

Setting Standards; Rewarding Performance



THE SIXTH COMMANDMENT

REWARD INDIVIDUAL PERFORMANCE THAT EXCEEDS AGREED UPON STANDARDS.

Performance above the perfunctory level is a discretionary matter for each employee. Most people have alternative, off-the-job ways of utilizing excess energy or talent. Channeling such excess into activity beneficial to the business requires a tailored approach to each individual. A manager must first ensure that there is an understanding of the minimum results to be achieved. Then, for performance above the minimums, forms of compensation important to the performer—or in some cases, teams of performers—must be used.

Commandment One spoke to the importance of consistency among the primary participants in a new enterprise. Commandment Five suggested action to promulgate a conscious value orientation throughout an organization as it expands, recognizing full well that diversity will increase with success and size. Commandment Six calls for a sharp break with the past in that it admonishes the builders of new companies to do away with general, all-purpose reward systems.

People work for many reasons. This has always been the case. But winning bread is not the common denominator it once was. Today's work force is constructed of an incredible collection of individuals from all walks of life, each more liberated in one way or another than he or she would have been even ten years ago. Management people must seek to align the efforts of individuals with the vision, mission, and objectives of the organization as a whole. It is folly to think that general profit sharing plans or benefits packages or promotion criteria or a quarterly beer blast or arty pictures in the lobby or Friday-after-work schmoozing are going to stimulate or reinforce desired behavior right across the population of the enterprise. Once again...*forms of compensation important to the performer—or in some cases, teams of performers—must be used.*

Conventional wisdom suggests that every employee wants to get rich, be promoted into positions of larger responsibility, have his or her medical expenses paid, work in pleasant surroundings, have a nice boss, be fulfilled, and retire with a substantial nest egg. Much of this thinking by corporate pacesetters is unconsciously based on Abraham Maslow's famous 1940s hierarchy-of-needs paradigm.

Maslow postulated that people have a progression, a hierarchy, of needs, starting at the bottom with physiological needs and moving upwards. As a given need level becomes satisfied, a new need emerges that drives or motivates the individual until that need is reasonably filled. This process goes onward and upward, a continuing sequence all the way to the open-ended top level, the need for self-actualization.

Maslow's hierarchy has provided the theoretical underpinnings for a great deal of what has gone on under the heading of motivation and personnel work over the past fifty years. It replaced piece-



work as the secret to what makes employees tick. The question for entrepreneurs is, does it fit the realities of the 2000s and beyond? At least one modern researcher, Daniel Yankelovich, thinks not.

Maslowism: The Biggest Trap of All*

The quest for self-fulfillment borrows its forms of expression from whatever sources are most convenient. Unfortunately, the materials closest to hand have been an odd combination of the psychology of affluence, reinforced by an outlook whose interwoven tenets proclaim: live for

the moment, regard the self as a sacred object, be more self-assertive, hold nothing back. Where did those assumptions come from?

Early in the postwar quarter-century, the ideas of “more of everything” and the “primacy of self” merged in a school of thought that may be called “self” psychology. Self psychology received its most influential expression in the work of the psychologists Abraham H. Maslow, Carl Rogers, and Erich Fromm. Their thinking spread throughout the culture, with the help of self-help movements such as est and books with titles such as Looking Out for No. 1, How to Be Your Own Best Friend, and Pulling Your Own Strings.

In particular, the theories of Maslow ingeniously combine a psychology of affluence with a vision of inner development. In the 1950s, Maslow posited a hierarchy of human needs that has become part of the conventional wisdom of our time. According to the hierarchy, people who are preoccupied with meeting “lower-order needs” for food, shelter, and economic security have little energy left for pursuing the “higher-order needs” of the spirit. Vital energies are released to the search for “self-actualization” only when the lower-order needs have been met. We move up the hierarchy of needs in an orderly fashion, on an escalator of increasing affluence.

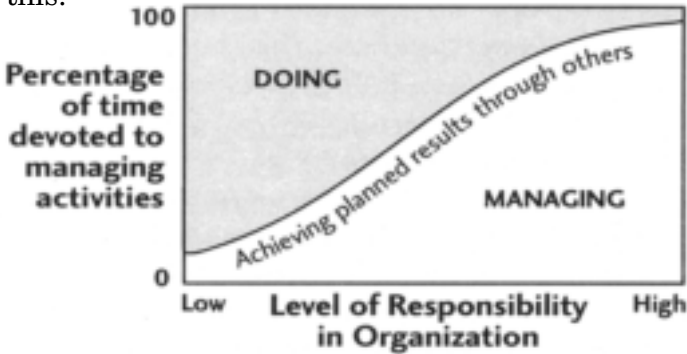
There is obviously some sense in which human priorities do function according to a hierarchy. When we are sick, all that counts is getting well. When our survival, physical or economic, is threatened, it powerfully concentrates the mind (as Samuel Johnson observed about the prospect of being hanged). But the idea of self-actualization—the highest achievement of which human beings are capable, according to Maslow—presupposes our ascension through various stages of economic well-being and is a peculiarly self-congratulatory philosophy for a materialistic age.

In Maslowism, the self-actualized person who steps off at the top of the escalator is a particular personality type. He or she is assumed to be a creative, autonomous self, virtually independent of culture. The theme of the creative individual, independent of culture, is to be repeated over and over again in the literature of self psychology and its pop-psychology progeny. One of Wayne Dyer's books speaks glowingly of the theory that "you are the sum total of your choices."

By now, millions of Americans have garnered extensive—and painful—experience in personal struggles with the new, Maslow-inspired duty-to-self ethic. It has, to be sure, some benefits to offer the individual, but the core idea is a moral and social absurdity. It gives moral sanction to desires that do not contribute to society's well-being. It contains no principle for synchronizing the requirements of the society with the goals of the individual. It fails to discriminate between socially valuable desires and socially destructive ones, and often works perversely against the real goals of both individuals and society. It provides no principle other than hedonism for interpreting the meaning of the changes and sacrifices we must make to adapt to new economic-political conditions.

Where does this leave the entrepreneur? Conventional wisdom says everyone wants to strive upwards; the economic and social reality of these, our times, suggests that such wisdom is fast becoming obsolete. As an alternative, here is a sequence of thinking that experience indicates will work here in the 21st century. First, an entrepreneur needs to consciously recognize that an important part of his or her work as a founder/manager is to help other people succeed in the organization. The aspiring entrepreneur has to appreciate that a significant portion of time must be devoted to being a coach rather than being a player. And as the enterprise grows,

the percentage of time devoted to coaching will probably gradually increase for most members of the management team. Graphically, the progression looks like this:



The inability of entrepreneurs to reallocate their time and energy, to manage more and do less, is one of the most common reasons why many young enterprises stall just as they start to succeed. More on this in Commandment Ten. A second step in the sequence of thinking is to establish agreed upon standards of performance with those directly involved. The overwhelming evidence turned up by both academics and practitioners over the years is that people tend to respond to structured expectations. They need to know—want to know—where is the goal line or fence? What is the name of the game or the shape of the target? How high is up? What are the acceptable minimum results? What do you expect of me? Lest you think these phrases are merely clichés, spend some time chatting with a cross section of employees in a lunchroom or two. Ask about their everyday concerns; listen carefully to their vocabulary. People on the job want to know what is expected of them. As one engineer put it, “I can’t operate in the dark.”

The point is that the practice of managing with objectives covered in Commandment Three has to be percolated down through an organization to the individual

employee level. Corporate objectives become meaningful when they are translated into what it is that a given man or woman is to achieve in, say, the next thirty, sixty, or ninety days.

The third step in the sequence of working with employees is to insure that the reward systems and practices of the enterprise support and reinforce the desired behavior of the individual(s) involved.

CASE R. The management team of a young specialty chemicals company with operations in six locations across the United States was interested in steadily increasing the company's sales volume and, at the same time, decreasing the salesforce expenses, absolutely and as a percentage of sales. The management team also espoused decentralized decision making. The president finally settled on a system that a) effectively raised the salespeoples' commissions on orders obtained and shipped in their well-defined territories, and b) gave each salesperson precisely \$500 a month for expenses, no more and no less. This shifted operating decisions about travel, entertainment, how to spend time, and whether to stay overnight at a Hilton and eat a steak dinner to the individual in the field. If a salesperson spent less than the \$500 for expenses in a given month, he or she pocketed the difference as income. And it was he or she who had to weigh the cost of any sales and sales commissions lost by *underspending* on travel and entertainment. If a salesperson wanted to spend more than \$500 a month, he or she could spend it, out of his or her own pocket.

The company is continuing to grow at a five-year compound rate of over 60 percent. Salesforce turnover has been very low. Salesforce expenses are down, absolutely and as a percentage of sales.

Not everybody is driven by money. Dual promotion ladders whereby individuals can advance in status, responsibility and income without moving into managing jobs are becoming more common, especially in higher

technology companies. In many phases of science and engineering it's almost a full-time job today just to keep current. To compound that burden with the additional tasks of getting results through others invites both frustration and, perhaps, failure. Entrepreneurial innovations in organizational design and organizational processes can be as important as technical breakthroughs.

CASE S. The founder/managers of an exciting new entry in the business-machine field decreed early on that the company would have no dead-end jobs. Today the company has sales exceeding \$100 million. It has no private secretaries, but it does have a very state-of-the-art, multipurpose, internal communications system. The company has no janitors or guards; it does have subcontractors who provide these services. Each new employee is guaranteed a job-change opportunity within two years of his or her starting date as well as three performance appraisals during the interim. No profit center (operating business unit) can exceed 500-700 employees without becoming a candidate for division into two or more profit centers. The company farms out all manufacturing and subassembly work that is expected to become standardized and routine.

Can the management of Case S hold to its no dead-end jobs principle when the company has 5,000 and then 10,000 employees? Time will tell, but management attention to the issue is assured.

For many reasons, working people increasingly look to their employers to respond to a broader range of human needs than in the past. This phenomenon presents entrepreneurial managers and executives with one of their greatest opportunities. It may also present them with a duty, but for certain there is an opportunity.

The opportunity is to make the modern corporation an integral and imaginative part of the evolving social fabric of the times. Most of the larger, established com-

panies of today were formed and shaped before the 1960s. The burst of entrepreneurial activity in the late 1960s was largely technologically based. The renaissance of entrepreneuring in the 1980s and 1990s had a much broader foundation, one that reflected the passing of the traditional industrialism with its steel mills, assembly lines, and relatively small percentage of college-educated adults in the work force.

The new entrepreneurialism of today is based on a pluralistic, global society with many discrete, unique markets. It is based on a population of knowledge workers who are wired together in an infinite variety of ways. And it is based on the enduring need for human contact and relationships, not in spite of the march toward individual recognition, but in addition to it.

Now all the evidence of psychiatry . . . shows that membership in a group sustains a man, enables him to maintain his equilibrium under the ordinary shocks of life, and helps him to bring up children who will in turn be happy and resilient. If his group is shattered around him, if he leaves a group in which he was a valued member, and if, above all, he finds no new group to which he can relate himself, he will under stress, develop disorders of thought, feeling, and behavior . . . The cycle is vicious; loss of group membership in one generation may make men less capable of group membership in the next. The civilization that, by its very process of growth, shatters small group life will leave men and women lonely and unhappy.

*George C. Homans, The Human Group**

Entrepreneuring is more than capitalizing on an opportunity spawned by knowledge and the times. It is a force for change and human development that transcends any particular product, service, or market opening at a point in history.