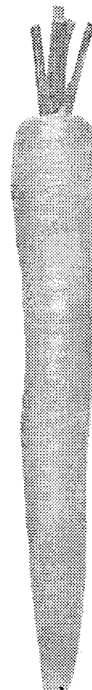
When reward systems fail, don't blame the program – look at the premise behind it.

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 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.

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

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.

Incentives do not alter the attitudes that underlie our behaviors.

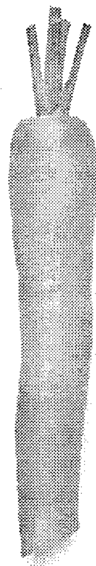
Moreover, the few articles that appear to criticize incentive plans are invariably limited to details of implementation. Only fine-tune the calculations and delivery of the incentive – or perhaps hire the author as a consultant – and the problem

---

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.*

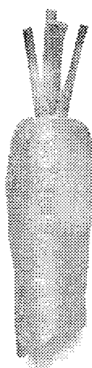
Copyright © 1993 by the President and Fellows of Harvard College. All rights reserved.

PHOTOS BY TONY RINALDO



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.

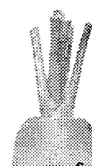


As for productivity, at least two dozen studies over the last three decades have conclusively shown that people who expect to receive a reward for completing a task or for doing that task successfully simply do not perform as well as those who expect no reward at all. These studies examined rewards for 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.

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

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. Typi-



cally, 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

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 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.
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 Luis R. Gomez-Mejia
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 Human Performance
Volume 3, 1968.

Intrinsic Motivation and Self-Determination in Human Behavior
by Edward L. Deci and Richard M. Ryan
New 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
New York: W.W. Norton and Company, 1986.

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.

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

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 in-

Recommended Reading

"A Model of Creativity and Innovation in Organizations"
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, 1973.

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.

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 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.

Do rewards motivate people? Absolutely. They motivate people to get rewards.

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.

The number one casualty of rewards is creativity. As the late John Condry put it, rewards are the "enemies of exploration."

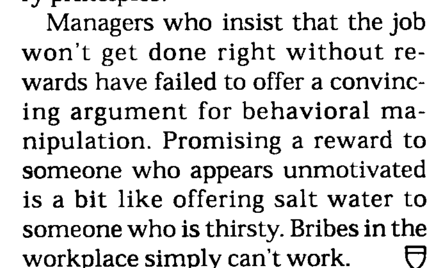
Other theorists favor a more simple explanation for the negative effect rewards have on intrinsic motivation: anything presented as a prerequisite for something else – that is, as a means toward another end – comes to be seen as less desirable. The recipient of the reward assumes, "If they have to bribe 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