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

Why Incentive Plans Cannot Work

By Alfie Kohn

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 oppositional 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 is solved. But the underlying problems remain. It is not that the calculation is wrong; it is that it is wrong-headed. The core belief of behaviorism is that we can manipulate external rewards to change our behavior, whereas the evidence suggests that external rewards change our behavior of using rewards.

Incentives do not alter the attitudes that underlie our behaviors.

Most managers too often believe in the redemptive power of rewards.

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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

Rewards do not create a lasting commitment. They merely, and temporarily, change what we do.
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

"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

"Output Rates Among Welders: Productivity and Consistency Following Removal of a Financial Incentive System"
by Harold F. Rothe
*Journal of 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 Appraisal: Perspectives on a Quality Management Approach*
edited by Gary N. McLean, et al.

People, Performance, and Pay
by Carla O'Dell

"Why Merit Pay Doesn't Work: Implications from Organization Theory"
by June L. Pearce
in *New Perspectives on Compensation*
edited by David B. Balkin and Luis R. Gomez-Mejia

"The New Performance Measures"
by Monroe J. Haegerer
in *The Compensation Handbook*
Third Edition
edited by Milton L. Rock and Lance A. Berger

"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 Human Performance*
Volume 3, 1968.

Intrinsic Motivation and Self-Determination in Human Behavior
by Edward L. Deci and Richard M. Ryan

"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*

The Battle for Human Nature: Science, Morality and Modern Life
by Barry Schwartz

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 96 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 withheld 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.

Punishment and rewards are actually two sides of the same coin. Both have a punitive effect because they are manipulative.

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 banquet, 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 in-
stance, 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 Manage-
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." Empha-
sizing large bonuses is the last strat-
ey we should use if we care about
innovation. Do rewards motivate
people? Absolutely. They motivate
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 intrin-
sic motivation that results in opti-
mal performance. The more a man-
ger stresses what an employee can
earn for good work, the less interest-
ed that employee will be in the work
itself.

The first studies to establish the
effect of rewards on intrinsic moti-
vation were conducted in the early
1970s by Edward Deci, professor and
chairman of the psychology depart-
ment at the University of Rochester.
By now, scores of experiments across
the country have replicated the find-
ing. As Deci and his colleague
Richard Ryan, senior vice president
of Investment and training manager
at Robert W. Baird and Co., Inc.,
went 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 va-
riety of rewards and tasks, although
extrinsic motivators are particular-
ly destructive when tied to interest-
ing or complicated tasks.

Deci and Ryan argue that receiv-
ing a reward for a particular behavior
sends a certain message about
what we have done and controls, or
attempts to control, our future be-
behavior. The more we
experience being con-
trolled, the more we
will tend to lose inter-
est in what we are do-
ing. 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 sim-
ple explanation for the negative ef-
fact rewards have on intrinsic mo-
tivation: anything presented as
a prerequisite for something else –
that is, as a means toward another
end – comes to be seen as less desir-
able. 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 se-
ries 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 re-
ceived. (The activities
themselves don't seem to
matter; in this study, they ranged from partic-

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They motivate people to
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The number one casualty
of rewards is creativity. As
the late John Condy put it,
rewards are the "enemies
of exploration."

right things. But these managers fail
to understand the psychological fac-
tors involved and, consequently, the
risks of sticking with the status quo.

Contrary to conventional wis-
dom, the use of rewards is not a re-
ponse to the extrinsic orientation
exhibited by many workers. Rather,
incentives help create this focus on
financial considerations. When an
organization uses a Skinnerian man-
agement or compensation system,
people are likely to become less in-
terested in their work, requiring
extrinsic incentives before expend-
ing 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-ful-
filling prophecy. Swarthmore Col-
lege psychology professor Barry
Schwartz has conceded that behav-
ior theory may seem to provide us
with a useful way of describing what
goes on in U.S. workplaces. How-
ever, "It does this not because work is
a natural exemplification of behavior
theory principles but because behav-
ior theory principles...had a sig-
ificant hand in transforming work into
an exemplification of behavior theo-
ry principles."

Managers who insist that the job
won't get done right without re-
wards have failed to offer a convinc-
ing argument for behavioral ma-
ipulation. 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.