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More important than results

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People should be rewarded for decisions as well as results

Managing only for results leads to crises, say Bert De Reyck and Zeger Degraeve. Reward people for the decisions they make, not just for the results they create.

Decisions are more important than results

Managing for results — pay for performance schemes and the like — are fundamentally flawed if that is the only criterion for evaluating managers. Far better, we believe, to reward people for their decisions and decision-making processes. Our argument is based on six assertions.

1. Results are irrelevant as a measure of decision quality.

People, including managers and business leaders, typically equate the quality of a decision with the quality of the result. When people observe a good result, they conclude that they made a good decision. Likewise, when a bad result is observed, people conclude that a bad decision was made. This is not true. Decisions and results are two different things. Time elapses between a decision and the realisation of its result. Decisions are made at a specific moment in time; afterwards, people implement these decisions, and the result is observed in the future. The future is uncertain: there are no facts about the future, and nobody has a crystal ball. In the future, events can happen that managers and organisations cannot control. Also, events can happen that managers could not foresee. Such events can cause good decisions to have a bad result — and vice versa. Therefore, the quality of the result is not an indicator of decision quality, and the result is irrelevant as a measure of decision (and execution) quality.

2. Results don’t necessarily reflect a high-quality process.

The ultimate criterion for good decision making is tied to three critical questions:

What are we trying to achieve with this decision? (the criteria)

What can we feasibly do? (the alternatives)

What do we have to watch out for? (the consequences)

The answers to these questions will reveal the alternatives, actions and choices that the decision makers have — and, on the third question, the answer leads us to specify the consequences of our possible alternatives. Good decision making also requires relevant and useful information.

Deciding is (1) valuing your alternatives at the moment you have them (2) on the criteria you have identified and (3) with the best information available at that time. Value is the only justification for your actions in business. The answers to the questions on criteria, alternatives and consequences come from the decision makers' knowledge, understanding, experience and intuition about the business issues. The process of decision making, therefore, is a mechanism to leverage the collective knowledge, experience and intuition of a group, team or organisation. It allows this intuition to be discussed, challenged and refined. That's why we have depicted intuition at the bottom of the decision-making pyramid, for it is the foundation.

3. Using results as a measure of decision quality leads to organisational crises, even bankruptcies.

A blame culture triggered by bad results stifles experimentation, innovation or trial and error. If leaders do not tolerate failure and error in our business innovations, they will kill the prospect of anyone taking any initiative. Since business activity is the primary engine for personal income growth, value creation and societal economic development, an organisational culture built on blame and punishment has implications beyond the boundaries of our any one business. Taken to national proportions, a blaming culture inhibits societal growth, development and evolution. Managing for results leads to crisis, at the least; it can lead to bankruptcy, at the worst.

4. Being accountable only for results is not the right standard for performance.

Of course, people must be held accountable for what they do in a business context; but they need to be held accountable for the right things. They need to be held accountable for things under their control, that is, operating with a good process of high quality. They should not be held accountable for uncontrollable events. Conversely, if business leaders only want good results, it is easy to understand that, ultimately, any process to achieve good results will become acceptable — even an illegal process. This is yet another way in which managing for results can become the origin of crisis and bankruptcy. A manager who achieves an excellent result but, in the process of achieving it, has demotivated his team is clearly not a good leader.

5. It's not enough to measure organisational leaders on results; how they achieved them is equally important.

Of course, results are not irrelevant for organisations and their leaders. A company that always makes good decisions and is always excellent at execution — but, too often, yields bad results — will go bankrupt. The CEO is ultimately responsible for the good results for the organisation, a responsibility to the shareholders who demand good results. But this question must also be considered: what can companies do to achieve good results?

Companies typically do two things to achieve, on average, better results. First, they implement a good process. Managers can learn to become better business executives. They can learn the process of decision making, learn how to be better at execution and build their business via the knowledge, experience and informed intuition that is inherent in decision making and execution. Out of this, managers will find that they are becoming better, more thoughtful business leaders — more aware and better informed about what they are doing.

Second, companies manage the risk inherent in any single business project, division, product, market, service and delivery channel. Diversification is a way of managing risk inherent in single projects. By having multiple products, markets (on a global scale), services and delivery channels, an organisation diversifies its risk. Some projects and businesses will be successful; others might be less successful; still others might fail.

That is why the CEO can (and must) be held responsible for the overall results of the enterprise.

6. Being compensated only for results doesn't measure one's true contributions to the organisation.

Managers traditionally get bonuses for good results. Corporate compensation systems are built around achieving good results. This is simply wrong. It is wrong to use a financial bonus to motivate and encourage managers to achieve good results, if that is the only reward they can earn. If a bonus is used to reward good results, it implies that managers are evaluated only on their results; and, ultimately, managers can (and have!) found themselves doing anything to achieve good results so as not to forfeit a bonus. Managers have even been found to engage in illegal activities in order to make the results required to earn a bonus.

It is, of course, possible that bad managers using wrong processes will sometimes enjoy good results. But their luck will run out eventually. Therefore, in the long run, it is necessary for organisations to evaluate the quality of a manager's decision-making process over the span of his or her career. Over time, managers will make many decisions and take many actions. In this sense, the cumulative body of their decisions and actions can be seen as diversified. If they use a good process for making decisions, then, on average, they will experience good results more often than bad results. Organisations should therefore reward on the longer-term performance achievements of managers. This can be done by many means, such as promotions to levels of higher responsibility or authority as well as base salary increases. Ultimately, managerial career progress and base salaries should reflect a company's commitment to the overall quality of a manager's contributions to the organisation. It may seem controversial, but we firmly believe that even managers with bad results should be rewarded — if they have used a good decision-making process.

This article is written by Bert de Reyk and Zeger Degraeve and is featured in the Summer 2010 issue of Business Strategy Review.