# Rethinking Rewards

Perspectives

Harvard Business Review

Reprint 93610

# Harvard Business Review

**NOVEMBER-DECEMBER 1993**

## What role – if any – should incentives play in the workplace?

# Rethinking Rewards

**It is difficult to overstate the extent to which most managers – and the people who advise them – believe in the redemptive power of rewards, Alfie Kohn argues in "Why Incentive Plans Cannot Work" (September-October 1993). Certainly, the vast majority of U.S. corporations use some sort of program intended to motivate employees by tying compensation to one index of performance or another. But more striking is the rarely examined belief that people will do a better job if they have been promised some sort of incentive.**

**This assumption and the practices associated with it are pervasive, but a growing collection of evidence supports an opposing view. According to numerous studies in laboratories, workplaces, classrooms, and other settings, rewards typically undermine the very processes they are intended to enhance. In Kohn's view, the findings suggest that the failure of any given incentive program is due less to a glitch in that program than to the inadequacy of the psychological assumptions that ground all such plans.**

**Do rewards work? The answer depends on what we mean by "work." Research suggests that, by and large, rewards succeed at securing one thing only: temporary compliance. They do not create an enduring commitment to any value or action. They merely, and temporarily, change what we do. According to Kohn, incentives in the workplace simply can't work.**

**Nine experts consider the role of rewards in the workplace.**

**G. Bennett Stewart III**
Senior Partner
Stern Stewart & Co.
New York, New York

A world without A's, praise, gold stars, or incentives? No thank you, Mr. Kohn. Communism was tried, and it didn't work.

The Soviet and Chinese economies collapsed because people were not allowed to share in the fruits of their individual efforts. With gains from personal initiative harvested as a public good, innovation ceased,

PHOTO BY TONY RINALDO

and productivity froze. "They pretend to pay us, and we pretend to work" was the Russian worker's lament for the system Kohn now proposes. But for pay to mean anything, it must be linked to performance. Without that link, pay becomes nothing more than entitlement, a job nothing more than a sinecure.

Kohn is unhappy that rewarding some people necessitates penalizing others. Winston Churchill's apt aphorism is the best response. He said, "The virtue of communism is the equal sharing of its misery, and the vice of capitalism is the unequal sharing of its blessings." You can't have it both ways, Mr. Kohn. You simply can't have the equality of outcome you desire with the robust, dynamic economy we all want.

Contrary to the small-sample psychology tests Kohn cites, the responsiveness of ordinary citizens to incentives is demonstrated daily in our economy. Consumers cut consumption in reaction to the "penalty" of a price increase and raise purchases in reaction to the "bribe" of a lower price. The price system efficiently allocates scarce resources precisely because it rewards people who conserve and penalizes those who fail to respond. Can it be true, as Kohn seems to think, that people respond to monetary incentives when they *spend* their income but not when they *earn* it?

If Kohn makes a useful point, it is when he says that people won't want to be paid for doing specific tasks. But here is where we disagree: people should be rewarded for an overall job done well. To put the point in economic terms, the best incentive is having a piece of the action. Company stock, however, is not the best approach to instilling ownership, for it frequently leaves too loose a link between pay and performance.

The best approach often is to carve employees into a share of the profit contributed by their part of the company. Profit should be defined in relevant cash-flow terms after covering the cost of all capital employed, a measure that Stern Stewart & Co. calls Economic Value Added. EVA provides employees with three clear incentives: to improve profitability, to grow profitability, and to withdraw resources from uneconomic activities. In addition, it ties their decisions and energies directly to the "net present value" of their enterprise. All key managers at Quaker Oats have been on an EVA sharing plan for several years, and Scott Paper Company introduced an EVA incentive program for all salaried employees at the beginning of 1993, to name but 2 of the 50 prominent companies that have adopted this approach in recent years.

---

**Eileen Appelbaum**
Associate Research Director
Economic Policy Institute
Washington, D.C.

Companies today are under intense pressure to improve efficiency and quality at a time when their resources are severely limited. Fiddling with compensation schemes appeals to many managers as a cheap way to improve their companies' performance by providing individuals with incentives to work harder. In fact, reliance on individual incentives to motivate workers and spur productivity has a long history in the United States. The U.S. human-resource model evolved in the 1950s partly in response to then-current theories of industrial psychology. By designing compensation schemes that recognize and reward individual differences, companies expected to reap the rewards of increased employee motivation and improved job performance. This idea continues to inform present managerial thinking. In his article "Why Incentive Plans Cannot Work," Alfie Kohn has performed an important service by marshaling the modern evidence on the psychological effects of incentives and by showing that rewards fail to improve, and may even reduce, performance.

We are still left, however, with questions about what improves a company's performance and what role compensation actually plays in that improvement. I would offer the following answers, based on an analysis of nearly 200 academic case studies and consultants' reports, carried out with Rosemary Batt – a doctoral candidate in labor relations and human-resource policy at MIT's Sloan School of Management – and published in *The New American Workplace*, forthcoming from the ILR Press in 1994.

In the early part of the twentieth century, workplace innovations attempted to improve employee satisfaction and, at the same time, company performance. In contrast, the move to high-performance work systems since the mid-1980s is motivated by the need to improve quality and reduce costs simultaneously. In the mass-production model of work organization, whether the Taylorist or the U.S. HR version, improving quality raises costs – for inspection, supervision, rework, and waste. It was quite a shock to U.S. sensibilities, therefore, when Japanese auto

"A world without A's, praise, gold stars, or incentives? No thank you, Mr. Kohn. Communism was tried, and it didn't work."

*G. Bennett Stewart III*

manufacturers demonstrated that new ways of organizing work could deliver noticeably higher quality and customer satisfaction at significantly lower prices. It took nearly a decade for companies in the United States to realize that they would have to change.

Our review of the evidence indicates an acceleration of experimentation with innovative workplace practices and the emergence since the mid-1980s of two distinctly *American* high-performance models: a U.S. version of lean production that relies on employee involvement and a U.S. version of team production that relies on employee empowerment for performance gains. Productivity and performance improve the most when work is reorganized so that employees have the training, opportunity, and authority to participate effectively in decision making; when they have assurances that they will not be punished for expressing unpopular ideas; when they realize that they will not lose their jobs as a result of contributing their knowledge to improve productivity; and when they know that they will receive a fair share of any performance gains, assurances which unionized workers in high-performance companies enjoy.

Attempts to improve performance by manipulating compensation packages have proven counterproductive. However, reorganizing the work process to capitalize on employee skills and participation has improved performance, especially in combination with employment security, gainsharing, and incentives to take part in training. In this sense, then, compensation packages are an important component of the human-resource practices that are necessary to support high-performance work systems.

---

**Michael Beer**
Professor of Business Administration
Harvard Business School
Boston, Massachusetts

Kohn has mounted an eloquent argument, when it is considered in light of what we know about motivation and organizational effectiveness. But because certain practical considerations and cultural differences are not addressed, the argument is flawed.

Like Kohn, I have found that many managers in the United States and the United Kingdom – but not, incidentally, in continental Europe or Japan – have deeply held assumptions about the role of incentive pay in motivation. These assumptions lead them to engage compensation consultants in answering the wrong question: How should we design the incentive system in order to obtain the desired behavior? The more important question is: What role, if any, should incentive compensation play? Like Kohn, I have found that assumptions about incentive compensation have led many managers to expect incentives to solve organizational problems, when there are actually deeper underlying reasons for those problems.

“If incentive systems do not motivate, what should managers do about compensation? Surely, Kohn would not suggest that everyone should be paid the same.”

*Michael Beer*

Managers tend to use compensation as a crutch. After all, it is far easier to design an incentive system that will do management’s work than it is to articulate a direction persuasively, develop agreement about goals and problems, and confront difficulties when they arise. The half-life of an incentive system is at best five years. When it stops paying off, employees turn against it. And the result is another dysfunctional by-product of incentive systems: precious attention, time, and money is expended on endless debates about and redesigns of the incentive system.

If incentive systems do not motivate, what should managers do about compensation? Surely, Kohn would not suggest that everyone should be paid the same. In some industries or functions – sales, for example – incentive compensation is the prevailing practice. In these areas, without paying for performance, an organization will lose its best people. Yet by paying for performance, the company runs the danger of encouraging self-interest instead of organizational commitment. This is a fundamental pay-for-performance dilemma that practicing managers confront and that Kohn neglects to address.

It is undoubtedly true that in today’s competitive environment, interdependence between different business units and functions as well as the need for customer service and quality make incentive compensation less appropriate than it once was. But there are circumstances in which it is the only solution available: for example, managers of independent stores far from headquarters who don’t have a motivating manager-subordinate relationship or salespeople whose performance is independent of other business units and who operate without supervision much of the time.

Managers who agree with Kohn should pay for performance but strive to use incentive systems as little as possible. Pay is an exercise in

> "Intrinsic motivation – being motivated by challenge and enjoyment – is essential to creativity. But extrinsic motivation – being motivated by recognition and money – doesn't necessarily hurt."
>
> *Teresa M. Amabile*

smoke and mirrors. Companies cannot stop paying for performance. However, they should avoid using incentives for all the reasons that Kohn suggests.

What can managers do? They should focus on paying people equitably, rather than using pay as an instrument of motivation. They should avoid coupling pay with yearly or quarterly performance, while promoting the top 10% or 15% of employees for outstanding long-term contributions. The poorest performers should be weeded out, while the rest should be praised for good performance and recognized through other means to promote self-esteem.

We are indebted to Kohn for ringing the alarm, but he does not provide managers with creative, practical solutions to the pay-for-performance dilemma.

**Andrew M. Lebby**
Senior Partner
The Performance Group
Washington, D.C.

The effect of rewards on motivation and performance is one of the most studied subjects in the management literature. Year after year we validate the finding that employees' perceptions of underpay result in decreased productivity, while increased pay doesn't result in increased productivity. Year after year we ask employees what motivates them, and year after year they reply: a sense of accomplishment in performing the work itself, recognition from peers and top management, career advancement, management support, and, only then, salary.

If Kohn is unable to find data that support anything but a negative relationship between financial incentives and performance, why is it that in the face of overwhelming evidence executives continue to hold onto ineffective methods? Why is it that they refuse to provide those things that employees say they want, that directly relate to increased productivity, and that have little or no financial cost?

When we stop to separate the physical nature of the reward itself from what the recipient finds rewarding, some possible answers appear. When we ask employees, "What was the last reward you received?" the most frequent response is some variant of "money." When we ask, "What did you find rewarding about money?" the most frequent response is that it was a tacit acknowledgment of the outstanding nature of their contribution. Just as it is easier for some parents to show love with gifts than with hugs, it is often easier for organizations and managers to show gratitude with money than with words.

Our current notions of pay follow naturally from our antiquated, Taylorist, mechanistic models for designing work. The work we do and how we do it have shifted significantly, but our reward and salary structures remain essentially the same. Senior managers will end financial incentives only when they rethink what work is and how it is performed. Organizations that have redesigned work to reflect cross-functional business processes or those that have implemented the actual *principles* of TQM have had to rethink pay and performance. Employees have said, "Give us the tools, the skills, the information, the support, and the respect we need." In different words, "Give us real capital, intellectual capital, and symbolic capital, and we'll increase your – and our – financial capital."

Money is an outcome of high performance. Satisfaction and respect are incentives to it.

**Teresa M. Amabile**
Professor of Psychology
Brandeis University
Waltham, Massachusetts

Kohn is absolutely right when he tells us that rewards can work against real commitment and creativity. But he doesn't tell the whole story. There are important differences between bribes and equitable compensation, and there are conditions under which rewards can *increase* involvement and creativity. What matters is what those rewards actually mean.

As Kohn points out, there is abundant evidence that interest and performance decline over the long run when people feel they are controlled by incentive systems or any other management system. What Kohn fails to point out is that people do not always feel controlled by rewards. In a recent study of professional artists, my students and I found, as Kohn would have predicted, that noncommissioned works were more creative than commissioned works. However, what mattered was not the obvious fact of contracting for reward, but the degree to which the artist felt constrained by the terms of the commission: the more constraints, the lower the creativity. In fact, some artists considered some of their commissions enabling, allowing them to create an interesting work of art that they wouldn't otherwise have had the means to do. When the reward presented the artist with new possibilities, in other words, creativity actually increased.

Intrinsic motivation – being motivated by challenge and enjoyment – is essential to creativity. But extrinsic motivation – being motivated by recognition and money – doesn't necessarily hurt. The most creative artists in our study tended to be motivated more by challenge, but they also tended to be motivated by recognition. Kohn accurately documents the evidence that rewards can undermine creativity. But he fails to mention the evidence that tangible rewards can actually enhance creativity under certain circumstances, most notably when the individual's primary focus is on the intrinsic reward of the work itself.

Bribes, as Kohn frequently notes, are bound to make people feel controlled, and he rightly points out their negative effect on people's work. But he implicitly includes salary in the same category as bribes when he argues that "pay is not a motivator." Certainly, there are some circumstances under which salary increases are perceived as bribes. A few years ago, for example, I interviewed an R&D scientist who was widely considered to be one of the three most important innovators in a large, successful company; he was also considered extremely eccentric. "They offered me a pretty large salary increase this year, but I refused it," he recounted. "Right now, my lab is my playground; I pretty much come in here and do things the way I want. But the more they pay you, the more they think they own you."

A much more common reaction, however, was the feeling expressed by other scientists that their salary increases recognized their creative contributions. Generous compensation, including companywide profit sharing, need not be seen as a bribe, particularly when it is presented as the equitable outcome of creative competence.

Although Kohn's article is clear about what managers should avoid, it has little to say about alternatives to incentives. There is much that can be said about redesigning work and the work environment so that extrinsic motivators become less central. Managers need to know how to use these alternative techniques before they can be expected to abandon the incentive systems on which they have relied for so long.

If Kohn can convince even a few managers that incentive plans are not the keys to innovative, high-quality performance, he will have made a significant contribution. But it would be a mistake to believe that reward and recognition must always have a negative effect on performance or that creative people cannot be motivated by both money and interest in the work itself. As the poet Anne Sexton once said, "I am in love with money, so don't be mistaken. But first I want to write good poems. After that, I am anxious as hell to earn money and fame and bring the stars all down."

> "Appropriate rewards for improved performance have always made good sense, intuitively and practically. They aren't wrong. They aren't intrinsically demotivating."
>
> *Jerry McAdams*

---

**Jerry McAdams**
Vice President, Performance Improvement Resources
Maritz Inc.
Director
Consortium for Alternative Reward Strategies Research
St. Louis, Missouri

A few years ago, Kohn did the business community a service with his book, *No Contest: The Case Against Competition*, which argues that competition is for the *marketplace* rather than the *workplace.* The book makes a compelling argument for focusing on teamwork instead of pitting one employee against another. The key to success, Kohn maintains, is to create an atmosphere of cooperation, channeling employees' creativity and energy to affect the business objectives of the organization positively. Competition between individuals, on the other hand, only gets in the way.

Now Kohn argues that rewards get in the way as well. On the basis of my 20 years of researching and designing reward plans for sales and nonsales employees, I disagree. Appropriate rewards for improved performance have always made good sense, intuitively and practically. They aren't wrong. They aren't intrinsically demotivating. Data show they make good business sense.

Of course, there is always a market for speeches, books, and articles that profess, through highly selective academic research, that what *is* working really *isn't*. Kohn's article is a provocative exercise in attention-getting, niche marketing. Unfortunately, Kohn's article will probably be used by some to deny performance-improvement opportunities.

I do agree with Kohn's point regarding the negative aspects of the reinforcement of tasks, particularly when the reinforcement plan is piece-rate or merit-pay based. Measuring and rewarding on an individual level (sales excepted) does tend to become controlling. The focus should be on business objectives, not tasks. The study, *Capitalizing* *on Human Assets*, covering one-million employees and 432 compensation plans and sponsored by the nonprofit Consortium for Alternative Reward Strategies Research (CARS), shows that rewarding groups of employees, usually whole plants and offices, is a powerful business strategy. According to the study, this strategy pays off a median three-to-one return on the cost of the rewards. Employees earn from 2% to 15% of their base pay in incentives or noncash awards. No layoffs appear to result from the improved performance. Interviews and extensive data analysis of the 432 plans show positive employee-management cooperation and improved information sharing and employee involvement.

Rewards are not bribes. Bribes are payments for behavior that may be in the organization's best interest but are clearly *not* in the individual's. Rewards reinforce a "win-win" environment. The objective of a reward plan is not to "control or manipulate," as Kohn contends. It is to provide focus and reward improved performance.

Tom Peters was right when he wrote about Kohn's thesis, "What we need is a lot *more* positive reinforcement, and a lot less of the negative kind, throughout the corporate landscape. And far from cautioning companies about the dangers of incentives, we should be applauding those that offer their employees a bigger piece of the action" (INC, April 1988). The CARS research has done just that, looking at more plans in greater depth than any other study. The bottom line is simple: reward plans work when properly designed and supported; there can be something in it for everyone.

I think it is time to focus on the productive use of people as assets to business not on the counterproductive theories in Kohn's article.

**L. Dennis Kozlowski**
Chairman and CEO
Tyco Laboratories, Inc.
Exeter, New Hampshire

I'll accept that elephants cannot fly and that fish cannot walk, but Kohn's argument that incentive plans cannot work defies the laws of nature at Tyco Laboratories. Tyco provides a compelling case study that incentives *can* and *do* work for both managers and shareholders. In fact, we believe our incentive compensation program is at the heart of our company's success.

We view the relationship between Tyco's management and its shareholders as very straightforward: management works for the shareholders. It is our mission to create value for them through stock-price appreciation. In fact, our share price has closely tracked our earnings curve for many years, lending considerable weight to our determination to encourage earnings growth in a prudent and consistent manner. Our compensation program, in turn, was designed to align the financial interests of our executives with those of our shareholders. The basic rule is this: the more the executives earn for the shareholders, the more they earn for themselves.

"I'll accept that elephants cannot fly and that fish cannot walk, but Kohn's argument that incentive plans cannot work defies the laws of nature at Tyco Laboratories."

*L. Dennis Kozlowski*

Tyco's 250 profit centers fall into four major businesses. Within the context of a few corporate financial controls, we tell each profit-center manager to run the business as if he or she owned it. A decentralized approach lets us put the financial resources of a $3-billion corporation behind the entrepreneurial spirit, drive, and resourcefulness of managers who think and act like owners. It's the best of both worlds. Profit-center autonomy and responsibility go hand in hand. We encourage each unit's management team to share the unit's profits. The more profits the business unit earns for the shareholders, the more compensation the management team earns for itself.

Our incentive plan has several important and unique features. For one, incentive compensation is directly tied to each business unit's performance and not to corporate results or other factors beyond any individual's control. In addition, the awards are not based on how units perform against a budget or any other preset goal. Instead, awards constitute a preestablished percentage of earnings. Since we adopted this approach, the quality of the budgeting process has substantially improved. Finally, award opportunities are uncapped, and, as a result, they encourage the entrepreneurial spirit that we value.

When designed effectively and integrated thoroughly into the management process, executive incentive programs work well for management and shareholders alike.

**George P. Baker III**
Associate Professor
Harvard Business School
Boston, Massachusetts

The problem is not that incentives can't work but that they work all too well. Kohn's analysis of the unintended and unwanted side effects of many incentive plans is perfectly apt; plans that provide incentives for the wrong behavior will produce the wrong results. However, Kohn's solution to abandon incentive plans entirely is misguided. Rather, managers must learn how to harness and use the power of incentives to drive individual motivation and organizational effectiveness.

In several places, Kohn's assertions about the weakness of incentive plans only serve to highlight the power of such plans to influence behavior. What Kohn says is absolutely true: if teamwork and cooperation are desired, and the incentive plan rewards only individual results, then the plan will generate counterproductive results. However, a well-designed incentive plan that rewards team productivity not only will avoid such unproductive behavior but also will induce employee cooperation. This is the logical basis for the majority of profit-sharing and employee stock-ownership plans, whose effectiveness mounting evidence supports.

Similarly, Kohn's observation that incentive plans cause employees to curry favor with the boss and withhold information about poor performance is often accurate. But the solution is not to eliminate the boss's ability to reward employees. Instead, supervisors should be trained to ignore or punish politicking. It is precisely because incentives are so powerful that Kohn can predict that if managers reward politicking, politicking will result.

Reward plans need not be controlling, as Kohn seems to imply. Consider the store-manager incentive plan at Au Bon Pain. Store managers are given a profitability target and are allowed to keep a substantial fraction of any profits they earn above this target. The chain puts few constraints on how they achieve or exceed their targets. The plan has hardly been "the enemy of exploration." Rather, it has resulted in an explosion of entrepreneurial experimentation and innovation. Notice, however, that the Au Bon Pain plan is not, in Kohn's words, "contingent on behavior." It is contingent on results, and herein lies the crucial difference. Plans that are contingent on behavior will encourage the prescribed behavior and stifle initiation. However, plans that reward desired results are likely to stimulate innovation.

Perhaps the most disturbing omission from Kohn's article is his failure to suggest an alternative to the use of incentive plans. If companies are to abandon extrinsic incentives as a way to motivate employees, what are they to use instead? Is Kohn recommending that we live with the loss of individual motivation and lack of organizational innovation and flexibility that characterizes companies and societies without extrinsic incentives? Without some level of extrinsic incentive to supplement the intrinsic drive of individuals, organizations become unwieldy and inflexible. As a general prescription for the management of organizations, Kohn's approach is naive and utopian. In the real world, organizations must manage incentives if they are to be flexible, innovative, and directed.

> "Incentives are neither all good nor all bad. Although not the right answer in all cases, they can be highly effective motivational tools."
>
> *Donita S. Wolters*

**Donita S. Wolters**
Manager of Human Resources
JMM Operational Services, Inc.
Denver, Colorado

While Kohn makes a number of valid points with respect to the dangers of incentive plans, his summary execution of incentives is unwarranted. Incentives are neither all good nor all bad. Although not the right answer in all cases, they can be highly effective motivational tools and should be employed under the appropriate circumstances.

Without a doubt, financial rewards can be, and have been, both overused and misused. Implementing a poorly designed or ill-suited incentive plan can do more harm than good because employees will inevitably receive mixed, even conflicting, messages from the organization about its values and priorities, leading to confusion and frustration. Incentives are no substitute for good management and should not be used indiscriminately to remedy problems when more effective solutions exist. Kohn mentions training and goal setting as examples of effective strategies for improving productivity, and his advice is well-taken. Incentives cannot improve performance if employees are not properly trained to perform their tasks or have no idea what is expected of them. But something more is often needed to elicit the necessary effort. The job-rate pay systems that typify unionized blue-collar environments – where mediocrity and lack of innovation are the hallmarks, and employees do just enough to get by – illustrate the point.

I have observed, as a veteran of many employee-counseling sessions, that employees are more apt to become disillusioned with incentive plans when they feel exploited because the expected rewards are not forthcoming, not when they are rewarded for something they were inclined to do in the first place. To avoid perceptions of exploitation and manipulation, however, two design features of the incentive program are imperative.

First, the criteria for and the actual evaluation of performance must be seen as objective and within the performer's control. This means that anyone should be able to predict the reward consistently and reliably based on given actions and results. The reward should not be determined through highly subjective processes, such as a supervisor's individual opinion. Kohn seems to support this view when he states that "not receiving a reward one had expected to receive is...indistinguishable from being punished."

Second, the recipient should consider the reward equal to the effort that produced it. Too insignificant and the incentive will be insulting and thus ineffective; overdone and the balance of fairness will be upset. Insufficient attention to these dynamics may underlie the apparent failure of many executive incentive plans, which could more accurately be termed entitlement programs.

Kohn goes on to decry the inability of incentives to "create an enduring *commitment* to any value or action." I question the relevance of this criticism. The purpose of incen-

## Alfie Kohn Responds:

The average U.S. company has come to resemble a game show: "Tell our employees about the fabulous prizes we have for them if their productivity improves!" None of my respondents doubts the pervasiveness of this mentality. In fact, several profess incredulity that anyone would question the value of dangling rewards in front of people. In my experience, this reaction most often comes from the consultants who make their living selling incentive programs. What I hear around the country from people with no axe to grind is a frank acknowledgment that incentive plans rarely work.

Consider the following:

☐ A human-resource executive at a major U.S. auto company recently surveyed her colleagues in various industries; they told her that, at best, their incentive plans didn't do *too* much damage.

☐ *Training Magazine* ran a cover story in August: "Why No One Likes Your Incentive Program."

☐ As Michael Beer observes, pay-for-performance programs are typically tossed out a few years after they are begun.

☐ To the best of my knowledge, no controlled study has ever found long-term improvement in the quality of performance as a result of extrinsic rewards.

Of course, it is comforting to believe that incentives fail only for incidental reasons, such as that they are "misused," as Donita Wolters would have it, or that they are offered "for the wrong behavior," as George Baker claims. But I believe incentive plans *must* fail, because they are based on a patently inadequate theory of motivation. Trying to undo the damage by adopting a new pay-for-performance scheme is rather like trying to cure alcoholism by switching from vodka to gin. This argument makes a lot of people angry, as seems clear from Jerry McAdam's unpleasant speculations about my ulterior motives and from the amusing, if predictable, mutterings about communism by G. Bennett Stewart. If the attachment to carrot-and-stick psychology – or any dogma – is deep enough, questioning simply isn't permitted.

W. Edwards Deming, and others before him, have been telling us for years that money is not a motivator. Judging from Teresa Amabile's response, however, I may not have been clear enough about the difference between compensation in general and pay-for-performance in particular. Neither can produce quality, but only the latter is positively harmful. I agree with Amabile that "generous compensation...need not be seen as a bribe," but I disagree that "people do not always feel controlled by rewards." Richard Ryan and his colleagues at the University of Rochester, pioneers in researching this question, have concluded that "rewards in general appear to have a controlling significance to some extent and thus in general run the risk of undermining intrinsic motivation." Offering good things to people on the condition that they do what you tell them is, almost by definition, a way of trying to exert control.

But even someone who insists that it's possible in theory to devise a noncontrolling reward has to concede that control is what incentive plans in the real world are all about. Just listen to the defenders of these programs: the whole idea is to "direct [employees'] behavior," as Wolters says.



DRAWING BY MARK STEELE

tives is not to change employees' values but to direct their behavior in ways that will benefit the organization and the employees themselves. More telling is Kohn's failure to identify a viable alternative to incentives. Of course, the intrinsic rewards he praises are extremely motivating where they happen to exist, but they are not always present and cannot usually be created.

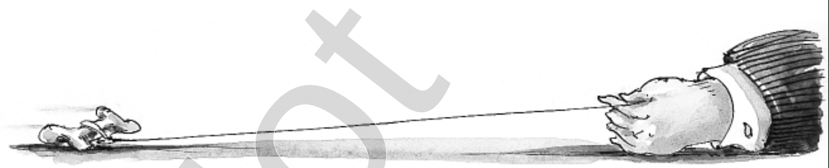
The current trend in organizations is toward less hierarchy and more teamwork. For employees, this means that fewer promotions are available and greater cooperation among coworkers is required. For employers, this means that maximum versatility and productivity must be summoned from all members. The use of incentive plans represents one strategy for aligning organizational and individual goals by treating employees as partners in both the risks and the successes of the business. Kohn recognizes that the majority of companies in the United States utilize some sort of incentive plan. Indeed, his assertions are being tested on the firing line and disproved by a persuasive cross section of U.S. business.

Reprint 93610

## "I believe incentive plans *must* fail."

No wonder the evidence shows that incentives do not "supplement the intrinsic drive of individuals," as Baker believes, but tend to supplant it. As a rule, the more salient the extrinsic motivator, the more intrinsic motivation evaporates.

One could say, as Baker does, that incentives work too well, in the sense that they are destructive of excellence and interest. But one cannot conclude from this that the problem is merely one of implementation. Baker errs in assuming that just because rewards undermine cooperation it follows that they can also create it. If something has the power to hurt, that doesn't mean more of it will motivate. Again, think of money: less of it can demotivate, but that doesn't mean that more of it will motivate. I think Baker also misunderstands why employees try so hard to convince their reward-dispensing supervisors that everything is under control. It's not because the latter are deliberately rewarding such behavior. Rather, the use of rewards and the extrinsic orientation they produce inexorably lead people to focus on pleasing those in charge of handing out the goodies. Fine-tuning the incentive plan cannot solve the problem.



Finally, a number of correspondents are understandably curious about my views on what should replace incentive plans. If a discussion on this point was conspicuously absent from the article, which was an excerpt from my book *Punished by Rewards*, it was due to limited space. I do grapple at length with alternatives to incentives in another chapter, "Thank God It's Monday." Here, a few words will have to suffice.

On compensation, my advice is this: pay people well and fairly, then do everything possible to help them forget about money. I have no objection to profit-sharing: it seems sensible enough that the people who made the profit ought to have it. Nor am I keen to promote one criterion for compensation over another: for example, need, seniority, job responsibilities, training, market value. My concern is primarily to convince managers to stop manipulating employees with rewards and punishments and to stop pushing money into their faces.

My other concern is to emphasize the futility of fiddling with compensation schemes. This is not the road to quality. Andrew Lebby, a consultant, and Eileen Appelbaum, a researcher, corroborate this, and each offers a way of thinking about where excellence actually comes from. I find it useful to think in terms of three C's: choice, collaboration, and content. Choice means that employees should be able to participate in making decisions about what they do every day. Collaboration denotes the need to structure teams in order to facilitate an exchange of ideas and a climate of support. Content refers to what people are asked to do: as Frederick Herzberg said, "If you want people motivated to do a good job, give them a good job to do."

An organization that provides these three ingredients in place of artificial inducements like incentive plans will not "lose its best people," as Beer worries. Innovation and excellence are the natural results of helping people experience intrinsic motivation. But intrinsic motivation cannot survive in an organization that treats its employees like pets.

# Harvard Business Review

| | | |
|---|---|---|
| **HBR Subscriptions** | *Harvard Business Review*<br>U.S. and Canada<br>Subscription Service<br>P.O. Box 52623<br>Boulder, CO 80322-2623<br><br>Telephone: (800) 274-3214<br>Fax: (617) 496-8145 | Outside U.S. and Canada<br>Tower House<br>Sovereign Park<br>Lathkill Street<br>Market Harborough<br>Leicestershire LE16 9EF<br>Telephone: 44-85-846-8888<br>Fax: 44-85-843-4958 |

American Express, MasterCard, VISA accepted. Billing available.

**HBR Article Reprints**
**HBR Index and Other Catalogs**
**HBS Cases**
**HBS Press Books**

*Harvard Business School Publishing*
Customer Service - Box 230-5
60 Harvard Way
Boston, MA 02163
Telephone: U.S. and Canada (800) 545-7685
Outside U.S. and Canada: (617) 495-6117 or 495-6192
Fax: (617) 495-6985
Internet address: custserv@cchbspub.harvard.edu

**HBS Management Productions Videos**

Harvard Business School Management Productions videos are produced by award winning documentary filmmakers. You'll find them lively, engaging, and informative.

**HBR Custom Reprints**

Please inquire about HBR's custom service and quantity discounts. We will print your company's logo on the cover of reprints, collections, or books in black and white, two color, or four color. The process is easy, cost effective, and quick.

Telephone: (617) 495-6198 or Fax: (617) 496-8866

**Permissions**

For permission to quote or reprint on a one-time basis:
Telephone: (800) 545-7685 or Fax: (617) 495-6985

For permission to re-publish please write or call:

Permissions Editor
Harvard Business School Publishing
Box 230-5
60 Harvard Way
Boston, MA 02163
Telephone: (617) 495-6849