

Uncommon Wisdom

Why Great Leaders Don't Reward Results

Eric C. Sinoway

In today's economic environment, where most of us—even those who are succeeding—face pressure and uncertainty in our business, there's an increasing emphasis on rewarding results. And why shouldn't there be?

Why shouldn't we disproportionately direct praise, resources, and rewards to those who produce bottom line results? The answer is that, in the long run, doing so may empower employees with questionable long-term value, punish our future stars, and undermine the most valuable organizational asset—a company's culture. The framework of this manifesto will help managers and leaders identify the employees who represent the future of their business, and will help them spot and eliminate the organizational vampires that may kill it.

Iconic Harvard Business School professor Howard H. Stevenson—considered by many as the “father of entrepreneurship”—is fond of telling a story about the time that the late Frank Batten, the founder and CEO of the Weather Channel, gave a bonus to an executive whose business lost \$50 million.

Why did he do such a thing?

Batten was rewarding not the executive's results, which were obviously abysmal, but something he felt was more important—his performance. Batten's belief was that this executive's performance was excellent, and that the results of the business unit he led didn't reflect it. In fact, Batten recalled later, he was certain that the business would have had even worse results were it not for this particular executive.

In my recent book, *Howard's Gift: Uncommon Wisdom to Inspire Your Life's Work*, Stevenson and I differentiate between results and performance by defining the below two equations:

Results = performance + luck

Performance = skills + effort*

Think about it. All of us have witnessed, or experienced, situations where the results of an undertaking just didn't match up to the preparation, skill, and effort exerted. A plan went sideways because of a geopolitical event completely out of our control. A business didn't perform as projected because the landscape under our feet changed dramatically due to an unforeseen merger between our competitors. Or, as in the case with Batten's executive, a legacy business was attempting to completely transform to compete in the future. In each of these cases, the results weren't as projected because of luck—bad luck.

Is it right to punish the executive in charge if he or she worked as hard as possible and did what reasonably would be considered “everything right,” and still achieved poor results?

While these examples entail bad luck, results driven by the mirror image, good luck, are at least as common and rewarded far more often. Did all the real estate agents in the late 1990s really deserve to earn outsized paychecks when, in reality, the “performance” of many and the success they had in selling houses was largely due to showing up and taking orders in a red-hot housing market? Is every employee that hits his or her “number”—omnipresent P&L metrics most of us use—really performing well? Or, is the result the outcome of a growing market, or a terrific product or service that almost anyone might have succeeded in selling?

“Why shouldn’t we disproportionately direct praise, resources, and rewards to those who produce bottom line results? ... In the long run, doing so may empower employees with questionable long term value, punish our future stars, and undermine the most valuable organizational asset—a company’s culture.

Performance Matters

Whereas results are at least partially dependent upon luck, good or bad, performance is more controllable.

$$\text{Performance} = \text{skill} + \text{effort}^*$$

Two kinds of skill assessments are relevant in the evaluation of the overall employee's performance.

1. Does the employee have the core capabilities—knowledge, skills, and personal characteristics—to do a job really well?
2. Do the employee's skills compare favorably with others who also have these skills and who could be performing the same function?

Often, especially in a growing market, it's easy to assume that, because the results of an employee's efforts are sufficient, he or she has the skill to perform the role currently held. But is that true when you add the caveat "really well" to the question about requisite skills? And if she does have skills to perform a job really well, are these skills equal to or better than others who desire to fill the role she currently holds? Could the results be even better if we had a person in this role with stronger skills?

The key to an effective evaluation of skill is simple: it has to be disaggregated from results and measured on its own. Often—of course—those who produce strong results are highly skilled, and they should be rewarded as such. But with shocking frequency, once results are removed from the equation, those perceived as the company’s stars often aren’t the top performers: they are beneficiaries of huge helpings of luck. Rewarding them for such—whether the luck is inheriting a team of stars already performing highly, or being assigned to a product whose time has come, or simply being in the right place at the right time—is unfair to those who don’t share this good fortune and counterproductive to the organization’s long-term success. While we think we may be doing the right thing by “aligning incentives” to reward those with strong results, the rest of the organization, and particularly those with more skill but less luck, see right through the luck. Resentment follows, and a distrust of the reward system grows. And those with the most to contribute, the ones with lots of skill, are the first to look for the door and a new opportunity.

In short, when evaluating an employee’s performance, we should ask two simple questions: First, “Can this employee do this job well?” Not sufficiently, but well. Does he or she have real competency in the tasks assigned? The second question to ask is “Can the employee perform the tasks necessary better than others who want to be in this role?” If you had to fill the role today, would the current occupant be the individual you hire for it?

The answers to these questions may re-affirm decisions already made regarding staffing as it exists. Sometimes, however—despite “positive results”—you may find yourself questioning the performance of those whose skill you had long assumed was exemplary.

The “How” Matters

The second factor in evaluating performance is effort, which has two components (hence the “*” on the equation, above). The evaluation of effort entails (1) what someone does and (2) how he or she does it.

The “what” of the effort variable is relatively straightforward and well-documented territory. Is the member of the team investing the requisite time, energy, and focus expected of someone in his or her position?

It is the “how” he or she does it that is more interesting, and that holds the keys to the long-term success of the business beyond the consideration of any single person.

We’ve all faced this dilemma: how to handle the member of our team who is producing desired results but is doing so in a way that isn’t exactly how we might hope. Perhaps he or she is characterized as “rough around the edges,” “the bull in the china shop,” or any of innumerable pieces of jargon used to describe a person that’s not the right fit for the organization. This is the person

who we know, deep inside, as guardians of our company culture, is both a blessing and a curse. He's a blessing because he produces, and we need to achieve results. He's a curse because he does so in a way that doesn't completely align with the culture we're hoping to build and nurture.

Consider the following crisis that arose in my own company (told in full in *Howard's Gift*), and the gift Howard gave me in helping me think through it:

The brewing crisis related to a guy, Art, whom I'd hired a few months earlier. Back then, somebody had put Art's résumé on in my hand and said, "I don't know much about this guy personally but he's got the background you're looking for." To that point, our company had grown on the energy and enthusiasm of a lean and very efficient staff. But now we were generating a lot more new business opportunities than we could handle with our current team; and many of these new opportunities required someone with experience and seniority. I saw Art, a seasoned fifty-year-old executive, as a solution to our immediate problem and an experienced presence.

I met with Art a few times to lay out a role and goals for him. I wasn't completely bowled over by our conversations, but I looked at his skills and background and thought, "He could make us a lot of money." I told myself that the big financial upside outweighed the risks of hiring someone we hadn't worked with before and didn't know well.

“I wasn’t completely confident in my decision,” I told Howard. “But there was no obvious shortcoming I could put my finger on, and, I rationalized, the guy was ready to take on some very important deals that would really build the business. For a while, it seemed to be working okay. Now and then, a few negative blips on the radar, but nothing major. At least, that’s what I thought. In reality, problems were bubbling under the surface, and in the last few days things started boiling over. One staff member after another—junior and senior people—has come to me and said essentially the same thing: ‘We’ve really tried, but we just can’t work with this guy’... And Howard, none of these people are slacker; none are overly sensitive prima donnas.”

“What specific problems are they having?” Howard asked.

“The senior staff are primarily concerned about the way he interacts with clients, and they don’t want to be a party to it. They say he overpromises then is slow to deliver; that he seems to create problems just to be seen as the guy who then resolves them. They admit that he’s bringing in business, but they worry he’ll undermine the company’s ability to cement long-term relationships.”

“And how about the more junior people—what are their concerns?” he asked.

“They’re uncomfortable with how the guy treats them. They say he cuts them out of projects and dismisses their ideas. Apparently, he’s even told a couple of the younger members of our team to clean up the coffee cups and stuff after his client meetings.”

“The coffee cups—that’s not part of their job?” Howard asked.

“Definitely not,” I replied, standing up and beginning to pace. “Listen, in our office, everybody’s equal. You have a good idea, you offer it, whether you’re a vice president or a junior account manager, and it gets considered on its merits. You invite people to the office and give them coffee, you clean up after; you need help, you ask—not demand. Vice presidents in our company get that title because of the skills they have; but the title doesn’t make them better people or more deserving of basic respect than our IT coordinator or receptionist. And beyond that—” I stopped myself, realizing I’d gotten pretty worked up. I sat back down across from Howard. “Anyway, I’m not exactly sure what to do.”

Howard raised an eyebrow and looked at me with some concern. Then he turned to gaze out of at the tall pines and oaks surrounding the house. After a moment he said, “You seem pretty angry and frustrated with the situation.” I just nodded. “Who are you angry with?”

I thought about that very good question for a while before answering. “Both of us,” I finally admitted. “Him, not being the right guy. Me, for knowing in my gut that he probably wasn’t the right guy and hiring him anyway... My greed got in the way of my judgment.”

“Yeah, I think you both made a mistake,” Howard said. “From what you’ve told me of his background, it sounds like he’s acting exactly as he did in his previous jobs, where—for better or worse—

he fit right in to the culture. His mistake was in not recognizing that the environment in your company was different; or maybe he recognized it but doesn't have the capacity to adapt. Your mistake was, for expediency's sake, overlooking what his résumé said about the environments he thrived in and not explicitly talking with him about how your company's culture would likely differ. Painful as it might be for both of you, it seems to me you've got to swallow these mistakes and move on."

"Meaning I've just got to let this guy go and deal with the short-term consequences?" I asked the question, but he and I both knew it was only rhetorical.

Howard had helped me focus on the fact that Art was not just an outlier in our office culture. He was an active threat to that culture—and he had to go.

“Even the strongest strategy or most compelling plan will be infeasible over time if an organization’s culture doesn’t foster an environment in which it can succeed.” —HOWARD STEVENSON

Culture Trumps Strategy

“Culture trumps strategy,” Howard Stevenson says often. “Even the strongest strategy or most compelling plan will be infeasible over time if an organization’s culture doesn’t foster an environment in which it can succeed.”

Howard subscribes to the idea developed by one of his colleagues that there are four “cultural categories” into which employees of any organization can be organized. (Of course, like a Venn diagram, there is some overlap between categories.) This framework entails the force categorization of employees based not on the results of their efforts, but on an objective evaluation of their performance using the performance = skills + effort* formula. Remember that the “effort” variable encompasses an evaluation not only of “how much” but also of “how” one conducts him or herself. Here are the four categories with explanations.

- **Stars:** stars are the employees that we all love, the ones who have the skill necessary to perform well and who do it with the type of effort—both in quantity and in spirit—that enhances our culture.
- **High Potential or hypos:** the high potential employees are those whose behavior we value, who do things the right way in alignment with organizational culture and goals, but whose

skills need further maturation or enhancement. With training, time, and support, the high potential member of the team is the future star.

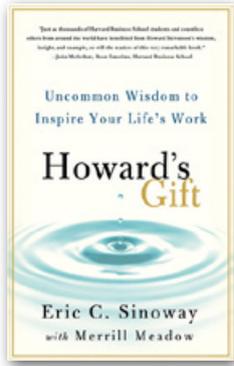
- **Zombies:** like the high potential employee, the zombies have skills that need to mature or improve, but their behavior doesn't align with the cultural aspirations of the organization. They are the proverbial dead wood. The influence of Zombies on the organization's culture isn't positive, but it's mitigated to a certain extent by the lack of credibility their sub-par performance engenders. Among their colleagues, they don't add much, but the cultural damage they do is limited. Much as we wish they didn't exist, at least in larger organizations, they invariably do.
- **Vampires:** vampires are the difficult ones. Vampires are the mortal threat to organizational culture. These employees perform well, but in a manner that is at cross-purposes with desired organizational culture. Because their functional performance is strong, they acquire power and influence. Over time, they also acquire followers—the zombies who are drawn to them out of admiration for their strong performance and who share a different set of cultural values than that of organizational leadership.

Soon, there's a small army of vampires and zombies attacking the culture that the company's leaders aspire to set and nurture.

Terminate the Vampires

With these cultural categories identified and employees placed in one of them, what is it that all organizations should do to foster a culture that will support its strategy? It's quite simple: regardless of their functional performance, terminate the vampires. Whereas it's always hard to remove a "high performing" employee or executive, the reality is that, in the long term, whatever individual contribution a vampire makes is offset by the cultural damage he or she is causing to the organization's future prospects. 🦋

Info



BUY THE BOOK | Get more details or buy a copy of [Howard's Gift](#).

ABOUT THE AUTHOR | Eric C. Sinoway is an entrepreneur and seasoned executive with experience in for-profit, academic, and no-profit organizations. He is the cofounder and president of [Access Worldwide](#), a New York-based partnership development company that creates inspired ideas and connects extraordinary brand and people.

- **SEND THIS** | [Pass along a copy](#) of this manifesto to others.
- **SUBSCRIBE** | [Sign up for e-news](#) to learn when our latest manifestos are available.

This document was created on October 10, 2012 and is based on the best information available at that time. The copyright of this work belongs to the author, who is solely responsible for the content. This work is licensed under the Creative Commons Attribution-NonCommercial-NoDerivs License. To view a copy of this license, visit [Creative Commons](#) or send a letter to Creative Commons, 559 Nathan Abbott Way, Stanford, California 94305, USA. Cover image from [Veer](#). You are given the unlimited right to print this manifesto and to distribute it electronically (via email, your website, or any other means). You can print out pages and put them in your favorite coffee shop's windows or your doctor's waiting room. You can transcribe the author's words onto the sidewalk, or you can hand out copies to everyone you meet. You may not alter this manifesto in any way, though, and you may not charge for it.

About ChangeThis

[ChangeThis](#) is a vehicle, not a publisher. We make it easy for big ideas to spread. While the authors we work with are responsible for their own work, they don't necessarily agree with everything available in ChangeThis format. But you knew that already.

800ceoread

ChangeThis is supported by the love and tender care of 800-CEO-READ. Visit us at [800-CEO-READ](#) or at our daily [blog](#).



Explore your knowledge further with [KnowledgeBlocks](#), a new project from 800-CEO-READ that lets you turn what you know into knowledge you can use.