas A. Edison*
- ✂ “You'll never get anywhere if you're looking for an exit.” *Anna Beeth*
- ✂ “Life is the flower for which love is the honey.” *Victor Hugo*
- ✂ “Whatever we plant in our subconscious mind and nourish with repetition and emotion will one day become a reality.” *Earl Nightingale*
- ✂ “Hatred paralyses life; love releases it. Hatred confuses life; love harmonises it. Hatred darkens life; love illuminates it.” *Martin Luther King, Jr.*
- ✂ “Stop thinking in terms of impossibilities and start thinking in terms of possibilities.” *Terry Josephson*
- ✂ “What we can or cannot do, what we consider possible or impossible, is rarely a function of our true capability. It is more likely a function of our beliefs about who we are.” *Anthony Robbins*
- ✂ “Start by doing what is necessary, then what is possible and suddenly you are doing the impossible.” *St Francis of Assisi*
- ✂ “Learn how to live and you'll know how to die; learn how to die, and you'll know how to live.” *Morrie Schwartz*
- ✂ “He who asks the question may be a fool for five minutes but he who never asks the question remains a fool forever” *Chinese Proverb*

The banking crisis explained...

I am indebted to an Irish friend for this one – thanks Derek.....

Paddy bought a donkey for £100. The farmer agreed to deliver the donkey the next day.

The next day he drove up and said, “Sorry son, but I have some bad news. The donkey's died.”

Paddy replied, “Well then just give me my money back.”

The farmer said, “Can't do that. I've already spent it.”

So Paddy said, “OK, then, just bring me the dead donkey and I'll raffle him off.”

The farmer said, “You can't raffle a dead donkey!”

Paddy said, “Sure I can. Watch me... I just won't tell anybody he's dead.”

A month later, the farmer meets up with Paddy and asks “What happened with that dead donkey?”

Paddy said, “I raffled him off. I sold 500 tickets at two pounds a piece and made a profit of £898”

The farmer said, “Didn't anyone complain?”

Paddy said, “Just the guy who won. So I gave him his £2 back.”

Paddy now works for [insert the name of your local bank here]

MORE INFORMATION

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