
The Problem With Reward Structures That Discourage Collaboration

One of the classic articles about workforce managements is entitled, “On the folly of rewarding A, while hoping for B”.

The author provides multiple examples illustrating how leaders often communicate one thing to employees while rewarding entirely different behaviors.

This article was published almost 40 years ago, but its message is just as relevant today. The negative corporate behaviors associated with inter-departmental conflict, administrative bureaucracy, and short-term thinking can be traced directly back to the financial structures used to reward employees.

I doubt financial departments intentionally create reward structures to encourage corporate silos and inefficient administrative bureaucracies. But such outcomes are often the result of building reward structures without fully thinking about how they will play out further down in the organization.

Consider the following two relatively common types of sub-optimal financial reward structures:

1. Rewarding inner compliance over customer support.

Monetary reward structures are regularly designed by means of folks who do no longer virtually paintings with customers to generate revenue for the organization. As a result, reward structures often over-emphasize consequences important to inner support capabilities and below-emphasize outcomes related to customer service.

As an example, a massive fitness care organization currently implemented a document gadget that made the coverage claims method a great deal less complicated for the internal accounting department. But it also extensively extended the time docs must spend entering data.

When the machine was rolled out, doctors have been informed that their bonuses trusted entering facts into the gadget in much less than 24 hours. This requirement brought about docs seeing fewer sufferers every day to make certain they have got time to finish the facts access. The praise shape became extra centered on increasing

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internal procedure compliance than encouraging medical doctors to offer better first-class affected person care.

I strongly suspect the finance folks that created this reward structure spend some distance more time with the accounting employees who system claims than with the medical doctors who actually generate the business enterprise's sales.

2. Rewarding price financial savings versus sales technology.

Many monetary reward systems are set on the business unit level and then cascaded down in purposeful silos.

For example, an Administrative guide department may get a fixed of monetary targets centered on lowering working costs whilst the income branch acquired objectives tied to ultimate new business. These objectives are then cascaded down within each branch such that man or woman administrative guide employees are completely rewarded for lowering fees, whilst character sales humans are totally rewarded for last new deals. Yet these employees are predicted to collaborate out within the subject.

I have seen many examples of administrative assist functions seriously unfavorable income pressure overall performance due to overly restrictive tour and cost rules. And I've seen simply as many examples of wastefully extravagant prices racked up through income humans within the call of "ultimate offers."

In preference to encouraging collaboration among sales and guide to achieve most sales with minimal rate, reward structures regularly create hostility between those interdependent elements of the enterprise.

Support says "sales don't care about fees," and based on how sales is rewarded, they're proper. However, income human being's proceedings approximately help not caring about closing offers are equally legitimate.

A focus on compliance, not productivity

One sales person memorably told me that "working with my travel support group is like getting a license from the Department of Motor Vehicles. They aren't measured based on whether they help me be more productive, they just care about complying with their department's internal policies."

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The lesson to be learned is if you truly want different departments to collaborate with each other, then you must create alignment and interdependencies between the financial reward structures used by each department.

The goal of this paper is not to demean or decrease the critical importance of Finance, but to create awareness to how certain financial practices can significantly damage workforce productivity.

For many years, HR departments have been justly criticized for not doing enough to understand the financial side of the business. But, the same can be said for many Finance organizations in their understanding of HR.

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