

## Title:

'Greed Is Good' - Remuneration, Motivation And Organisation

## Word Count:

690

## Summary:

The 1980's business culture in the USA and internationally put a considerable emphasis on personal reward on the basis that highly motivated individuals could transform organisations and societies. The extreme example in film was Gordon Gekko in Wall Street stating that greed was good. The 90's, however, have seen companies traumatised and bankrupted by the inappropriate use of remuneration as a motivator. Yet major corporate successes have been built on reward based remunera...

## Keywords:

remuneration,motivation,organisation

## Article Body:

The 1980's business culture in the USA and internationally put a considerable emphasis on personal reward on the basis that highly motivated individuals could transform organisations and societies. The extreme example in film was Gordon Gekko in Wall Street stating that greed was good. The 90's, however, have seen companies traumatised and bankrupted by the inappropriate use of remuneration as a motivator. Yet major corporate successes have been built on reward based remuneration systems. Phones4U recently and Allied Dunbar in the financial services market is an earlier example.

The notorious Barings Bank had individual traders on bonuses in the millions yet in the long term these motivated individuals were not fulfilling the company's objectives. Moreover even when an individual's reward system is based on entirely appropriate performance indicators, resulting in the organisation's success and he or she is rewarded, there may still be problems arising from the large differential between salaries of senior people and those of middle management. A payment system that depresses or demotivates 10 people for every one it motivates may not be the best for the organisation.

Wise organisations are therefore trying to reward and motivate all staff so that staff act energetically to further the corporation's interests both short and long term and feel they have been treated fairly. However there must be properly in place the link between the items on which they are being rewarded and the

actions they are able to take to influence the desired outcome.

A wise organisation accepts that:

- It is reasonable for the individual manager to act in his or her own interests.
- Managers work for people not organisations and want to please the superiors closest to them, or failing that, their peer group.
- Managers want to achieve and will be attracted to those tasks at which they know they can succeed, usually favouring the short term at the expense of the long term.

The clear implication is that an organisation should lay some groundwork before relying on a remuneration structure to change performance and behaviour. In other words the management and organisation system must be in balance with the remuneration system.

There are 5 major pre-conditions to the installation of an effective reward structure.

1. Measurement: "If you don't measure it you won't get it". There are various measurement systems of which Balanced Scorecard, which sets multiple objectives and is used by Tesco, is perhaps the best known.
2. Monitoring: If the performance measures are not monitored properly or only monitored in a review at the year end, it can give the manager signals that they don't really matter or, worse still, that failure is acceptable providing all the managers fail together.
3. Control of the tools for the job: The organisation must ensure that the individual is not over dependent on factors outside his control to achieve the performance measures set out (this is the 'how' part of the equation).
4. Consistency: Ensuring that short term organisational factors don't over-influence managers or drive them from their real objective. The organisation must also ensure that its own design (be it bureaucratic or loose) is appropriate to what is being asked of managers.
5. Reward and strategy in line: An organisation's achieving a clear strategy is not an event that will take place in the future; it is a journey. A remuneration system can be put into an organisation even when it has a relatively muddled strategy providing that organisational and management disputes are resolved by reference to strategy and the "balanced score card". Only then will there be

pressure on the organisation to refine its strategy, structure and remuneration systems.

Based on these 5 pre conditions, there is a checklist of 10 factors that the effective remuneration and reward structure must achieve:

1. Support the business strategy
2. Encourage the desired behaviour
3. Reward relevant performance
4. Be fair
5. Be substantial
6. Be tax efficient
7. Be timely (The reward must take place close to the achievement)
8. Incorporate non financial rewards (Recognition can be as important as cash)
9. Be firm (A bonus lost through missing target should not be recoverable whereas a salary increase should only be delayed until target is reached)
10. Be crystal clear