

Five steps business can take to ensure aggressive performance targets don't drive bad behaviour

Written by Tim O'Shannassy, Senior Lecturer, RMIT University

The ongoing [banking royal commission](#) has shone a light on poor work practices and corporate behaviours by company directors and top and middle line managers as they try to deliver on ambitious company performance goals. These firm-level management practices affect both business planning and individual performance. As the [commission](#)

[has](#)
[heard](#)

, corporations such as the Commonwealth Bank of Australia and AMP are pushing employees to achieve stretch performance targets – above and beyond prior year performance, which can already be at elite levels.

This work practice can create a very stressful and challenging situation for a business professional in any industry, no matter how well educated, trained and experienced. This performance pressure can lead to the taking of short cuts and poor behaviour, with unfortunate consequences for the individual and the business if not managed in an appropriate and timely way.

Read more: [***There's no evidence behind the strategies banks are using to police behaviour and pay***](#)

The principal-agent problem at work

The [CBA Dollarmites scandal](#) is a telling example of adverse outcomes of these performance challenges and the associated stress on managers. Retail banking staff set up Youthsaver accounts using either their own money, loose change, or the bank's money to activate children's accounts, achieve stretch performance targets and earn a bonus.

Another example relates to AMP charging customers [service fees without providing the service](#). This continued even after the practice had been reported to the Australian Securities and Investment Commission.

Read more: [Heavy penalties are on the table for banks caught lying and taking fees for no service](#)

In both instances the [principal-agent problem](#) surfaced. The employees were seeking to demonstrate work performance that was not indicative of the true situation for the corporation, leading to agency costs. What drives a professional manager to do this?

The employee's performance management predicament

Place yourself in the position of the employee. The employee has a desire to perform on the job and advance their career. There will also be financial incentives to perform, such as performance bonuses and possibly promotion.

The business and/or industry, however, may not be in a good situation for achieving this growth. These circumstances can be a cause of personal anxiety and stress for the professional manager. They may perceive that no matter how well they perform they cannot achieve the aggressive performance targets set by the board of directors and top managers.

This is an uncomfortable truth in competitive businesses seeking improvements in the productivity of employees and the organisation year on year. Failure to achieve aggressive performance targets can be career death for a top manager or a middle line manager. If the professional managers fail to achieve company performance targets this can in turn harm the reputation of a company director.

These scenarios can lead to the poor behaviours uncovered by the royal commission.

Read more: [Restructuring alone won't clean up the banks' act](#)

What are the solutions?

So how can the company director and/or professional manager be supported to avoid poor behaviour in response to ambitious performance targets?

The answer rests with the practices of sound strategy and governance. The stock exchange listed company needs to have an effective whole-of-organisation solution.

Ethics of governance refers to the whole ethics of the corporation and what it requires of governance, management and control systems. This includes the moral values of the organisation itself, of management and of the individual employees.

Getting the ethics of governance regime right creates the best chance of the board of directors and top managers agreeing on the right strategy, and of middle line managers successfully implementing this strategy – when the directors are watching, and when the directors are not watching!

To establish an effective ethical governance regime, the corporation should take the following steps.

- 1.** In Australia the great majority of listed companies favour separation of the chairperson and CEO roles, which allows a helpful mentoring relationship to develop. The professional relationship between these two employees over time is crucial to successful firm performance, with long co-tenure a predictor of this.

- 2.** The balance of the board of directors between inside directors and independent outside directors needs to be right for the firm. Big business favours a low ratio of inside directors to outside directors. Small and medium-size businesses can accommodate a higher insider ratio when quality executives with proven stewardship records are available. Attention to how company directors and professional managers are selected, trained and developed can help to set the right tone on moral values and culture throughout the organisation.

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3. The business plan and performance targets for employees need settings that reflect reality. To get the settings right, the corporation's product and/or service offerings plus trends in the external and industry environment must be considered.

4. Incentives for professional managers, such as performance bonuses, should reflect sales, sound resource stewardship and customer outcomes – not simply sales growth. An excessive focus on sales growth can lead to short-term thinking and poor behaviour such as the taking of short cuts.

5. Internal auditing practices to monitor business, team and individual performance, with consequences for work teams and employees found to be behaving poorly, will help to reduce problem behaviour.

Company directors and top managers need to be constantly vigilant on these matters over the long run.

Read more: [**Solving deep problems with corporate governance requires more than rearranging deck chairs**](#)

Tim O'Shannassy does not work for, consult, own shares in or receive funding from any company or organization that would benefit from this article, and has disclosed no relevant affiliations beyond their academic appointment.

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