

Thoughts on Targets & Bonuses from a Systems' Perspective

by Paul Hollingworth *

"There is one thing that pervades all".

This Zen expression, taken from the analects of Confucius, considers that all existence is based on relationships which rely on the concept of duality (yin – yang, master – pupil, husband – wife etc.). One need only think for a few moments and all around us, examples of duality are apparent: good – evil, darkness – light, anode – cathode etc.

Introduction

A couple of years ago, whilst studying the work of G I Gurdjieffⁱ, I had a moment of clarity. The 'one thing' to which Confucius refers is not the duality, but rather, the invisible third force which holds them in balance. The past and future, for example, are held in balance by 'now'. Thus, rather than a two dimensional (straight line) continuum from positive – negative, existence depends upon relationships which are three dimensional (triangular). The importance of this third force, central to Gurdjieff's teachings on the Enneagram, is something of which I was blissfully unaware.

Like most people I was raised as a child to be judgemental. I learned to evaluate things and people mostly in terms of the effect they (singular or plural) had on me (us). All of my educational and early work experience reinforced this thinking and I developed what Donald J Wheeler calls a 'binary world view'ⁱⁱ. This binary world view of acceptability is at the root of much of our language and thinking and is, I believe, the source of much violence in the world. It is 'normal' in the sense that it is the accepted norm. But is it right?

I shall leave this abstract thought at this point and return to it in my conclusion. To explore its relevance to the subject of this paper we must first consider the problem of prediction.

Decisions and Assumptions

"Life can only be understood backwards; but it must be lived forwards."

Soren Kierkegaard

W Edwards Deming described the process of managementⁱⁱⁱ as "action based on prediction" because every decision requires a prediction (or theory). But more than that, I believe that unpredictability is the very reason for management: if everything

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were perfectly predictable, there would be no need for management. A perfectly predictable system could instead be provided with algorithms for decision making, because such a system would be low in complexity (even though it might be complicated) and it would by definition, be deterministic.

All socio-economic systems need to be managed (with or without Managers) because they contain people. People have a basic need for autonomy, they are self determining, they have free will and as a consequence, socio-economic systems are complex, divergent and unpredictable (or at best, predictable only within limits). Managers therefore, never have all the information they need, every decision made carries a risk of being wrong simply because it is a prediction.

It is not uncommon for managers to assume that the best way to make decision making more 'reliable' is to control the behaviour of the people in the system. To create this illusion of 'control' most managers exploit a similar set of underlying assumptions, about the people under their direction / command. Here are six commonly held assumptions:

Assumption 1: Healthy people are goal seeking, we are naturally motivated to satisfy needs and gain a sense of satisfaction from their accomplishment.

Assumption 2: Although Homo sapiens as a species is cooperative by nature, self interest and greed are easily stimulated responses in most individuals.

Assumption 3: Whilst money may not be the only reason why people come to work, it's the main reason. (I'd like to have more money, so the people that work for me must want more too).

Assumption 4: The system of production works. If everyone does as they should, everything will turn out as it should. Any failure to reach financial or productivity targets must therefore be someone's fault.

Assumption 5: Money is an effective¹ incentive to coerce people into doing what they don't want to do, for example, working harder.

Assumption 6: Set at the correct level (target), performance related pay is self financing.

From these assumptions has sprung the (largely unchallenged) behaviourist myth that target based rewards, bonuses, commissions and other financial incentives are 'the right way' to get the best value for money out of a workforce. And this, despite all the contrary academic research and practical evidence all around us, in almost 50 years since Douglas McGregor proposed his X-Y theory in 'The Human Side Of Enterprise'.

Assumptions 1 & 2 are, without doubt, valid assumptions. It is quite likely that for the majority of employees, Assumption 3 also holds true. However, assumptions 4, 5 & 6 are not valid and, as this paper sets out to demonstrate, are a root cause of culpabliss, with massive economic loss.

¹ It is indeed efficient in obtaining short term compliance but it is not effective since it usually incurs waste / cost elsewhere in the system.

Culpabliss Error #1 : What determines ‘performance’?

At work, performance is determined by a range of causal factors, the vast majority of which are outside the control of the individual worker. Most workers have negligible control over the training they receive, the equipment they use or how it is maintained, the raw materials or information they have to work with, how deadlines and priorities are set and changed, the environment they work in etc. And yet, most managers assume that the worker is ‘in control’ of their output and can therefore be ‘motivated’ into producing more.

There is an underlying assumption here that the worker is withholding effort in anticipation of it being bribed out of him. Where this scenario does exist, in healthy people it is generally a conditioned response to the use of incentives and coercion which crushes intrinsic motivation – what Dr Deming described as ‘the forces of destruction’^{iv}.

Hour to hour, week to week, month to month, any measure of performance will vary (due to the constantly varying interaction of the casual factors mentioned above). Sometimes a particular pattern of results or high/low point will be due to some assignable cause. Most often, the variability (unpredictability) we experience is chance (common cause) variation due to the system and is largely outside the worker’s control.²

A target set at the average value of this performance range will not be met roughly half of the time (this is what ‘average’ means). Set it any lower and managers will say “It will not motivate”. Set it above the average (at the upper quartile, say) and managers will say “This is a stretch target”. However, such a target is bound to fail most of the time unless the capability of the system is changed. Only management can change the capability of the system.

Culpabliss Error #2 : The true cost of targets and bonuses

Clearly, when management set targets their intention is to stimulate improvement of the system but setting a target changes neither the capability of the system or the employee’s ability to change it. Other than trusting to luck, it leaves the employee only two options (1) distort the system or (2) cheat.

A classic example of this was provided last year by the airline Flybe. Under the terms of their contract with Norwich airport, Flybe had to carry 15,000 passengers on the Norwich to Dublin route during the 2007/2008 financial year to earn a £280,000 bonus. A not insignificant sum. The airline was 172 passengers short of the target with the 31 March deadline approaching and took what was a seemingly rational response to this irrational situation. An offer appeared on the Flybe website on 27

² As articulated by W A Shewhart, 1929.

March advertising '200 free flights to Dublin this weekend'. Flybe also advertised on an actors' website called StarNow which said *"Extras aged 16+ needed for paid work flying to Dublin"*. The advertisement said more than 100 extras were needed at £80 a day. *"You will be boarding an aircraft and flying to Dublin and then flying back into Norwich airport. There may be up to three flights during each day."* There was of course, uproar. Not least from the environmentalist lobby. Norwich Airport Managing Director Richard Jenner said *"It doesn't seem to be in the spirit of the agreement"*. Naturally, Flybe blamed the airport calling it intransigent and greedy.

The same nonsense occurs daily within our National Health Service as Doctors' bonuses are now made contingent upon achieving targets. *"Health Service managers are offering family doctors cash bribes worth thousands of pounds to meet Whitehall targets"*, an investigation by The Independent on Sunday has revealed. *"GPs are being given a £100 payment for each smoker they say has quit in the most stark example yet of how targets are leading to the abuse of public funds. Doctors simply need to take a patient's word that they have not smoked for four weeks to pocket the cash. The patients are entered into a prize draw to win holidays and gift vouchers with the same lack of checks."* No one would argue that smoking cessation is a sensible objective – but is this the way to achieve it?

Elsewhere we have NHS patients discharged early from hospital to meet turnaround targets, and according to the Daily Telegraph: *"Doctors say pressure on beds means patients needing urgent care are being sent home so that hospitals are not penalised for exceeding the four-hour A&E target. Others are being treated in ambulances stacked outside departments, so the 'clock' measuring the time people wait in casualty units is not started."*

The press complain about the waste of public money or the effect of offering such incentives to professional people: *"The scheme demeans me as a professional,"* said GP Dr Stephen Nickless in the Daily Telegraph, *"Offering me this bonus shows contempt for what motivates me. It is corrupting of my professional values. It is an unwelcome intrusion into the doctor and patient relationship and it is a waste of public money."*

Yet still no one seems to challenge the folly of using targets and bonuses to control ANY person, be they doctors, schoolchildren, teachers, bricklayers, police officers or nurses. 'Do this and you'll get that' schemes may be presented to look like a rewards - based system, but it is also the fear of the consequences of not getting which motivates. A bonus is just a stick dressed up as a carrot.

It seems no corner of our economy is exempt from this Skinnerian nonsense. As Alfie Kohn pointed out in his excellent book *"Punished by Rewards"*^v, B F Skinner was a man who conducted most of his experiments on rodents and pigeons and wrote most of his books about people.

Another of the consequences of distorting the system, when rewards (prizes, bonuses, commission) are used to 'motivate' sales is that customers are pressured into buying what they do not require. Whether this is good business practice, ethical or sustainable is beyond the scope of this paper, but the 'great pensions miss-selling

scandal' of the early 1990's is a clear and direct consequence of the multimillion pound commissions paid to salesmen.

In the 1980's I worked in the financial sector and witnessed, first hand, how limitless commissions drove inappropriate sales. The top salesman in the life and pensions in the company I worked for in June 1989 took home over £500,000 in commission for just that ONE MONTH. How could such a system be sustainable? It wasn't.

But did we learn from the cost of bonuses in financial sector sales? What stimulated the sales of sub-prime mortgages? Generally thought to be at the root of the current economic crisis there are increasing calls for bankers and brokers to have their bonuses capped. But why does no one challenge the actual concept of pay for performance?

Look a little deeper into the use of financial rewards and the clear underlying assumption is always that workers are deliberately withholding some of their effort, waiting for management to bribe it out of them.³ This causes mistrust and barriers to communication, destroys team work and cooperation.

Culpabliss Error #3 : Measurement, comparison and competition

The oft quoted phrase "If you can't measure it, you can't manage it" is a popular misconception which leads to the notion that a numerical value can (and must!) be assigned to everything. It cannot. Even something as simple as staff training is beyond cost-benefit analysis. As Stafford Beer observed in his poem about cost benefit analysis "*How many bricks constructed this prison and how many grapes went into the wine?*"

Measurement is important, but even more important is what is done with the measurement. The purpose of analysis is insight to make effective decisions, not to agonise over the difference between this month and last month and the same month last year. Management boards ponder over these 3 numbers because they allow for two straight lines to be drawn each month providing some sort of an answer to two burning questions: Is the short term trend up or down? Is the long term trend up or down? Worse still, is the practice of handing out punishment and rewards based on this faulty 'binary world view' thinking.

Feedback is also an essential component of staff development but to be effective, feedback must be unbundled from the compensation discussion. Unfortunately the targets / rewards paradigm reduces the annual performance appraisal into misery for most and destroys teamwork and cooperation in the process. If the chances of my success are improved by your failure I will have no interest in helping you to succeed.

³ This may indeed be the case, but this is a conditioned response, not a natural one. Alfie Kohn has pointed out that this conditioning begins at school.

Forced ranking into league tables whilst intended to improve the whole distribution will not. Those lucky enough to have discovered best practice will ensure it is jealously guarded, in order to maintain their competitive advantage. In every league table one will be at the top, one at the bottom. What does the difference mean? It may mean nothing. Approximately half the distribution will be below average. Government research last year discovered that the majority of motion from year to year in school performance league tables can be accounted for by chance (i.e. common cause variation). What use then, are the league tables?

Allied to this same issue is the paradigm about competition. In many situations competition is a good thing, for example where two companies compete to satisfy customer preference with new products and services. But within members of the same team (system) competition is a destructive force. In these circumstances improvement will come from cooperation and team work, not competition.

Conclusion - Desirability

“On target and with minimum variation.”

Genichi Taguchi

The widely accepted practice of attempting to ‘command and control’ productivity through financial incentives is a poor substitute for good management and yet it persists because of a deep and rarely questioned commitment to the belief that offering people rewards will improve performance. What is the alternative? Good management – which for the most part calls for a genuine paradigm shift. At the root of all the nonsense of targets and bonuses lies the binary world view of **acceptability**. Our education, our very culture and hierarchical class system (I’m OK - you’re not OK) are all based on the binary world view concept of acceptability. Right – wrong, good – bad, pass –fail, go – no go. In order to play the game of accept – reject we must compare, rate and rank.

There is a better way

In 1950 a new quality control paradigm was articulated by Dr Genichi Taguchi which was based not on the concept of acceptability, but **desirability**. What is the optimum we should seek, which incurs the minimum loss to society?

The desirability paradigm extends way beyond the world of quality control for it allows us to break free from the prison of binary thinking and embrace the third force referred to in the introduction. What ideal state should we be working towards? This becomes a different question when placed in the context of the desirable aim for a system.

It is the responsibility of management to create the environment and systems within which people can do their best work. The desirability paradigm offers the chance for the people that work in the system to cooperate to reduce loss by improving the

predictability of the system through the effective control of variability, thus making the job of management easier and at, at a stroke, blowing away the need for command and control thinking.

Good managers understand the interdependence between systems thinking, variability, knowledge / learning, and human behaviour. By engaging the intrinsic motivation of people in an atmosphere of trust and cooperation, teamwork and clear communication can flourish. These are necessary prerequisites to solving the complex problems of production in a world which is increasingly unpredictable and dangerous.

Fair pay is essential. Feedback is essential. Targets and bonuses are not.

ⁱ Tertium Organum by P D Ouspensky pub A A Knopf

ⁱⁱ Understanding Variation by D J Wheeler pub SPC Press

ⁱⁱⁱ The New Economics by W E Deming pub MIT CAES

^{iv} Out of The Crisis by WE Deming pub MIT CAES

^v Punished by Rewards by A Kohn pub Houghton Mifflin 1993
