URL: https://stvp.stanford.edu/clips/the-problem-of-compensating-solely-on-performance

Author and MDV Venture Partner Geoffrey Moore describes the trap of compensating employees based solely on performance metrics. Developing new initiatives or ideas creates the "power" for a company's long-term growth, so employees should also be compensated on this measure. According to Moore, "power fuels performance, and performance consumes power," so why will employees help create new power if they are not held accountable for consuming it, nor rewarded for creating it.
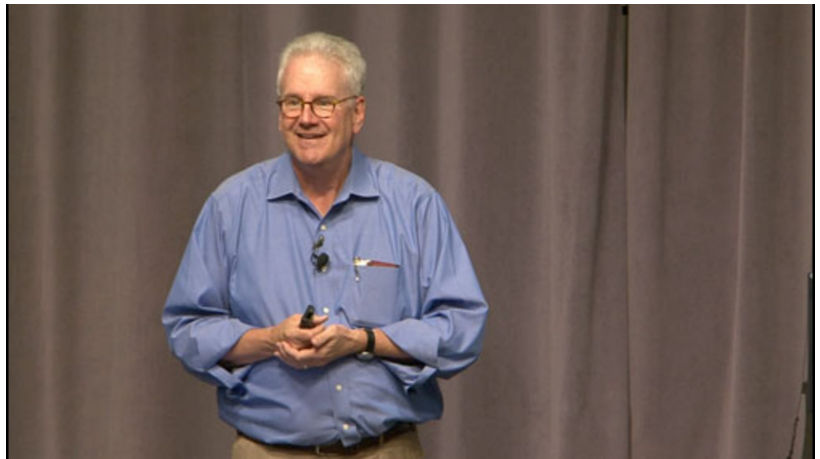
Transcript

So what's the mistake we keep making over and over again? So it turns out the way that the global management system works, and largely this is a management system that was developed in the United States, but it's become completely global.. It's a performance-oriented management system.. That's how people get compensated in large corporations.. So performances -- and by the way, not a bad idea, right? I mean, performance is critical to success, right? And we're good at managing it, but here is the second sense, power fuels performance and performance consumes power.. That is not visible in a large corporation.. It's a little bit like this -- you know, when we have this carbon cap when it taxed carbon emissions? Because right now, if you pollute the air, it's free.. And as long as it's free people will continue with the behavior.. Well, consuming power in most compensation systems, in most corporations is free.. And further more, creating power, say around a new strategy, is not compensated.. So I get compensated for consuming power for my performance..

I do not get compensated nor do am I held accountable except in the most kind of qualitative ways for generating power.. So why would you be surprised that large organizations systematically consume their power? Now, the interesting thing is, in a mature industry you can do that for a long, long time.. General Motors consumed its own power for 40 years.. Eventually, it ran out of power.. Eventually, the battery will go dead.. But it takes a long, long time.. And the performance metrics don't track against that.. So we need to replenish power if we're going to go for the long-term.. People get that conceptually, behaviorally, it's hard to integrate it into the corporate systems...