GETTING PERFORMANCE BONUS SCHEMES TO WORK

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1. Background

> *"Performance bonus schemes can be seen as an annual entitlement, be very costly, create endless arguments, and do not lead to notable improved performance."*

This 'expert article' explores the foundation stones management need to be aware of if they are involved in designing a performance bonus scheme or fixing the current broken scheme. Jeremy Hope[1] summed up the bonus scheme situation in this quote:

> *"…But despite hundreds of research studies over 50 years that tell us that extrinsic motivation (carrot and stick financial targets and incentives) doesn't work, most leaders remain convinced that financial incentives are the key to better performance."*

Performance bonuses give away billions of dollars each year based on schemes where little thought has been applied. Who are the performance bonus experts? What qualifications do they possess to work in this important area other than prior experience in creating the mayhem we currently have?

Many schemes were flawed from the start; "super" profits were being paid out, there was no allowance made for the cost of capital, and the bonus scheme was only "high side" focused. In addition, when times are tough and profits are down, there is little scope to reward staff who are pulling the organisation out of the fire. Schemes also commonly undermine the values of an organisation, often rewarding the few and ignoring the many staff who contributed and, worst, attracting staff who make the vultures of the Serengeti look benign.

2. Understanding Motivation

Before we talk about performance bonus schemes it is important to understand motivation.

In the 1960s, social psychologist Douglas McGregor developed two contrasting theories that explained how managers' beliefs about what motivates their people can affect their management style. He labelled these Theory X and Theory Y. If you are a follower of Theory Y you believe your staff have self-control and self-direction and thus management's role is to create conditions to allow staff to fulfil their potential in the pursuit of the organisation's goals.

On the other hand, if you are a follower of theory X you believe that your staff need to be, indeed preferred to be, led by others, have little motivation to complete tasks to the best of their ability, and thus need close supervision and tight control (targets).

It had been assumed that targets are motivational but Fredrick Herzberg, proved otherwise.

> *If I kick my dog, he will move. And when I want him to move again, what must I do? I must kick him again. Similarly, I can charge a person's battery, and then recharge it, and recharge it again. But it is only when one has a generator of one's own that we can talk about motivation. One then needs no outside stimulation. One wants to do it.* [2]

Targets and goals are motivational if set by the individual and where their wishes/desires coincide with those of the organisation. And here we have a big pointer to recruitment. It is no good recruiting motivated people if they have an alignment elsewhere.

Setting goals using Peter Drucker's SMART criteria has always missed one vital point. The 'A' stood for achievable or attainable it did not stand for aligned or agreed through co-design. A manager having a one-to-one with their direct reports to set goals frequently does not achieve this. All it achieves is a situation where the manager will be 'kicking' staff time and time again.

Fredrick Herzberg made a stunning discovery that requires a good coffee to understand. He found that the **motivational** factors involved in producing job **satisfaction** (and motivation) are largely separate and distinct from the **hygiene** factors that lead to job **dissatisfaction**.

In other words, if the motivational factors are not working then there is **no job satisfaction. And** if the **hygiene** factors are not working then there is **job dissatisfaction.**

Did you drink that coffee?

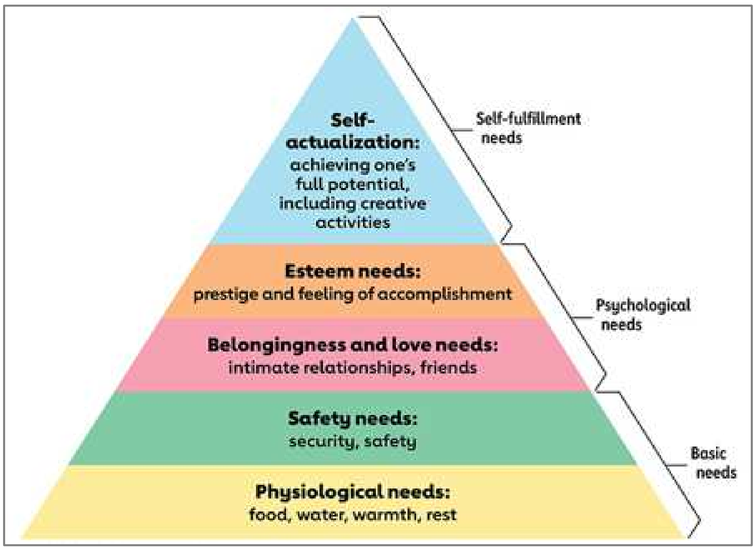
He pointed out that any shortfall in basic human needs, and here we can bring in Maslow's first two levels of needs, will lead to job dissatisfaction, but once met and exceeded they will not lead to job satisfaction, for a different game is played here. In his study[3] the' hygiene factors', in descending order of importance were:

- company policy and administration e.g., not getting in the way
- supervision
- the work itself (scoring higher as a motivational factor)
- relationship with your supervisor
- working conditions
- achievement (scoring higher as a motivational factor)
- recognition for achievement (scoring higher as a motivational factor)
- relationships with peers and subordinates
- salary
- personal life, status, and security were the least important

He pointed out once these are at satisfaction levels any increase WILL NOT motivate staff. Whilst higher salaries may well retain staff they will not motivate them. Imagine a staff member paid $1m a year to sit in a room and do nothing. You may eventually see them resigning once they had met their saving goal.

The **'motivational factors'** in descending order of importance were:

- achievement
- recognition for achievement
- the work itself
- responsibility
- advancement/growth
- salary (scoring higher as a hygiene factor) was surprisingly the least important. This assumes of course that Maslow's first two levels of needs (the basic needs) are already met see diagram below.



These **'motivational factors'** are what make the human being jump out of bed every morning with a spring in their step. So it must have dawned on you that hourly, daily, weekly and monthly targets don't seem to sit well here unless you believe that achieving the target with the knowledge