Punished by Rewards
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The following review is taken from a pivotal article by Alfie Kohn in 1993. The paper can be ordered from Harvard Business Review (Sept. 1993). I will also provide my own comments on each point and offer some additional materials that amplify Mr. Kohn's point of view.

This article is important because it gives a summary of studies that contradict the common misperception that giving tangible rewards will improve performance. The conclusions go against conventional wisdom and need to be considered before any incentive program is considered.

Kohn writes, "…rewards typically undermine the very process they are intended to reinforce." (Kohn, 1993, p109) Let's review why Kohn makes this bold statement.

"…the livelihood of innumerable consultants has long been based on devising fresh formulas for computing bonuses to waive 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 use of rewards to institute and maintain those very reforms." (Kohn, 1993, p109)

We can all identify with this logic. It seems intuitive that offering positive incentive for doing something will cause more of it to happen. Since all human beings want the "good stuff," it's only logical that offering more of it should produce improved performance. However, studies outlined by Kohn appear to prove the correlation is not only weak, it is often negative. That defies simple logic. Yet Kohn, in this article, demonstrates convincingly that our intuitive beliefs are not to be trusted. He writes, "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 1955. In nearly forty years (now fifty), the thinking hasn't changed." (Kohn , 1993, p 110)

Kohn suggests that rewards can only create temporary compliance, not a fundamental shift in performance. "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."(Kohn, 1993, p 110)

So, Kohn is telling us that the old "carrot" approach doesn't work. I don't blame you if you aren't convinced yet. Neither was I. Let's continue to explore his logic and data. "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." (Kohn, 1993, p 111) He cites some of these studies and shows that executive compensation based on incentives produce only slight or negative correlation to actual results. He demonstrates that there may be an up-tick in performance for a while, but that fades and the long term results are disappointing.

Kohn offers six reasons why this seemingly backward conclusion is, in fact, the case. I have added a seventh of my own to his analysis.

1. **Pay is not a motivator** - Kohn reiterates studies by the late W. Edwards Deming that "pay is not a motivator." Any of us who get paid for our work would challenge this argument. Certainly we all work for a pay check. If you remove the paycheck, we will stop working – at least I will (unless it is a cause I firmly want to support – in which case I am <u>intrinsically</u> motivated to work.) The evidence from dozens of studies show that cutting of salary is a de-motivator, but there is no concrete evidence that increasing salary has anything but a transitory impact on motivation. Whatever we have, is great, but we always want more. If I give you a $10,000 bonus, you will be ecstatic for a while, maybe for several months, but soon you will ask "what have you done for me lately." The additional $10,000 may have helped you buy your new boat, but it did not make a lasting change in your motivation to do a good job at work. Kohn quotes a study by the famous Frederick Herzberg, "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." (Herzberg, 1968)
2. **Rewards Punish** - Wow, this takes a bit of swallowing. How could anybody propose such a ridiculous statement. According to Herzberg, "Punishment and reward are two sides of the same coin. Rewards have a punitive effect because they, like out-right 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." (Herzberg 1968)There is also the negative impact if a reward is expected and, for some reason it doesn't work out. In this case the withholding of an expected reward feels very much like punishment. I know we have all experienced that frustration at some point.

3. **Rewards Rupture Relationships –** This one makes intuitive sense. If the pie of rewards is only so big, the granting of some pie to one individual will reduce the amount left for the rest. Incentive programs tend to pit one person against another in the scramble to get as much of the "good stuff" as possible. This can lead to all kinds of negative repercussions as people undermine each other, even outright sabotage sometimes occurs. Since the company will do better if there is harmony and good teamwork, the granting of specific performance rewards works at cross purposes to corporate well being. Kohn puts it this way, "Very few things threaten an organization as much as a hoard of incentive-driven individuals trying to curry favor with the incentive dispenser." (Kohn, 1993, p 113)
4. **Rewards Ignore Reasons –** This is also easy to understand. Imagine that profits at your company were down in 2002 because you failed to create the right atmosphere for your employees and failed to hire the right people. You would get no bonus. You will be unhappy, but you can understand it because what happened was under your control. But, what if profits were down because your office was located in the World Trade Center and happened to be a pile of junk on September 11, 2001. You would still get no bonus. You can see the reason, but it definitely was not under your control. This feels very unfair. Also, the existence of incentives often lets leaders take the easy way out and fail to focus on critical things that need doing. Kohn writes, "..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."
5. **Rewards Discourage Risk Taking –** I know this is true from personal experience. If there are specific rewards out there, people will focus in on them like lasers and often fail to do the right thing when conditions change. If the annual bonus is based on sales of Product A, managers will semi-ignore the potential new, hot, Product B until it can be worked into the goals. Here the problem is one of timing. Setting up performance rewards is such a huge effort, most companies do it annually. In the real world, new concepts and opportunities fly by every day – sometimes every hour. The annual rewards programs tend to lock managers in to old paradigms and ignore potential windfalls. "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." (Kohn, 1993, p 114) This makes sense to me. Nobody likes to fail, so we try to set attainable goals. Unfortunately this lowers the bar on creativity, innovation, and risk taking and that leads to mediocrity.
6. **Rewards Undermine Interest –** If you look back at your peak performance times in your life, I am 100% sure you were being driven by intrinsic motivators rather than some reward. We are all at our best when we are doing the things we think are right and noble. Kohn puts it this way, "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." (Kohn, 1993, p 114) Other authors suggest that the mechanism is the idea that if people feel they need to be bribed to do something, it isn't something they would ordinarily want to do.

7. **Reward Systems Allow the Tail to Wag the Dog -** I have found corporate incentive systems have all kinds of traps and dangers. Here are some typical problems that come up. These are **real**, not fabricated or sterile psychological studies

You have the measures for your job, but the data needed is not exactly the same as what is already provided by corporate systems. You bring in a "systems analyst" to help extract the needed numbers and put them in a format that is usable. The analyst works on that and many other chores to allow you to keep score. Meanwhile another department has some of the data you need. Your "measures" person starts to negotiate with their "measures" person. This kicks off a political skirmish because what would be most flattering to your group puts the other department at risk of looking bad under some circumstances. The issue festers for several weeks and begins to polarize the two groups that had previously worked well together.

The data is so complex to figure out that you hire another "measures" person to keep track of the entire data base. This person links with other "measures" people at other levels of the large organization to be sure everyone's interpretation of the measures is the same. Some rules are established on how to measure inventory, for example. You find these ridiculous because they force a physical inventory every Friday night. That is the time when you want to stock parts for the weekend. So, you get into a fight with the controller about it. The controller is looking for data accuracy and Friday night, after most departments are done for the week, is the best time for inventory. You keep pushing back for an alternate plan and are finally told to be more cooperative (a black mark).

Actually you notice a kind of "cottage industry" springing up all over the company. People are enrolled who specialize in the measures. They have complicated computer programs that allow managers at different levels to pull out the relevant data from the matrix information for the whole organization. In many cases new rules need to be established to sort things out to everyone's satisfaction. You notice it is not uncommon to have the measures for the current year not finalized until March or even April while there are countless meetings to argue the fine points.

On one of the measures, it is necessary to convert the raw data from a scale of 400-700 to a scale of 0-1000. Since the data is non linear, it isn't a simple algorithm to convert from one to the other. Several ideas are tried but nothing seems to work. Finally the administrative aid to the President sends a letter out on how to convert one scale to the other with minimal bias. You aren't happy about this, but go along with it. However, you are suspicious that other managers use the older formula because it makes them look better. There is no way to prove this, but it bothers you.

A couple of the measures are driving people to do the wrong things. For example, in an effort to boost sales the CEO instituted "number of sales calls" as a measure. This was based on historical data showing total revenue is highly correlated with the number of sales calls. Unfortunately, with the new measures in place, your sales team spends significantly less time and energy on each individual customer in order to get more sales calls accomplished. This reduces the "hit rate" at closing sales. You are pretty sure the data for this year will show a negative correlation between revenue and number of sales calls, but the measure is already set.

In an effort to reduce costs, a measure has been set to decrease the amount of rework in the factory. Rework has accounted for 30% of the product cost and the goal is to cut that in half. So far the measure is on track, but you have discovered the inspectors are passing slightly defective product that would have been previously rejected. You are fearful that customer satisfaction will take a hit, but at least the level of rework will look good.

One significant problem has arisen due to the measure selected for "employee satisfaction." Based on some HR literature, the senior management has focused on training as the key driver of employee satisfaction. A strong link has been shown between training and motivated employees. Everyone in the organization must have at least 50 hours of training a year for the company to score well on the measure. You are finding that people are being forced to attend training they don't want or need in order to get maximum score. However, the employees are very unhappy because nobody is there to backfill for the 50 hours they miss, so they have to work extra hard to make up the time. Of course, there is no overtime available because that is too costly. Employees seem really up in arms about this issue, but the measure is going to show outstanding "employee satisfaction" for the year.

At the end of the year, each manager submits his/her measures to the next level and the process is "rolled up" to the corporate level. You have put a lot of work and expense into keeping the data with precision. You are suspicious that others in the organization are just estimating the numbers and often inflating their scores. When all the scores are rolled up, top management sees a big problem. The individual scores should have led to a much higher corporate score. To bring things back in line, they have issued an edict that the scores for all managers will be lowered by 25%. You think this is totally unfair but there is nothing you can do about it.

These are but a few of the things that happen if the tail is allowed to wag the dog. In fact the amount of time spent trying to deal with the numbers is a significant distraction from the true vision of the corporation. I once had the opportunity to give some pointed input to a Senior Vice President. He asked a group of people at the end of a class on "improvements" if anyone had an observation to share. He had been talking about the measures process in our company. I raised my hand and said, "You can't possibly know what is going on, because if you did, you wouldn't allow it." He looked like he had been shot with a poison arrow. But, to his credit, he worked at taking some of the Mickey Mouse out of the system during the next cycle. The pendulum of bureaucracy had swung too far to the left and needed to be brought back.

The preceding information was adapted from the book ***The TRUST Factor: Advanced Leadership for Professionals****, by Robert Whipple. It is available on* www.leadergrow.com.

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