This document contains three articles on the value of incentives. Please read all three.

Article 1

Title: Why incentive plans cannot work.

Source: Harvard Business Review, Sep/Oct93, Vol. 71 Issue 5, p54, 7p, 2 charts, 4c

Author(s): Kohn, Alfie

Subject(s): INCENTIVES in industry
EMPLOYEE motivation

Abstract: Discusses reasons for the failure of incentive programs. Use of rewards to institute and maintain reforms; Securing temporary compliance; Studies showing the ineffectivity of incentive plans to boost productivity; Lack of basis for money's worth as motivator; Rewards as manipulative in nature; Employee relationships as casualties of rewards.

AN: 9312031646 **ISSN:** 00178012

Note: This title is held locally.

Database: Business Source Premier

Section: In Questions

WHY INCENTIVE PLANS CANNOT WORK

When reward systems fail, don't blame the program -- look at the premise behind it.

It is difficult to overstate the extent to which most managers and the people who advise them believe in the redemptive power of rewards. 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. 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.

Temporary Compliance

Behaviorist theory, derived from work with laboratory animals, is indirectly responsible for such programs as piece-work pay for factory workers, stock options for top executives, special privileges accorded to Employees of the Month, and commissions for salespeople. Indeed, the livelihood of innumerable consultants has long been based on devising fresh formulas for computing bonuses to wave in front of employees. Money, vacations, banquets, plaques--the list of variations on a single, simple behaviorist model of motivation is limitless. And today even many people who are regarded as forward thinking--those who promote teamwork, participative management, continuous improvement, and the like--urge the use of rewards to institute and maintain these very reforms. What we use bribes to accomplish may have changed, but the reliance on bribes, on behaviorist doctrine, has not.

Moreover, the few articles that appear to criticize incentive plans are invariably limited to details of implementation. Only fine-tune the calculations and delivery of the incentive--or perhaps hire the author as a consultant--and the problem will be solved, we are told. As Herbert H. Meyer, professor emeritus in the psychology department at the College of Social and Behavioral Sciences at the University of South Florida, has written, "Anyone reading the literature on this subject published 20 years ago would find that the articles look almost identical to those published today." That assessment, which could have been written this morning, was actually offered in 1975. In nearly forty years, the thinking hasn't changed.

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. When it comes to producing lasting change in attitudes and behavior, however, rewards, like punishment, are strikingly ineffective. Once the rewards run out, people revert to their old behaviors. Studies show that offering incentives for losing weight, quitting smoking, using seat belts, or (in the case of children) acting generously is not only less effective than other strategies but often proves worse than doing nothing at all. Incentives, a version of what psychologists call extrinsic motivators, do not alter the attitudes that underlie our behaviors. They do not create an enduring commitment to any value or action. Rather, incentives merely--and temporarily--change what we do.

As for productivity, at least two dozen studies over the last three decades have conclusively shown that people who expect to receive a reward for completing a task or for doing that task successfully simply do not perform as well as those who expect no reward at all. These studies examined rewards for children and adults, males and females, and included tasks ranging from memorizing facts to creative problem-solving to designing collages. In general, the more cognitive sophistication and open-ended thinking that was required, the worse people performed when working for a reward. Interestingly enough, the researchers themselves were often taken by surprise. They assumed that rewards would produce better work but discovered otherwise.

The question for managers is whether incentive plans can work when extrinsic motivators more generally do not. Unfortunately, as author G. Douglas Jenkins, Jr., has noted, most organizational studies to date--like the articles published-have tended "to focus on the effects of variations in incentive conditions, and not on whether performance-based pay per se raises performance levels."

A number of studies, however, have examined whether or not pay, especially at the executive level, is related to corporate profitability and other measures of organizational performance. Often they have found slight or even negative correlations between pay and performance. Typically, the absence of such a relationship is interpreted as evidence of links between compensation and something other than how well people do their jobs. But most of these data could support a different conclusion, one that reverses the causal arrow. Perhaps what these studies reveal is that higher pay does not produce better performance. In other words, the very idea of trying to reward quality may be a fool's errand.

Consider the findings of Jude T. Rich and John A. Larson, formerly of McKinsey & Company. In 1982, using interviews and proxy statements, they examined compensation programs at 90 major U.S. companies to determine whether return to shareholders was better for corporations that had incentive plans for top executives than it was for those companies that had no such plans. They were unable to find any difference.

Four years later, Jenkins tracked down 28 previously published studies that measured the impact of financial incentives on performance. (Some were conducted in the laboratory and some in the field.) His analysis, "Financial Incentives," published in 1986, revealed that 16, or 57%, of the studies found a positive effect on performance. However, all of the performance measures were quantitative in nature: a good job consisted of producing more of something or doing it faster. Only five of the studies looked at the quality of performance. And none of those five showed any benefits from incentives.

Another analysis took advantage of an unusual situation that affected a group of welders at a Midwestern manufacturing company. At the request of the union, an incentive system that had been in effect for some years was abruptly eliminated. Now, if a financial incentive supplies motivation, its absence should drive down production. And that is exactly what happened, at first. Fortunately, Harold F. Rothe, former personnel manager and corporate staff assistant at the Beloit Corporation, tracked production over a period of months, providing the sort of long-term data rarely collected in this field. After the initial slump, Rothe found that in the absence of incentives the welders' production quickly began to rise and eventually reached a level as high or higher than it had been before.

One of the largest reviews of how intervention programs affect worker productivity, a meta-analysis of some 330 comparisons from 98 studies, was conducted in the mid-1980s by Richard A. Guzzo, associate professor of psychology at the University of Maryland, College Park, and his colleagues at New York University. The raw numbers seemed to suggest a positive relationship between financial incentives and productivity, but because of the huge variations from one study to another, statistical tests indicated that there was no significant effect overall. What's more, financial incentives were virtually unrelated to the number of workers who were absent or who quit their jobs over a period of time. By contrast, training and goal-setting programs had a far greater impact on productivity than did pay-for-performance plans.

Why Rewards Fail

Why do most executives continue to rely on incentive programs? Perhaps it's because few people take the time to examine the connection between incentive programs and problems with workplace productivity and morale. Rewards buy temporary compliance, so it looks like the problems are solved. It's harder to spot the harm they cause over the long term. Moreover, it does not occur to most of us to suspect rewards, given that our own teachers, parents, and managers probably used them. "Do this and you'll get that" is part of the fabric of American life. Finally, by clinging to the belief that motivational problems are due to the particular incentive system in effect at the moment, rather than to the psychological theory behind all incentives, we can remain optimistic that a relatively minor adjustment will repair the damage.

Over the long haul, however, the potential cost to any organization of trying to fine-tune reward-driven compensation systems may be considerable. The fundamental flaws of behaviorism itself doom the prospects of affecting long-term behavior change or performance improvement through the use of rewards. Consider the following six-point framework that examines the true costs of an incentive program.

1. "Pay is not a motivator." W. Edward Deming's declaration may seem surprising, even absurd. Of course, money buys the things people want and need. Moreover, the less people are paid, the more concerned they are likely to be about financial matters. Indeed, several studies over the last few decades have found that when people are asked to guess what matters to their coworkers--or, in the case of managers, to their subordinates--they assume money heads the list. But put the question directly--"What do you care about?"--and pay typically ranks only fifth or sixth.

Even if people were principally concerned with their salaries, this does not prove that money is motivating. There is no firm basis for the assumption that paying people more will encourage them to do better work or even, in the long run, more work. As Frederick Herzberg, Distinguished Professor of Management at the University of Utah's Graduate School of Management, has argued, just because too little money can irritate and demotivate does not mean that more and more money will bring about increased satisfaction, much less increased motivation. It is plausible to assume that if someone's take-home pay was cut in half, his or her morale would suffer enough to undermine performance. But it doesn't necessarily follow that doubling that person's pay would result in better work.

2. Rewards punish. Many managers understand that coercion and fear destroy motivation and create defiance, defensiveness, and rage. They realize that punitive management is a contradiction in terms. As Herzberg wrote in HBR some 25 years ago ("One More Time: How Do You Motivate Employees?" January-February 1968), a "KITA"-which, he coyly explains, stands for "kick in the pants"--may produce movement but never motivation.

What most executives fail to recognize is that Herzberg's observation is equally true of rewards. Punishment and rewards are two sides of the same coin. Rewards have a punitive effect because they, like outright punishment, are manipulative. "Do this and you'll get that" is not really very different from "Do this or here's what will happen to you." In the case of incentives, the reward itself may be highly desired; but by making that bonus contingent on certain behaviors, managers manipulate their subordinates, and that experience of being controlled is likely to assume a punitive quality over time.

Further, not receiving a reward one had expected to receive is also indistinguishable from being punished. Whether the incentive is witheld or withdrawn deliberately, or simply not received by someone who had hoped to get it, the effect is identical. And the more desirable the reward, the more demoralizing it is to miss out.

The new school, which exhorts us to catch people doing something right and reward them for it, is not very different from the old school, which advised us to catch people doing something wrong and threaten to punish them if they ever do it again. What is essentially taking place in both approaches is that a lot of people are getting caught. Managers are creating a workplace in which people feel controlled, not an environment conducive to exploration, learning, and progress.

3. Rewards rupture relationships. Relationships among employees are often casualties of the scramble for rewards. As leaders of the Total Quality Management movement have emphasized, incentive programs, and the performance appraisal systems that accompany them, reduce the possibilities for cooperation. Peter R. Scholtes, senior management consultant at Joiner Associates Inc., put it starkly, "Everyone is pressuring the system for individual gain. No one is improving the system for collective gain. The system will inevitably crash." Without teamwork, in other words, there can be no quality.

The surest way to destroy cooperation and, therefore, organizational excellence, is to force people to compete for rewards or recognition or to rank them against each other. For each person who wins, there are many others who carry with them the feeling of having lost. And the more these awards are publicized through the use of memos, newsletters, and awards banquets, the more detrimental their impact can be. Furthermore, when employees compete for a limited number of incentives, they will most likely begin to see each other as obstacles to their own success. But the same result can occur with any use of rewards; introducing competition just makes a bad thing worse.

Relationships between supervisors and subordinates can also collapse under the weight of incentives. Of course, the supervisor who punishes is about as welcome to employees as a glimpse of a police car in their rearview mirrors. But even the supervisor who rewards can produce some damaging reactions. For instance, employees may be tempted to conceal any problems they might be having and present themselves as infinitely competent to the manager in control of the money. Rather than ask for help--a prerequisite for optimal performance--they might opt instead for flattery, attempting to convince the manager that they have everything under control. Very few things threaten an organization as much as a hoard of incentive-driven individuals trying to curry favor with the incentive dispenser.

4. Rewards ignore reasons. In order to solve problems in the workplace, managers must understand what caused them. Are employees inadequately prepared for the demands of their jobs? Is long-term growth being sacrificed to maximize short-term return? Are workers unable to collaborate effectively? Is the organization so rigidly hierarchical that employees are intimidated about making recommendations and feel powerless and burned out? Each of these situations calls for a different response. But relying on incentives to boost productivity does nothing to address possible underlying problems and bring about meaningful change.

Moreover, managers often use incentive systems as a substitute for giving workers what they need to do a good job. Treating workers well-providing useful feedback, social support, and the room for self-determination--is the essence of good management. On the other hand, dangling a bonus in front of employees and waiting for the results requires much less effort. Indeed, some evidence suggests that productive managerial strategies are less likely to be used in organizations that lean on pay-for-performance plans. In his study of welders' performance, Rothe noted that supervisors tended to "demonstrate relatively less leadership" when incentives were in place. Likewise, author Carla O'Dell reports in People, Performance, and Pay that a survey of 1,600 organizations by the American Productivity Center discovered little in the way of active employee involvement in organizations that used small-group incentive plans. As Jone L. Pearce, associate professor at the Graduate School of Management, University of California at Irvine, wrote in "Why Merit Pay Doesn't Work: Implications from Organization Theory," pay for performance actually "impedes the ability of managers to manage."

5. Rewards discourage risk-taking. "People will do precisely what they are asked to do if the reward is significant," enthused Monroe J. Haegele, a proponent of pay-for-performance programs, in "The New Performance Measures." And here is the root of the problem. Whenever people are encouraged to think about what they will get for engaging in a task, they become less inclined to take risks or explore possibilities, to play hunches or to consider incidental stimuli. In a word, the number one casualty of rewards is creativity.

Excellence pulls in one direction; rewards pull in another. Tell people that their income will depend on their productivity or performance rating, and they will focus on the numbers. Sometimes they will manipulate the schedule for completing tasks or even engage in patently unethical and illegal behavior. As Thane S. Pittman, professor and chair of the psychology department at Gettysburg College, and his colleagues point out, when we are motivated by incentives, "features such as predictability and simplicity are desirable, since the primary focus associated with this orientation is to get through the task expediently in order to reach the desired goal." The late Cornell University professor, John Condry, was more succinct: rewards, he said, are the "enemies of exploration."

Consider the findings of organizational psychologist Edwin A. Locke. When Locke paid subjects on a piece-rate basis for their work, he noticed that they tended to choose easier tasks as the payment for success increased. A number of other studies have also found that people working for a reward generally try to minimize challenge. It isn't that human beings are naturally lazy or that it is unwise to give employees a voice in determining the standards to be used. Rather, people tend to lower their sights when they are encouraged to think about what they are going to get for their efforts. "Do this and you'll get that," in other words, focuses attention on the "that" instead of the "this." Emphasizing large bonuses is the last strategy we should use if we care about innovation. Do rewards motivate people? Absolutely. They motivate people to get rewards.

6. Rewards undermine interest. If our goal is excellence, no artificial incentive can ever match the power of intrinsic motivation. People who do exceptional work may be glad to be paid and even more glad to be well paid, but they do not work to collect a paycheck. They work because they love what they do.

Few will be shocked by the news that extrinsic motivators are a poor substitute for genuine interest in one's job. What is far more surprising is that rewards, like punishment, may actually undermine the intrinsic motivation that results in optimal performance. The more a manager stresses what an employee can earn for good work, the less interested that employee will be in the work itself.

The first studies to establish the effect of rewards on intrinsic motivation were conducted in the early 1970s by Edward Deci, professor and chairman of the psychology department at the University of Rochester. By now, scores of experiments across the country have replicated the finding. As Deci and his colleague Richard Ryan, senior vice president of investment and training manager at Robert W. Baird and Co., Inc., wrote in their 1985 book, Intrinsic Motivation and Self-Determination in Human Behavior, "the research has consistently shown that any contingent payment system tends to undermine intrinsic motivation." The basic effect is the same for a variety of rewards and tasks, although extrinsic motivators are particularly destructive when tied to interesting or complicated tasks.

Deci and Ryan argue that receiving a reward for a particular behavior sends a certain message about what we have done and controls, or attempts to control, our future behavior. The more we experience being controlled, the more we will tend to lose interest in what we are doing. If we go to work thinking about the possibility of getting a bonus, we come to feel that our work is not self-directed. Rather, it is the reward that drives our behavior.

Other theorists favor a more simple explanation for the negative effect rewards have on intrinsic motivation: anything presented as a prerequisite for something else-that is, as a means toward another end--comes to be seen as less desirable. The recipient of the reward assumes, "If they have to bribe me to do it, it must be something I wouldn't want to do." In fact, a series of studies, published in 1992 by psychology professor Jonathan L. Freedman and his colleagues at the University of Toronto, confirmed that the larger the incentive we are offered, the more negatively we will view the activity for which the bonus was received. (The activities themselves don't seem to matter; in this study, they ranged from participating in a medical experiment to eating unfamiliar food.) Whatever the reason for the effect, however, any incentive or pay-for-performance system tends to make people less enthusiastic about their work and therefore less likely to approach it with a commitment to excellence.

Dangerous Assumptions

Outside of psychology departments, few people distinguish between intrinsic and extrinsic motivation. Those who do assume that the two concepts can simply be added together for best effect. Motivation comes in two flavors, the logic goes, and both together must be better than either alone. But studies show that the real world works differently.

Some managers insist that the only problem with incentive programs is that they don't reward the right things. But these managers fail to understand the psychological factors involved and, consequently, the risks of sticking with the status quo.

Contrary to conventional wisdom, the use of rewards is not a response to the extrinsic orientation exhibited by many workers. Rather, incentives help create this focus on financial considerations. When an organization uses a Skinnerian management or compensation system, people are likely to become less interested in their work, requiring extrinsic incentives before expending effort.

Then supervisors shake their heads and say, "You see? If you don't offer them a reward, they won't do anything." It is a classic self-fulfilling prophecy. Swarthmore College psychology professor Barry Schwartz has conceded that behavior theory may seem to provide us with a useful way of describing what goes on in U.S. workplaces. However, "It does this not because work is a natural exemplification of behavior theory principles but because behavior theory principles ... had a significant hand in transforming work into an exemplification of behavior theory principles."

Managers who insist that the job won't get done right without rewards have failed to offer a convincing argument for behavioral manipulation. Promising a reward to someone who appears unmotivated is a bit like offering salt water to someone who is thirsty. Bribes in the workplace simply can't work.

Reprint 93506

On Incentives

"THE Pay-for-Performance Dilemma"
by Herbert H. Meyer
Organizational Dynamics
Winter 1975.

"Financial Incentives"
by G. Douglas Jenkins, Jr.
in Generalizing from laboratory to
Field Settings
edited by Edwin A. Locke
Lexington, MA: Lexington
Books, 1986.

"Why Some Long-Term
Incentives Fail"
by Jude T. Rich and John A. Larson
in Incentives, Cooperation, and
Risk Sharing
edited by Haig R. Nalbantian
Totowa, NJ: Rowman &
Littlefield, 1987.

"Output Rates Among Welders:
Productivity and Consistency
Following Removal of a Financial
Incentive System"
by Harold F. Rothe
Journal Applied Psychology
December 1970.

"The Effects of Psychologically
Based Intervention Programs on
Worker Productivity:
A Meta-Analysis"
by Richard A. Guzzo, Richard D
Jette, and Raymond A Katzell

Personnel Psychology
Summer 1985.

"One More Time: How Do You
Motivate Employees?"
by Frederick Herzberg
Harvard Business Review
January-February 1968.

"An Elaboration on Deming's
Teachings on Performance
Appraisal"
by Peter R. Scholtes
in Performance on a Quality
Management Approach
edited by Gary N. Mclean, et al.
Alexandria, VA: University of
Minnesota Training and
Development Research Center and
American Society for Training and
Development, 1990

People, Performance, and Pay
by Carla O'Dell
Houston: American Productivity
Center, 1987.

"Why Merit Pay Doesn't Work:
Implications from Organization
Theory"
by Jone L. Pearce
in New Perspectives on
Compensation
edited by David B. Balkin and
Englewood Cliffs, NJ:
Prentice Hall, 1987

"the New Performance Measures"
by Monroe J. Haegele
in The Compensation Handbook
Third Edition
edited by Milton L. Rock and
Lance A. Berger
New York: McGraw-Hill, 1991.

"Intrinsic and Extrinsic
Motivational Orientations:
Reward-Induced Changes in Preference
for Complexity'
by Thane S. Pittman, Jolee Emery,
and Ann K. Boggiano
Journal of Personality and Social
Psychology
March 1982.

"Enemies of Exploration: Self
Initiated Versus Other-Initiated

Learning"
by John Condry
Journal of Personality and Social
Psychology
July 1977.

"Toward a Theory of Task
Motivation and Incentives"
by Edwin A. Locke
Organizational Behavior and
Volume 3, 1968.

Intrinsic Motivation and
Self-Determination in Human Behavior
by Edward L. Deci and
Richard M. Ryan
Mn York: Plenum Press, 1985.

"Inferred Values and the
Reverse-Incentive Effect in
Induced Compliance"
by Jonathan L. Freedman, John A.
Cunningham, and Kirsten Krismer
Journal of Personality and Social
Psychology
March 1992.

The Battle for Human Nature:
Science, Morality and Modern Life
by Barry Schwartz
Mn York: W.W Norton and
Company, 1986.

Recommended Reading

"A Model of Creativity and
Innovation in Organization"
by Teresa M. Amabile
in Research in Organizational
Behavior, Volume 10
edited by Barry M. Staw and
L.L. Cummings
Greenwich, CT: JAI Press, Inc.,1988.

Out of the Crisis
by W. Edwards Deming
Cambridge, MA: MIT Center for
Advanced Engineering Study, 1986

"Merit Pay, Performance Targeting,
and Productivity"
by Arie Halachmi and Marc Holzer
Review of Public Personnel
Administration
Spring 1987.

No Contest: The Case Against
Competition, Revised Edition
by Alfie ***Kohn***
Boston: Houghton Mifflin, 1992.

Punished by Rewards: The Trouble
with Gold Stars, Incentive Plans, A's,
Praise, and Other Bribes
by Alfie ***Kohn***
Boston: Houghton Mifflin, 1993.

The Market Experience
by Robert E. Lane
Cambridge, England:
Cambridge University Press, 1991.

The Hidden Costs of Reward:
New Perspectives on the Psychology
of Human Motivation
edited by Mark R. Lepper and
David Greene
Hillsdale, NJ: L. Erlbaum
Associates, 1978.

The Great Jackass Fallacy
by Harry Levinson
Cambridge, MA: ***Harvard*** University
Press, 173.

The Human side of Enterprise
by Douglas McGregor
New York: McGraw-Hill, 1960.

Wealth Addiction
by Philip Slater
New York; Dutton, 1980.

Money and Motivation: An Analysis
of Incentives in Industry
by William Foote Whyte and
Melville Dalton, et al.
New York: Harper, 1955.

~~~~~~~~

By Alfie ***Kohn***

Alfie ***Kohn*** is the author of four books, including No Contest: The Case Against Competition and the newly published Punished by Rewards: The Trouble with Gold Stars, Incentive Plans, A's, Praise, and Other Bribes, from which this article is adapted. ***Kohn*** lectures widely at universities, conferences, and corporations on education and management.
~~~~~~~~

Article 2

Title: Rethinking rewards.

Source: Harvard Business Review, Nov/Dec93, Vol. 71 Issue 6, p37, 9p, 1c

Subject(s): INCENTIVES in industry

Abstract: Presents opinions on the role of incentives in the workplace as a reaction to Alfie ***Kohn's*** argument on the failure of incentive programs. Temporary compliance as a negative effect; Use of incentives as motivational tools; Profit sharing; Compensation packages; Money as an outcome of performance with satisfaction and respect as incentives; Intrinsic motivation; Proper integration into the management process.

Full Text Word Count: 4928

AN: 9402241874 **ISSN:** 00178012

Note: This title is held locally.

Database: Business Source Premier

Section: Perspective

RETHINKING REWARDS

What role -- if any -- should incentives play in the workplace?

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, 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. humanresource 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 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 humanresource 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.

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 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 longterm 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 crossfunctional ***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."

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.

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.

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 arc 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 incentives 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 Jess 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***..

Article 3

Title: Alfie ***Kohn*** responds.

Source: Harvard Business Review, Nov/Dec93, Vol. 71 Issue 6, p48, 2p, 1c

Author(s): Kohn, Alfie

Subject(s): INCENTIVES in industry

People: KOHN, Alfie

Abstract: Presents Alfie ***Kohn's*** views regarding the failure of incentive plans in the workplace. Inadequate theory of motivation; Difference between compensation and pay-for-performance; Objective of controlling employees' behavior; Extrinsic orientation produced by rewards; Alternatives to incentives; Compensation schemes.

Full Text Word Count: 1045

AN: 9402241875 **ISSN:** 00178012

Note: This title is held locally.

Database: Business Source Premier

ALFIE *KOHN* RESPONDS

"I believe incentive plans must fail."

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. 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.