

Variable Pay: A reflection to the contrary.

I have been a C&B professional during the early part of my career and have been designing and re-designing Pay for Performance plans for my employers.

Ironically, I have hardly seen a plan that has delivered the goods. It has piqued my curiosity to know.

Do incentive plans work?

In my reflection of this issue, I have dipped into my experience as well as some secondary research that I came across on the internet.



The carrot and stick approach has been one of the oldest methods of getting people to obey or comply. In that sense, it does work to build compliance or obedience.

However, I am yet to see incentives do what they are primarily designed to do, drive sustainable behavior change.

Do such extrinsic motivators shift beliefs or even bring about commitment to the cause or to action?

If you reflect upon childhood, you will get in touch with what “treats” or “sticks” did. A child complied temporarily till the reward or threat existed, at the moment that it was not there, reverted to the original behavior.

It is difficult to answer the question “Do incentives work?” because we have been conditioned on a steady diet of “*Do this and you will get that*”. We mistake compliance for motivation.

I have come to believe that variable pay or Performance Linked Incentive (PLI) programs, cause more long-term damage than benefits for the organization. They breed a culture of mediocrity and compliance rather than allow rooms for excellence, creativity and innovative mindset. They bootstrap the organization myopically to the short term.

- **“Pay is not a motivator”**

There is truth in Deming’s statement. Pay is not a motivator. Also, on engagement surveys and such it ranks fairly below a lot of other variables. Yes, it is essential to pay professionals appropriately and competitively but nowhere does it show that more pay results in more satisfaction or more motivation. As Herzberg states, the inverse is true though, less pay or a pay cut can adversely affect drive and engagement of the individual.

- **Incentives are manipulative**

With incentives we aim to influence behaviour. But instead, we get people to act and behave in a manner that will beget them the pot of gold at the end of the term or task. Its blatant seduction in process, where the person being seduced goes along for the promise of a reward. Conversely, not getting the reward for whatsoever reason has a punitive effect on the employee. It is significantly demoralizing.

- **Collaboration and teamwork**

Incentives have the ability to direct behaviour at the workplace. With that bonus, one is focusing on at the end of the year, one is sure to focus on getting their tasks done. They are going to push the system for their objectives to be met. The focus then shifts from collaborating to ensuring people do what I want them to. This is not a recipe for excellence.

It is not surprising that most of the T&D budgets for organization are spent on “team building”, “alignment”, activities and events which are supposed to foster collaboration, teamwork and co-operation among diverse teams.

It is essential to reflect on the kind of culture we are unconsciously breeding. Do we want to move from collaborating with each other to competing for limited resources? What then happens to the fabric of the organization?

- **Death of Creativity**



"A raise might destroy their initiative. The good old carrot and stick bonus keeps them focused."

The performance pay is meant to make one toe the line that is drawn when deliverables are drawn out. So that's what is supposed to get done. One can argue saying "lots of creativity can be drummed up while doing the role", sure it can! But one won't venture out of the box when it is known that it will impact a bonus payment at the end of a term.

Knowing that money's at stake does not motivate people to explore, engage their curiosity or try new things. It only drives them to comply and continue to do things "*the way they are supposed to be done*".

- **Undermine intrinsic motivation**

People who do excellent work, do not do it because there is a reward waiting at the end. It can be presumed (and this is corroborated by many) that they do it out of passion for the craft, need to learn and grow and somewhere make a difference in the scheme of things (amongst many other intrinsic reasons).

We use reward programs to attract 'top talent'. Organisations must introspect deeply about this practice. What kind of talent are we attracting simply by the lure of more money wrapped up in flowery language and elaborate words. Are the ones who accept your offer because of promises of big money, the ones you believe will breed excellence for your organisation. Do you still believe that promise of more riches drives excellence?

Rewards undermine intrinsic motivation. It attempts to simplify 'why' people would stretch and excel. This attempt for simplification is a need felt by the organization when it finds itself unwilling to look deeper to be able to engage its people.

- **Line of sight**

The only instance I have seen where variable pay enables more 'productivity' is when it incentivises the single, linear task of selling or making. Workers produce more when they know that a certain number will earn a certain sum within a 'conceivable' length of time. Similarly, salespersons know that if they sell a certain number or achieve a revenue target, they will earn an incentive.

But then again, it only drives execution of transactions repeatedly.

Also, it is linear because it does not account for any other qualitative aspects. Ignoring other key aspects about production or sales are detrimental to the health of the business.

- **It promotes risky behaviour**

We have all been privy to the financial crisis of 2008. What, if not exorbitant bonuses, drove executives to maneuver highly risky deals for quick financial gains? It was simply the lure of obnoxious rewards that drove people to make selfish decisions and jeopardise economies. There has been enough and more talk about effect of short term and long-term bonuses in the financial world.

- **Volatile future**

In today's unpredictable environment, we expect business leadership to make plans at the beginning of the year and stick to them to achieve some perceived outcome. Even more absurd is the need to get the leadership to commit to 3-5 year strategies. In effect, we end up with elaborate plans but with myopic metrics that are prone to manipulation or then only address growth in an unsustainable and unilateral manner.

When the immediate future is in flux, the need must be to explore the unexplored rather than to incentivize compliance to a plan which is doomed to obsolescence as the minutes tick on by.

- **Breeds malpractices**

There have been enough and more cases where books are cooked, number manipulated, sales numbers misreported, all in order to project end numbers to be what they ought to be. Having almost 30%-50% of your pay hinged on achieving some numbers may not be a great thing to do considering the kind of behavior outcomes we experience.

We make it attractive to game the matrices for purpose of a lofty payout. "Stretch-goals" simply add to the levels at which the game can be played.

- **Measurement is flawed**

Matrices that are designed to ascertain payout are flawed. Senior management and leadership roles are too complex and are required to deal with too many variables (all which cannot be quantified) in order to perform. When we try to single out variables which we believe are indicators of payout, we invariably leave out the ones which are not. By design we determine what is less important, simply because it is not rewarded.

There is abundant evidence that shows that managers start behaving differently when a large portion of their pay depends on a certain kind of performance. One has to be mindful in such cases, about whether that is the kind of behavior that is required and whether it is sustainable.

Conclusively

Pay for performance programs have proliferated as a substitute to the harder (and more meaningful) task of keeping people engaged with work that applies their skills, challenging them to do better, providing opportunities for learning and growth and importantly fulfilment in a purpose towards which they apply themselves.

If you look closely at the evidence of excellence within your organization and speak to those that have excelled at what they do, it is not difficult to understand that their (PLI) had perhaps nothing to do with it.

References:

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