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For Managers, Principals, Team Leaders and Internal Consultants  
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### **Issue No 21: To Bonus or not to Bonus – What is the question**

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Word count for this issue: 1303 words  
Approximate time to read: 6 minutes

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#### **To Bonus or not to Bonus – What is the question**

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The discussion is familiar only the manager is different.

The discussion starts something like “should we introduce performance incentives and/or bonus schemes?” The options are usually being considered to improve the performance of staff, or to retain and attract staff to their business, or as a reaction to some other anxiety-provoking event like a fall in sales or productivity.

These discussions usually sounds alarm bells for me and after some probing questions, the managers I talk to usually rethink any decision to do this or at least put it on hold. Let me be clear, I am not against paying bonuses as you shall see later in the report, however, I just don't see evidence to suggest that they resolve the issues they are often put in place to fix. In fact, sometimes they create a whole new set of problems. My view is that bonuses and incentives are never satisfactory substitutes for effective management of a team. Most managers would agree with this view, however, I often observe behaviour that suggests differently.

Consider these three case studies which are taken from an amalgamation of people that I have observed during my consulting work:

### **Case 1: The Prima Donna**

Working for a medical supply company is a salesperson, (a 'type' we have all come across), who is a prima donna. He is a very successful salesperson who is paid a handsome bonus for his sales performance. He usually does it all by himself and is motivated by the competition and the financial incentives. He is not interested in playing team or in coaching or helping others in the organisation. His only focus is on the next sale that will make him more money. He will often miss sales team meetings, (as, in his view, he does not need them), and, in some rare cases, walks the very thin line between an ethical and an unethical sale.

### **Case 2: The Sniper**

A book publisher has a sales person who is rewarded heavily by incentives. After several years of successful sales, he is now constantly producing below budget performances. No amount of incentives are helping this person achieve satisfactory performances each month. Now that the salesperson is not performing, he is responding negatively to his manager's attempts to assist, coach and ultimately make him more accountable for his performance. In some cases, the salesperson has responded to this new (unfamiliar) pressure by making trouble within the organisation. He has become a sniper.

### **Case 3: The Plodder**

An accounting practice pays bonuses to all staff including managers for achieving (not exceeding) productivity targets. The targets have been set at levels most firms would expect their staff to achieve as part of their role with no incentive in place. As a result, in this practice they often 'just' achieve their budgets and are able to still pocket a bonus. The individual team members work alone to achieve their targets and just do what they have to individually without really seeing a bigger, team picture. In essence, this practice is just a lot of small practices seemingly operating as one.

Within these case studies, there are several implied messages that underwrite the culture of these particular organisations. Here are three of these messages:

1. There is only one thing that is important and that is sales or revenue. All you have to do to be successful in this organisation is meet and hopefully exceed your targets – that is all.
2. Managing in this organisation is just about managing the financial outcomes. All people are motivated by is money and numbers. Job satisfaction, relationship building, coaching, teaching are not part of what we do around here. After all if we are all making money won't everyone be happy!
3. All that needs to be done is to put incentives in front of people and they will perform.

### **Taking up your Role as a Manager**

Clearly I'm deliberately creating a very one-dimensional view here, but it is to make the point: when you dangle 'carrots' in front of someone and make it all about the 'carrot', most people have no reason to look beyond that carrot. A common thread in the above case studies is that the managers do hide behind performance incentives, (and I suggest reports and "Ra Ra" meetings), to get people to do their jobs properly. I have heard managers say, "I have no time to manage. I just want people to go away and do their jobs." But guess

what – the primary role of a manager is to manage people and develop them and the business. To do otherwise is plain lazy or abdicating management responsibility and has a very short term focus. In the sniper case study, the manager ought to be active in managing the behaviour of ‘the sniper’ and not just relying on incentives to straighten him out. Indeed the manager ought to have been active well before the performance started to wane.

Great managers communicate, create an energised environment, coach staff, and sometimes cajole people (in an ethical manner), into doing whatever is necessary to create the expected results - and at the same time they make the company a pleasurable place to work. Great managers are also keenly aware that who they recruit is a key to how they perform as a manager and therefore how the organisation performs. To this end I am heartened by the research of Jim Collins, in his book “Good to Great”, where he concludes that it’s not about how you compensate your executives, it’s which executives you have in the first place. Like Jim, I am not saying don’t compensate your people, just don’t look at this as the only element in a strategy to build outstanding and sustainable performance.

### **The case for incentives**

As I said at the beginning of this report, there is a case for incentives.

When I first started as a consultant individual incentives were all I could think about. After all, we have all seen cases where individual incentives work.

Many years later, however, the business landscape has changed. Today’s workplace is far more complex, with greater client expectations and more diverse teams, people need to be well managed, lead and supported to be able to perform effectively.

There is a place for individual incentives as long as these incentives are about more than just achieving a narrowly-based, short term target like sales or gross profit. I am a business pragmatist and of course I understand the importance of sales and profit. I also think it makes very good business sense to build an organisation with longer term strength. To achieve this organisations need a rigorous system of rewards. This means building a system that rewards a person for things important to the company’s overall strategy. This could include developing client satisfaction, putting in place new systems for better and more efficient conduct of the work, building more profitable clients and building the skills of other members of the team.

If we were to extrapolate this thinking to the first and third case studies, it would mean those individuals having some of their reward based on coaching others and contributing to better internal systems – passing on some of their knowledge and experience. In addition, their managers would receive bonuses if these team members reached these more broadly based key performance indicators.

Remember that what you measure and what you reward sends a strong message to your staff (and also people outside of your company) about what is important to you as a company. And so that becomes the culture of your

company. What is the prevailing culture you seek to nurture – and is that aligned with what you are actually doing in areas like reward and recognition? What are the messages you sending to your staff and the marketplace at large?

*"The purpose of a compensation system should not be to get the right behaviors from the wrong people but to get the right people on the bus in the first place, and to keep them there"* **Jim Collins**

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