
Position Paper

Incentive programs

A contrarian's telling of
failed management incentives

by André John Haddad

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Introduction

I would like to draw attention to a phenomena now taking place and shaping public opinion: performance incentive excesses in the private sector and the subsequent political and popular backlashes.

Following the 2008 financial crisis, insiders talked about the near collapse of the American banking system. If that collapse had taken place completely, they said, it would have had a devastating impact on the world monetary systems. Nonetheless, some academics feel that the system saved, is still too vulnerable to be fully declared resuscitated and healthy.

In that general context, citizens, financial experts, economists and political leaders are still looking at this event, although through different lenses. And while professionals from all backgrounds analyze the event by means of technical instruments, ordinary citizens are still witnessing this debacle, unfolding, through the compensation packages used to reward corporate *carpetbaggers*. The effect is clear: people believe more than ever that they have been betrayed by the people they trusted the most. Bankers.

And so today, many view bonus and incentive programs with suspicion. They believe them to be fraudulent, immoral and more importantly unfair to taxpayers who have bailed out so many organizations who failed to ensure good governance. The people, as in "We the people", now believe that greed is at the heart of corporate incentive and bonus programs. They do not accept as true, that these programs were put into place as a vehicle to improve performance. Not anymore.

Oddly enough, this is not a new issue.

HR professionals have been confronted with that compensation topic for the last forty years. Are performance incentives delivering the goods? Are they based on a real desire to improve performance or is it simply another compensation device? Can we label our modern compensation programs as a *greed-based* system?

The time has probably come to take a second look at incentives practices and their value to business and to society.

A Second Look

Mind you, there is nothing wrong with making money and I can't blame anyone for wanting to improve their lot. Making money is a key element of our financial system. To many, money is the ultimate sign of success. However regardless of how we view and understand money, two issues come to mind when wrestling with the pros and cons of incentives programs.

1. Are performance incentives good for business?
2. Are they required in the public sector?

Discussion

Question 1.

Can incentive programs improve performance?

Incentives will never make a good employee work any harder or better or smarter. Good employees are just that: they work smart to reach their companies' objectives as well as their own personal goals. For that to happen, they require good management and a fair and competitive remuneration.

Contrary to popular belief, incentives will not prevail over poor management. Poor management will destroy anything we are trying to build, with or without incentives. Additionally, incentives don't help focus people's attention on the prize: management practices and good leadership will do that alignment, without going through the labyrinth of financial incentives.

Let's remember that these two key elements, good management and competitive remuneration, are critical to a business' success. Incentives, on the other hand, are not that critical. Quite the opposite, unexpected and unwanted consequences have been observed in organizations where incentives were used to improve performance.

Some incentive programs have motivated people to take unreasonable risks with their employers' resources and have thus generated disaster and permanent damage. And where poor leadership is the norm, incentives have been used by management to lessen the sense of unfairness good performers feel towards their own supervisors, unable or unwilling to manage poor performers. In both cases, incentives have a perverse impact on an organization's culture and, their results.

And so, are performance incentives good for business? The answer, for good employees, is no. Good employees do not require incentives to perform well. Good employees want to do a good job most of the time. All they require is a supervisor that will recognize what they do, the tools to do a good job and a competitive compensation.

Question 2.

What about bad or poor performers. Can incentives help them improve?

No, absolutely not! Those employees will not get any better or smarter because there's an incentive at the end of the road. Poor performers perform badly, consistently and often in an irritating way. Most line managers and supervisors know what I'm talking about, unfortunately, poor performers are tolerated! In some circumstances, they are even promoted to higher positions. That's the real issue.

But first let's understand poor performance: most often, poor performance is directly caused by weak management and poor day to day supervision, poor or nonexistent training and most importantly, a failed staffing initiative (i.e. individuals in the wrong job). Poor performance has nothing to do with incentives.

Question 3.

What about hiring the best candidates the market can offer. Can incentives help attract them?

There is a case to be made about appealing to good prospects to join an organization and to stay long enough to make a difference. Top performers will be attracted by a good and competitive "entry package", then again, they will also be attracted by good management, solid reputations in the market and most importantly, good career opportunities and training portability.

Question 4.

Are performance incentives required in the public sector?

No. The same principles that are in play in the private sector apply in the public sector. Attracting good candidates to the public sector also requires a fair pay and good management. Public sector employees don't require any incentives to perform well. The Public Service attracts (or should attract) candidates who aspire to serve the people. Senior public servants are aware that their job profiles are significantly different than say someone wanting to work for a private or for profit organization. Performance incentives in the public sector are a travesty of thought. It is clearly the case where the leadership has given up on showing the way. Money in the way of incentives, especially in the public service, will never take the place of good management.

Question 5.

What about employees in the middle of the performance bell curve?

We are not talking about those employees about to break performance records or lag significantly behind the crowd. We are looking at the average employee. And so, are average employees a good target for incentive programs? I think not. That category of employees represents the norm. Like us, they try to do the best they can, every day. They do their best with average tools, average management practices and average leaders. Improve any of these elements, i.e. tools, management and leadership, and performance will improve. Again we are not talking about money.

Question 6.

What about sharing the fruits of a company's success with employees?

Is that a good idea? Of course it is. However when programs are built to get better performance out of employees with money at the end of the tunnel, the incentives programs will eventually become a fairly important management process, a topic to complain about, and a significant dissatisfaction by-product. Mind you, a good salary and a good manager will do as much good (if not more) than any incentive program built to get employees focused on the right targets and performance improvement. So how does an organization share the fruits of its success with employees? The answer is about investing in the tools employees require to perform their jobs.

Money can be used to cover a gamut of needs found in an organization: training supervisors, developing employee skills, upgrading the work environment and services to employees and their families.

An inefficient use of resources

Why are incentives an inefficient use of an organization's resources? Why do many line managers see more dissatisfaction generated by incentive programs than any other management program?

A little history might be helpful at this point -but please keep in mind that this Position Paper is a subjective point of view about performance incentive programs. This writer does not pretend to present a balanced opinion or an attempt to smooth out the edges on this subject matter. I am trying to make a point with a blunt instrument: main stream HR doctrine on incentive is wrong and it must change.

Think of this document as a starting point to engage, with a Board's HR committee, in a healthy review of compensation systems. These systems have probably run their course and sorely need to be revisited or unplugged.

Before bubbles and e-mails

The late seventies. It was for me my first stirring glimpse into the future. It was also a contrarian's earliest education about incentive programs, by then, populating most organizations.

In the light of today's discreditable behavior by some senior business leaders, filling their pockets with stockholder's money while dilapidating their company's value, a 30 year old reply to a simple question turned out to be a remarkable insight for us today.

That year (1978) was important for it signaled the honing of a contrarian's voice. Mine. In 1978, that's when I met Doctor Frederick Irving Herzberg. In a conference sponsored by the Chamber of Commerce, the then guru of business management gave all two hundred business leaders in attendance, his views about how people function in a work environment, and why they choose to behave one way or the other.

I had previously based my master's dissertation on the famous clinical psychologist's thesis on the Motivation-Hygiene Theory known as the Two Factor Theory of Job Satisfaction. According to Doctor Herzberg, people were influenced by two factors.

The first factor, Satisfaction, was primarily the result of motivator factors. These factors help increase satisfaction but have little effect on dissatisfaction. The second factor, Dissatisfaction, was primarily the result of hygiene factors. These factors, if absent or inadequate, cause dissatisfaction, but their presence or absence has little or no effect on long-term satisfaction. *(Because according to Herzberg money is defined as a hygiene factor, it cannot generate satisfaction)*

Back then, the man was known for having crafted an authoritative business concept on human behavior. He became one of the most influential name in his time. I remember reading his 1968 HBR (Harvard Business Review) publication "One More Time, How Do You Motivate Employees?" over and over again.

When I found out he would be in town, in person, I had to see him. Eventually I got the green light from the President of the company I was working for, and I was allowed to spend ninety five dollars to see him in person. By 1987 Frederick Irving Herzberg had sold more than a million reprints of his HBR article.

He was a consummate showman. A rock star among psychologists and management consultants. I witnessed a man able to captivate everyone's attention on a very serious matter. His presentation was short, barely 45 minutes. He wanted to do more with the audience and he set off to engage us in a personal way. He asked questions, invited us to comment and tried to understand what we believed in.

At one point a senior manager asked Doctor Herzberg what he thought about incentives programs, then called bonus programs. I remember that question because I was shocked by his answer. I wasn't the only one though. His answer stayed with me until today. Why, maybe because I didn't understand it then. Maybe I couldn't. It was without any doubt, counter intuitive and against all I had learned at school and in conferences. It just didn't work for me or the people in attendance.

He said that bonus programs were a sham. He explained that people weren't wired to perform or respond to that kind of reward. Money, he said should be paid up front as payment for services rendered. He said that there was a contract between employees and managers. You do this and I will pay you that!

The room was taken aback. Silenced by a few well chosen words. He smiled at us. He knew even back then that his message would be rejected or misunderstood. I guess he didn't care because he took in another question and changed the subject.

I know today why that encounter with Frederick Herzberg was so important for me. Maybe because he was a hero. A contrarian. Because he went against the grain of then modern management tenets. But mostly because he displayed an elegant intelligence, a confrontational personality and graceful balance between

knowledge, a sense of humor and a respect for others' beliefs. He died in Salt Lake City on January 18, 2000.

A few years later, when I was assigned to reorganize my employer's compensation and incentive programs, I remembered once again what Herzberg had said to us about those programs and their unexpected effects on employee behavior. I needed help. I couldn't reconcile my employer's needs with a slow growing belief of mine that something was inherently wrong with incentive schemes, programs that paid people more money for doing their jobs! Unfortunately I couldn't put my finger on the problem. Not quite yet.

Help

I then called what was then the best compensation consultant in the Western hemisphere. He was based in New-York City. My organization did not, or would not ever allow me to hire a consultant, especially not a New-York firm who would bill us a few hundred dollars an hour plus expenses, some twenty years ago. *So what's a telephone call going to cost me?* I asked naively.

To make a long story short, my boss and colleagues agreed to have him over for a short meeting. My colleagues showed a great deal of interest in finding out what this famous New Yorker could teach us about compensation and incentive programs. An hour into our meeting, my boss asked him what he understood by the terms *management compensation and incentive programs*.

His answer surprised us all.

"Management compensation is a euphemism for management *greed*. Nothing more," he said quietly. "There's nothing wrong with greed," he added, "but you do have to understand it for what it really is. It's greed." He too smiled at us.

This was only the second time someone was telling us that whatever logic used to explain incentive programs, that something was definitely not kosher with them. One was talking about unexpected results while the latter described it as greed. Greed, a desire for the pursuit of money, personal wealth and power. There was no talk about performance or improvement.

Our New-York consultant believed that greed was a vice, for most people, one of the seven deadly sins. And when he smiled at us, he did so because he was, in effect, telling us a secret he wasn't really allowed to share with outsiders. This was about a great fib in business. As it happens, the lie is about incentive programs. The fib grew to become a business tenet. A fact. A belief that needn't be justified anymore because it had transcended the notion of program, or concept or fad. It had become a self sustaining truth.

Beliefs

Four elements come to mind when I review my beliefs about incentive programs.

1. Incentives push people to go beyond their comfort levels. Beyond what they would do if it was their own money in play. Beyond what could be acceptable under normal circumstances. Often, beyond legal, moral or good business sense.
2. Push behaviors motivated by money (greed), not the will to perform, generate perverse and unexpected outcomes.
3. Weak and failed management practices are probably the single most important factor responsible for poor performance. Its corollary, good management, is the single most important factor to explain good and superior performance in organizations.

4. No incentive package can ever do the job or take the place of good management and fair compensation. We just can't delegate that management responsibility to systems and programs. It doesn't work that way.

"One More Time, How Do You Motivate Employees?"

Here are a few suggestions to improve performance:

1. Get rid of incentive programs. Pay people what they deserve. Ensure the compensation is competitive.
2. Manage employees well. Manage your resources as if they were priceless. Get rid of poor performers.
3. Focus on your customers.
4. Train and provide employees with the tools they need to do a fantastic job.
5. Make sure they can innovate and as a result feel good about themselves and the company they work for... at least during the period of time they work for you.
6. Tell them the truth. Business is war. Wars are won in the trenches with courage and intelligence, foresight and innovations.
7. And seriously, focus on your customers.

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