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Wall Street Bonuses Equate to Moral Bankruptcy

by Curt W. Coffman

As executive bonus announcements are made, the consequences of this deception and betrayal will be felt throughout organizations – employees, customers and shareholders. One micro (yet compelling) example is the fact that on average an employee works 5.4 hours in an 8 hour day, but during times of change, confusion and perceived inequity, that drops to 45 minutes.

What sets great leaders apart from the thousands whom have been studied is their clear focus on creating a better future and setting such a compelling vision that others can't help but follow them. American business has prospered, largely because of its emphasis on accountability, innovation and above all, standards of exceptional performance. These ideals are now at risk of being shattered because of leaders rationalizing that their own self-interest should come before those of their real constituencies.

While many directors and compensation committee members cite the potential attrition of great people and talent, if bonuses are not provided – this is neither thoughtful nor based on fact. Research shows that while pay and compensation are important to everyone, intrinsic motivation such as mission, purpose, achievement and creation of value trumps the dollar. Actually, when order of importance is tabulated, pay is no higher than seventh place in its importance to creating high performance.

In the absence of true performance measures or the lack of courage to hold out for them, we run the risk of rewarding “the weather man

for a sunny day.” We don't need wholesale reform, simply a return to the basic principles of performance-based compensation. This means:

- True leaders should look in the mirror and turn back unearned bonuses as a symbol of trustworthiness and commitment to their organizations.
- Directors and governance should boldly establish key success targets first and then determine the bonus structure commensurate to value creation.
- Organizations should eschew “buying growth” and dedicate themselves to “building growth” organically through relentless focus on the customer and the employees who truly engage them.

At the end of the day, however, if you must pay the unearned bonus – do so and quickly show them the door!

An international thought leader in the world of management, Mr. Coffman's work has been translated in over 40 different languages and cited in more than 110,000 books, articles and websites regarding leadership, management, employee engagement and customer loyalty. Mr. Coffman, Senior Partner in The Coffman Organization and co-author of two of the best selling management books of all time will soon release his latest book which describes the new rules of high performing workplaces.

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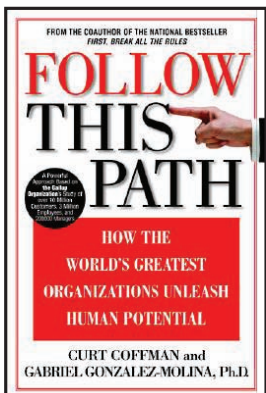
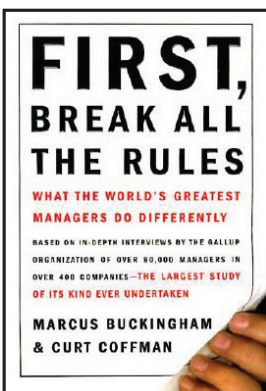
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ROOM FOR DEBATE A Running Commentary on the News

January 29, 2009, 5:30 PM

Bonuses for Bad Performance

By THE EDITORS

Merrill Lynch's former chief executive, John A. Thain, has come under scrutiny for Merrill's decision to pay \$4 billion to \$5 billion in bonuses in 2008. (Photo: Mario Tama/Getty Images)

It's official: your suspicions of Wall Street greed have been confirmed. Despite last year's huge losses, multibillion-dollar bailouts and closings of some of the biggest names in the industry, Wall Street still gave out an estimated \$18.4 billion in bonuses. Indeed, last year's bonuses were the sixth-largest on record.

On Thursday, President Obama, in a flash of anger, called these bonuses "shameful," suggesting that he intended to take a hard line against excesses in executive compensation.

Is it time to make corporate compensation less reliant on bonuses? Here's what some people in the know had to say.

Money Isn't Everything

Curt W. Coffman, a senior partner of a management consulting firm, is the co-author of "First, Break All the Rules" and "Follow This Path."

Many corporate directors and compensation committee members say they will lose great people and talent if bonuses are not provided. But this isn't true. Research shows that while pay and compensation are important, intrinsic motivation such as mission, purpose, achievement and creation of value trumps the dollar. Indeed, when order of importance is tabulated, pay hovers at seventh place in its importance to creating high performance among employees.

We don't need to reform how we pay and reward employees, we simply need to return to the basic principles of performance-based compensation. During the past decade or so, the criteria for bonuses on Wall Street has moved away from the company's actual worth, or revenue, to posted gains instead. Those gains are often based on risky investments and offer only short-term insight into a company's worth.

Going forward, corporate directors need to tie compensation to clearly defined targets that build the value of the company's shares to the benefit of employees, shareholders and long-term sustainability. Why? Because organizations need to eschew "buying growth" and dedicate themselves instead to "building growth."

In the meantime, corporate leaders who received a bonus in 2008 should do the right thing and return it to the company. And at the end of the day, if you must pay employees the unearned bonus — do so and quickly show them the door!

“Corporate leaders who received a bonus in 2008 should do the right thing and return it to the company.”

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