

Ever since the financial industry's early million-pound bonuses started being reported in the press in the late 1990s they have courted controversy. Ostensibly they were a 'necessary reward to attract and retain highly motivated people and reward them for entrepreneurialism and risk taking'.

Conversely, others believe that bonuses are not effective, either in the private sector or the public. They argue that bonuses encourage perverse behaviours and foster an 'every team for itself' mentality with a culture of hitting this month's numbers; at all costs. Ultimately they sub-optimize the system by reducing co-operation across the business, causing peaks and troughs of performance and damaging the organisation over the long term.

Both points of view appear to be valid. The City has indeed been very successful at attracting and rewarding those highly motivated by money and risk-taking. And the events of the last two years have indeed shown that the higher the bonuses the greater the damage.

Large bonuses are very powerful, but ultimately unguided, weapons. They have often influenced performance in the short-term, at the expense of the long. Those most motivated by the bonuses are the ones likely to make the biggest impact – for good and ill - and in the early days it can be very difficult to tell the difference.

Interim Performers, a leading resource agency, held a round table event recently to explore how interim HR Managers could best leave a positive legacy with the clients they worked with. One Interim Manager present noted that bonuses do often cause a change in behaviour, so businesses should be very careful how they use them.

Or put another way, be very careful who you recruit. It is vital that managers and staff have the long-term interests of the organisation and its customers at

heart. Ultimately this is less about altruism than about self-preservation, and the owners of businesses should assure themselves of the motivations of the team they put in place. Maybe it should be a criterion during job interviews.

Management approaches based on Systems Thinking and Continuous Improvement provide a sustainable way for organisations to marry the objectives of owners, customers and employees. However, these are not prevalent in many organisations in the public or private sector.

A German Director at an international Six Sigma conference last year remarked that the business school he attended for five years had not mentioned Systems Thinking during the course. When he encountered it years later it completely changed his outlook and the way he managed his organisation.

An understanding of systems, and a little psychology, highlights the glaring flaws in the bonus culture; a culture that is still espoused by many business schools across the world.

It is clear that the performance of an organisation depends on far more than everyone doing their best. It requires a good strategy, joined-up thinking at Board level, carefully managed process flows and customer pathways and everyone to be synchronised. Incentives that cause individuals or teams to work at the expense of their colleagues or customers can cause backlogs, frustration, extra cost and customer dissatisfaction, or worse.

Recently one more organisation has decided to turn the tide. The Carphone Warehouse is to abandon bonuses for sales staff in its stores. Following a successful trial across 200 sites in London last year, HR Director Lynne Weedal is extending the scheme to all stores. She anticipates that it will foster better teamwork, enable sales staff to give more impartial advice and result in more satisfied customers.

But if we are hoping for change, or even regret, from those who profited most from the financial boom, we might be disappointed. The psychological make up of human beings tends towards self-justification. Despite the outcomes we believe that we did our best. Even in the field of human conflict, the perpetrators of war crimes see themselves as having been swept up in an ugly situation and that they were not personally to blame.

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We can expect a similar outlook from bankers, regulators, politicians and others involved. It seems to be part of how human beings try to stay sane in the aftermath of traumatic events. Unfortunately there are few new lessons learned here – just another case study, albeit a good one.

But the learning is the most important outcome here. In the wake of the Savings And Loans scandals in the US in the '80s and '90s and the collapse of companies such as Enron (who took the bonus culture to extraordinary lengths) one might think that we would learn the pitfalls of aggressive performance management and the unintended consequence of fear and division in the workplace.

We still have a lot to learn as we rebuild our economy, and work to transform our businesses and public sector. Let us hope that the devastating outcomes of the financial crisis will shake our belief in individual heroics and usher in a new era based on working together across our organisations to deliver the long term benefits we aspire to.

If a stable and fairer society emerges from all of this, that would be a bonus worth working for.

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