

e-mail: personneltoday@rbi.co.uk

topical opinion

Worth versus wealth: fat cat pay could be justified

A lack of understanding about the true role of a CEO within an organisation has led to the backlash over the pay packages being awarded



Robert Myatt
senior consultant,
Kaisen Consulting

It is open season on chief executives right now. Each day brings a fresh denouncement of some previously anonymous individual's remuneration package.

While the popular press has no problem in citing market forces as the reason why, say, a journeyman Premier Division footballer can earn £10,000 per week, it appears to be in a state of permanent outrage at similar rewards enjoyed by our captains of industry.

Of course, this assault on UK boardrooms is partly fuelled by envy.

The US celebrates wealth as a tangible example of success, yet the British have always had an ambiva-

lent attitude towards personal gain, particularly in business.

In this instance, however, envy is the by-product of widespread lack of understanding of the precise role and contribution of a CEO.

If people have little appreciation of someone's fundamental value to an organisation, they are more sceptical about how they are rewarded. This lack of understanding often exists within the boardroom itself.

While most businesses assess the contribution of their staff regularly, similarly rigorous programmes often aren't applied to assessing CEOs.

The main problem is arriving at a series of measures that have any real meaning. What do CEOs actually do?

When, for example, you are hiring a call centre manager, you know exactly what their responsibilities are and the criteria on which they are going to be assessed.

It is much more difficult to determine what constitutes effectiveness

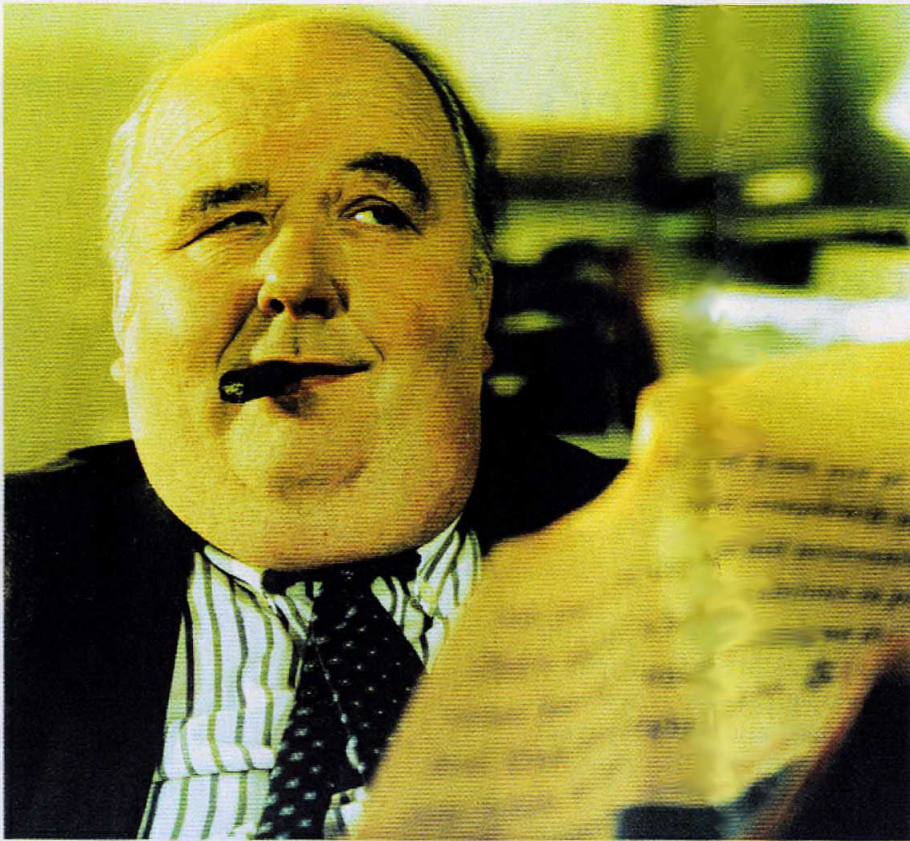
at chief executive level because there is no clear 'line of sight' between what the CEO does day-to-day and how this truly affects an organisation in the long term.

We know that normally, a CEO is expected to provide leadership and strategic direction. But how do you measure nebulous concepts?

You also have to factor in a range of issues outside of a CEO's control that may affect business performance, such as macro-economic developments, government regulation, etc.

Also, the CEO's function is to deliver performance through other people. How can you measure the performance of individuals who, by the very nature of their jobs, are charged with delegating specific actions rather than carrying them out themselves?

These barriers to formal assessment means judgement of a CEO's performance is left to the vagaries of public perception.



The press has condemned what it calls 'fat cat' payouts to failing chief executives

People fall into the trap of 'confirmation bias'; they seek out confirming evidence to support their view of the CEO and discount disconfirming evidence.

So, if people like a CEO, they will hear things that reflect favourably on them, while turning a deaf ear to bad news or attributing it elsewhere.

The power of 'context dependence' helps to distort people's evaluation of a CEO's true value. This law has it that if a company is doing well, the CEO takes the plaudits; if it is doing badly,

the CEO ends up carrying the can, despite the fact they may have been powerless to change the outcome.

There is a way forward and it comes largely from re-examining the psychology of performance management.

Typically, when asked about how it assesses performance, a business claims to have hard measures. But those measures tend to be described in terms of specific activities, rather than measurable 'outputs'.

The principle that should govern performance measurement at all lev-

els is the necessity to be explicit about what needs to be achieved. As long as people are clear about their destination or target, they are good at working out how to get there. They cannot work efficiently when they don't know what they are expected to achieve. CEOs are no different.

There is a tendency when assessing people performance to measure what is 'acceptable'. But people need to be assessed on whether they have exceeded an acceptable level of performance, or fallen short of it.

This is essentially a 'cybernetic' concept of performance. Having stretching goals to strive towards is motivational, while having a clear understanding of what is unacceptable guides performance.

Providing clear parameters gives people the freedom to decide their own route and take risks in achieving their objectives. Merely telling people what is acceptable doesn't 'raise the bar'; people are more likely to cruise.

The criteria by which a company leader's contribution is assessed should be easily understandable, with only a few well-defined areas, and the results should be completely public. Key stakeholders should be able to make an informed judgement about company performance. That starts by understanding how the CEO is meeting, and exceeding, their brief.

A good CEO should welcome the opportunity for formal assessment because they will know precisely how they will be judged.