When an Incentive Isn’t

An Addictive Motivator that Works Too Well

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Quests to determine the truth about the difficulties of systemic organizational change begin with questions. We wonder what the problem is with our organizations. Why does almost everyone, including the CEOs who have the most to lose, feel that change is needed? What kind of organizations do we all want (need) to end up with? And what kind of leadership is required to effect this change actually and successfully? Even though the “new science” teaches us that organizations are dynamic living systems (Capra, 1982, 1996; Daft & Lengel, 1998; McKelvey et al., 1999; Senge, 1990; Senge et al., 1999; Wheatley, 1999; Wheatley & Kellner-Rogers, 1996; Zohar, 1997), why do we insist on treating them like machines and attempting to “operate” the people in them (Meyerson, 1999)?

It is not acceptable to say that there are no answers to questions like these. There are answers! And it is our responsibility, as organizational leaders, to find them. When we find them, we must experiment with them, verify them, and implement them. That is what we have tried to do in this article.

We do not propose that the ideas we present here are the Answer or the Truth. We do not suggest that we are the original discoverers of these ideas. Rather, we present our observations as employees in organizations. We have worked in government, non-profit, for-profit, and educational organizations. We have observed a near total absence of any organizational instantiation of these ideas in the places we have done our work. This article is written from our personal experiences, and only then validated against our review of existing literature. We realized in retrospect that our interpretation draws heavily on the thinking of giants such as Maslow and McGregor, which has become part of the everyday business culture, in myth if not in method.

This is one interpretation of a system that we have experienced and observed (Holstein & Gubrium, 1998). Thus, we tell a story that serves to organize our experience, interpret events that we observed or experienced, and create meaning for us (Ben-Ari, 1995). Perhaps you will see your own story in ours (Clandinin & Connelly, 1989).

While pondering the questions associated with our quest, one of the authors wrote a poem. That seems a good place to begin the story...

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The Tournament Lists

Though we’ve hardly gotten settled at the marble boardroom table,
(Slyly masked by chair adjustments as much as we are able),
Already there’s a subtle shift, a drifting back away,
Dodging the vicinity of the messenger who must pay.
This is why we neatly stack our graphs with pretty labels,
Reports of project milestones, sundry fabricated fables.
We have personal obligations, our payments and day cares.
And any errant protocol could trip the deadly snares.
The boss begins the combat, target squarely in his sight.
His super-vision watches as we wait to prove who’s right.
Is it any wonder why we cower in these chairs,
When the fluttering little pink-slips kill us unawares?
(Goodhue, 1999)
THE PROBLEM OF ORGANIZATIONAL CHANGE

Most employees will recognize that marble table. The poem reflects the dangerous arena in which we find ourselves when we return from our books and seminars on how to change organizations. Wheatley and Kellner-Rogers (1996: 94) observe:

> After so many years of … searching for better controls, we sit exhausted in the unyielding structures of organization we’ve created, wondering

what happened … Trying to get these structures to change becomes the challenge of our lives. We draw their futures and design them into clearly better forms. We push them, we prod them. We try fear, we try enticement. We collect tools, we study techniques. We use everything we know and end up nowhere. What happened?

A review of The Dance of Change by Peter Senge, one of the prophets of the recent change movement (Senge et al., 1999), sheds some light on why, 10 years later, “learning organizations” are still the exception rather than the rule:

> But that movement hit a few speed bumps. People who adopted the themes and practices of The Fifth Discipline sometimes found themselves frustrated by the challenge of bringing about effective change—and sometimes found themselves out of work for trying. (Weber, 1999: 180)

Trying to change our organizations appears to be a blood sport. “Kill the messenger who brings bad news” is covertly or openly practiced almost everywhere (Gould, 1986). There is a too frequently observed (and admittedly cynical) sequence of organizational problem resolution:

1. What problem?
2. That’s not really a problem.
3. Your (constant) complaining is the problem.
4. We used to have a problem, but he’s no longer with us.

Employees learn very quickly that most bosses hate surprises. A typical response is: “Why didn’t you see this coming?” Unfortunately, the chaos of reality loves surprises and provides them in abundance. This forces the employee into a survival dilemma that is normally resolved by fixing the problem “privately,” with no help or resources from the boss, or by hiding it (where it can fester unhindered) for as long as possible. It also fosters a sense of “learned helplessness”: as employees’ efforts to take control are met with resistance or even punishment, they are rewarded for hiding the problem or fixing it quietly (Watkins & Marsick, 1993).

It is not necessary to continue this litany of dysfunctionalities. Anyone could easily add many more observations. One obvious conclusion from all of this is that the bosses are the problem. Even as wise a man as W. Edwards Deming, one of the fathers of the quality movement, felt that “management” was the problem (Deming, 1994: 16). We argue that this obvious conclusion is wrong. It is this wrongness that is the very source of the intractability of our forever unsatisfied need for organizational “reengineering.” “Sometimes the easy or familiar solution is not only ineffective; sometimes it is addictive and dangerous” (Senge, 1990: 61).

One direct way to demonstrate the wrongness of the conclusion is to imagine the possible resulting solutions. We could get rid of bosses entirely. Or we could somehow condition them to be “nice” to employees, for example welcome bad news, not blame people for mistakes, admit their own bad calls, use performance reviews constructively, and so on.

Any move in the direction of eliminating the bosses faces the obvious objection by stockholders (or stakeholders) that the productive use of their capital would be unsupervised. Leaderless teams seem to be effective only up to some modest size (Katzenbach & Smith, 1993). The idea of replacing all workers with “self-directed” boss types results in an organization with all bosses. The stockholders’ capital would be well supervised, but probably not very productive. (What is the sound of an all-conductor orchestra?)
A more historical demonstration of the folly of doing away with bosses can be found in the experiment of the First World War revolution-era Russian army, which virtually eliminated the officer corps. The result was as would be expected: ineffectiveness in battle, desertion problems, and of course defeat. Communism or not, in the Second World War the Russian army had plenty of (competent) generals and other officers.

There is the apparent large organization counter-example of the efficiencies and increased profits (at least in the short term) that have recently resulted from downsizing away several layers of middle managers (little bosses). That three or four layers of bosses seems better than seven or eight does not prove that zero layers is best. By that same argument, a 500 lb person should diet away all 500 lbs!

Even Maslow (1998) observes that some people prefer to lead and some people (those who operate at relatively lower levels of need) prefer to follow.

So if it is not such a good idea to get rid of bosses to solve the problem, maybe we should “fix” them. Sensitivity training, empowerment (loosening the reins), open door policies, and one-minute praisings have all had their day. But most bosses still hate surprises, still punish their workers for pointing out bad news, and still care more about the numbers than either the employees or the customers (Meyerson, 1998). Manipulation has helped us to create organizational structures in which:

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**We try to engineer human contribution. We set clear expectations for performance. We then ask people to conform to our predictions about their contribution. We freeze them into their functions.** (Wheatley & Kellner-Rogers, 1996: 40)

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In the western world we like quantitative measurements, almost to the exclusion of qualitative ones (Senge et al., 1999). We believe that the numbers tell the story of the organization’s success (or not). If the numbers look good (i.e., profitability and productivity figures), the organization must be doing well.

The questions return: Why, after so many years of searching for better controls, do “we sit exhausted in the unyielding structures of organization that we have created, wondering what happened” (Wheatley & Kellner-Rogers, 1996)? Why, after the bosses have been seminared and executive-book-of-the-monthed, does manipulation still drive the relationship between subordinates and their bosses (Zohar, 1997)?

Perhaps little alarm bells should be ringing in our minds right here. We are well reminded that a persistent problem, with a history of being analyzed, badgered, and “consultanted” to no avail, may be the result of system behavior (Block, 1993; Capra, 1982, 1996; Senge, 1990; Senge et al., 1994, 1999; Wheatley, 1999; Wheatley & Kellner-Rogers, 1996; Zohar, 1997). If organizations are not machines, the people in them are not operable parts, and the integrity of the whole must be maintained, eliminating or “fixing” the bosses is probably not going to improve the system. Perhaps our difficulties arise because we are trying to change our organizations while leaving some underlying system unaddressed (Forrester, 1975). If the obvious solution is not the answer, then we must turn to discovering the leverage point: an intervention that will, with a minimum of effort, lead to lasting and significant improvement in the system (Senge, 1990). We begin the search for leverage by examining this underlying system.

**THE UNDERLYING SYSTEM**

There is a known system archetype that seems to parallel the “boss” behavior that we have just described. Senge et al. (1994) call it “Shifting the Burden with Addiction.” Incentives (rewards meant to motivate employees) are commonly used to improve productivity and thus increase the organization’s profits. In the habits of our thoughts, we believe that the solution is near the problem, so if productivity is down, create an incentive to crank it up (McKelvey et al., 1999). The danger is that when a company uses incentives to increase its productivity in some area, there may also be side effects.

One of these is the increasing dependency on incentives (which are extrinsic motivators; McGregor, 1985) and decreasing attention to such intrinsic motivators as metaneeds (Maslow, 1998) and the subtle forces (Daft & Lengel, 1998) of trust and shared vision. Another side effect is that incentives are effective in directing employee efforts, both toward the particular activity measured and away from any others. The employees will concentrate on what they are being rewarded to do (Lawler, 1981). This neglect of some other areas will probably have a slow but eventually negative effect on overall productivity, simply because the organization is an interconnected whole. Changes in one part of the organization will affect the rest of it, not always positively (von Bertalanffy, 1975; Forrester, 1990). The difficulty becomes apparent when the eventually lowered productivity is responded to by creating more incentives, invoking the same cycle that originally caused the problem. Maira and Smith (1999: 412) observe that “misalignments abound” when it comes to measures and incentives in organizations.

**HOW THE UNDERLYING BOSS-CORRUPTING SYSTEM WORKS**

Many organizations strive to be a lean, mean machine: Their goal is to generate maximum short-term revenue with minimum expense. Operating under this mental model, we are interested in directing the employees so that they will focus on their job...
and energizing them so that they will be productive (McKelvey et al., 1999; Maira & Smith, 1999). As discussed earlier, we rely on quantitative measurements to tell us how well the organization is doing. Management accounting goes to great lengths to measure revenue, profit, and their antecedent, productivity, usually converting these into financial numbers. When such a number doesn’t reach its predefined target, management must act to correct the “variance” (Drucker, 1974).

The strategies available may all be viewed as different forms of “add resources to the process.” The resource could be a better machine, better marketing, more workers, a more efficient method, more time, or just “more effort.” The least expensive and most readily available of these is more effort.

More effort is easily obtained by “motivating” the employees to work harder, or longer, or smarter. In the times of the galley slave, the drummer was simply ordered to increase the pace. The slaves rowed faster or were whipped. In our humane age, management has replaced the whip with a more positive (and legal) motivator—conditional incentive pay.

Incentive pay works better than the whip, not utterly breaking the spirit of the employees. It does, however, have a “spiritual” cost (Maslow, 1998). The employees are constantly reminded, by their own efforts, that they are “doing it for the money.” This attitude is usually detrimental to “pride of craft” (Maslow, 1971; interestingly, a term not often heard now). Feelings of loyalty (the absence of which is lamented in recent times) are also eroded by “doing it for the money”. Loss of pride and loyalty may reveal themselves in what could be called “sullen compliance,” productivity without heart, merely going through the motions. Certainly pride and loyalty are some of the subtle forces (Daft & Lengel, 1998) that would otherwise be of service to the organization that is aware of the “new science.” And sullen employees are by definition not very eager to share the organization’s vision (Senge, 1990; Senge et al., 1994) or contribute to it.

There is also a more direct cost to the employer. When employees are paid extra specifically to produce certain measured results, they will naturally tend to concentrate on those results, to the relative exclusion of other “non-paid” results (Lawler, 1981; Maira & Smith, 1999). If the organization has forgotten to incentivize some measure or activity that is important (directly or indirectly) to its overall operation, employees will tend to forget about that. On the other hand, if the organization has managed to remember and incentivize everything to which the employees should attend, their incentive plan will become so complex that it will require differential calculus to maximize. Engineering and MBA-type employees will spend considerable computer time using some form of expectancy theory (Vroom, 1964; Lawler, 1981) calculating their precise activities and the resulting bonuses. Many other employees may find this mathematical complexity unfathomable and unmotivating. Either way, productivity in some activities must decline from dearth of otherwise available resources.

In most cases, existing customers (however defined) will eventually begin to notice some deficiencies in the service and consideration that they receive from these highly bonus-focused employees, if only because service and consideration are subtle and cannot be measured as accurately as revenue. After a while—a delay that makes cause-and-effect diagnosis difficult (Forrester, 1981)—these subtle deficiencies add up to a damaged reputation and somewhat increased sales resistance, which may have an adverse effect on sales productivity (and thus revenue). The management accountants will immediately notice any changes in revenue.

Fig. 1: Figure 1

The underlying boss-corrupting system

numbers and so will senior management, who have their own (probably revenue-based) incentive plans. Now we have a case of variance. Management must act. If revenue numbers are down they must be improved, hopefully by the most cost-effective strategy available. Near the top of such a list is more effort by employees. Management feels that employees clearly are not working hard enough to solve the problem under the current incentive plan. They may, however, respond to “better” incentives. A full cycle of the system has been completed and it is ready to operate again.

The system flow diagram in Figure 1 shows this sequence. It is read as a figure eight, starting at any point and going around repeatedly until the organization either wakes up and corrects the system, stagnates (a form of equilibrium), or is overcome by its oscillating productivity and management responses (Forrester, 1990) and ever higher incentive costs (Drucker, 1974). Once or twice around the diagram will make the cause-and-effect relationships obvious, or at least clearer.

In this particular instance of the system archetype, the analog of the addictive substance is “management by incentives.” Why would an organization continue to participate in such a deadly spiral?

This is perhaps because the delay hides the inevitability of the sequence. At first, conditional incentives do increase productivity. Only then, after some delay, do the subtle costs assert themselves: Customers become dissatisfied and resistant; effectiveness begins to decline even while efficiency numbers continue to meet their targets; and then eventually measured productivity
numbers decline. The delay masks the cause-and-effect relationship and gives the impression that the incentives worked, until *something else* went wrong. The next time around the incentives will also work for a while, creating an addiction—the *illusion of dependency*.

Of course, CEOs are victims of the same system. In their case, the system is operated by the chairman and the board. And CEOs are among the most incentivized employees of all. The “boss” also can become corrupted by the system, perhaps tempted to surrender their personal values for the bonus pay that will be theirs if productivity (and therefore profitability) increases for the company. Sometimes even desirable management styles (democratic, supportive, authoritative, and so on) may be “for sale” if the incentive pressure gets high enough. This does not make the “boss” a bad person; this addiction to incentives serves to demonstrate how good people can routinely, systematically, and often unconsciously destroy other good people (Jaworski, 1999).

What makes us susceptible to a system like this? Only our belief that it is based on reality. These beliefs can be surfaced when we examine the Theory X assumptions that are implied by our boss-corrupting system. Without these assumptions, we (bosses) would simply not take the next step around the circle and the system would not work (McGregor, 1985).

In Figure 2 overleaf, the previous system diagram has been overlaid with maps of the assumptions that make its various parts “work.” When clearly stated in plain language, these assumptions have a certain outrageousness about them. There is also, nevertheless, the uncomfortable ring of truth. In order to follow the cycles of the underlying system, the company and its people must buy in to the assumptions. (Of course, for some this is easier than for others.)

As you look at the maps, remember that these assumptions are rarely acknowledged by an organization in any overt way.

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**Fig. 2: Figure 2**

**Assumptions required by the system**

### THE ASSUMPTIONS

- Employees are lazy and must be forced to do their jobs. Management and labor are seen as enemies (McGregor, 1985). This is a pretty unambiguous vote on one side of the great divide in ethics: “Is man inherently evil, requiring coercion to do good; or is man inherently good, requiring aid to avoid doing evil?” It is an assumption based on a lack of faith in the capacity of people to self-organize their work (Wheatley & Kellner-Rogers, 1996; Zohar, 1997).

- Everything that matters can be measured and controlled. Profit is seen as the sole purpose of the business. The stated mission is the sole aim of the organization. The organization leaders understand fully and exactly how it works and why. This is an assumption based on the idea that if we can quantify it, it counts, and if we can’t, it doesn’t.

- Intrinsic motivators are not effective with employees. The employees only care about their pay checks. Any “meaning” or significance that they find in their lives is personal, outside of work (Meyerson, 1998). This is an assumption based on the myth that employees have “personal” and “professional” selves and that when they (we) enter the company door, the “personal” self stays outside (to be reclaimed after work) while the “professional” self enters (Zohar, 1997).

These assumptions are all part of the mental model of competition. The highest score beats the other side. Winning is more important than how you play the game. (If you doubt this, look closely at the faces of the losing players after a game. Or imagine the fate of an employee who loses a big contract.) Only the score matters.

Of course, competition exists between organizations that are competitors (hence the name). But there is no structural requirement for companies to compete with their own employees. It may not even be good business for the “winner.” As we see in the example of the flow of the boss-corrupting system, when the employees lose the competition (by being incentivized into working harder), the company eventually suffers (in productivity and revenue). We would do well to remember that games are not won by the coach merely watching the numbers on the scoreboard change. They are won by the coach watching the action unfold on the field and adjusting the team’s strategy accordingly (Senge, 1999).

To change an organization effectively, in any fundamental way, its underlying system must be changed (von Bertalanffy, 1975; Lawler, 1981; Senge, 1990; Senge *et al.*, 1999). And to do this, the system’s power source, its assumptions, its mental model,
must be changed. In the case of an organization that is operating this boss-corrupting system, the mental model of competition with its own employees must be exchanged with some other mental model, so that some other (hopefully more productive) system can emerge.

AN ALTERNATIVE MENTAL MODEL?

Fortunately there is a potential alternative handy, the very complement of competition, the mental model of cooperation implied by Theory Y (McGregor, 1985) and Theory Z (Maslow, 1998). However, collaborative partnerships are often threatening to competitive cultures: The power dynamics shift (Ellinor & Gerard, 1998). Knowing this, how could this exchange of an organization's mental models be brought about? Heartfelt cooperation cannot be coerced, or taken, or ordered, or bought with money. It is offered, given freely, or in exchange for more subtle forms of compensation. Consider the following "incentives" for engendering cooperation.

Trust, which is often lacking in business precisely because it is not wise to trust a competitor, engenders cooperation. When we exchange fear for trust, information begins to flow (Daft & Lengel, 1998; Wheatley, 1999).

In fear-filled organizations, impervious structures keep materializing. People are considered dangerous. They need to be held apart from one another. But in systems of trust, people are free to create the relationships they need. Trust enables the system to open ... People decide to work with those from whom they had been separate. (Wheatley & Kellner-Rogers, 1996: 83)

When we trust each other, we are more likely to return "gift for gift" (Wheatley, 1999: 133).

Loyalty inspires cooperation. It may now be a rare boss who is worthy of their employees' loyalty, but that is probably due to the very nature of the bosses' Theory X mental model of competition with employees. If "they" are the enemy, what boss or employee would want to deserve or offer loyalty, when it is called treason? Wheatley (1999: 131) suggests that we need leaders, not bosses, and visions that "invite our participation, not policies and procedures that curtail our contribution."

Vigilance for the employees' interests and sensitivity to their difficulties can only help a good employee do better—and a bad employee is bad under any conditions (Maslow, 1998). But such vigilance and sensitivity are the bosses' hands extended in cooperation. Perhaps, after a time, the employees' trust will appear and the handshake will be returned as loyalty. We have only to imagine cooperation for this to become possible.

Integrity is required for cooperation. Lying to employees is clearly not demanded by cooperating with them, as it sometimes is by competing with them. Without the mental model of competition between organization and employees, the bosses have no inherent conflict of interest to challenge their sense of integrity. People respond to those who have the conviction to stand up for their beliefs (Maister, 2001; Wheatley, 1999). This provides the "incentive" for people to bring their own ethical and spiritual values to work, to do and become the best of which they are capable (Block, 1993; Daft & Lengel, 1998).

Courage would be needed, of course, by both bosses and employees. The status quo often involves fear and fierce resistance to even good ideas, good assumptions, good mental models. Only courage, at first perhaps by a few bosses and employees, will be able to promote any real improvement in such stubborn systems. Maira and Smith (1999: 413) call for bold action in redesigning measurement and incentive systems, challenging the redesigners to be "particularly thoughtful about how much formal external control" is really necessary.

Faith is essential. If we come to grips with the concept that we cannot control other living systems, we also realize there is no guarantee that things will work exactly the way we plan them. This calls for faith in the inherent desire of most workers to do well in their jobs for their own subtle and personal reasons (Block, 1993; Daft & Lengel, 1998; McGregor, 1985; Wheatley, 1999; Zohar, 1997). If we believe that, then we go beyond managing subordinates' jobs for efficiency and instead encourage meaningful engagement with their work (Block, 1993; Maslow, 1998; Wheatley, 1999).

Only after these subtle forms of compensation have developed will the organization's worthwhile vision appear to have relevance to employees (Daft & Lengel, 1998; Maister, 2001). Out of loyalty and trust, the employees' own worthwhile visions may merge with the organization's vision. It would be difficult to overstate the dedication and commitment of such a workforce. Wouldn't we rather see people authentically engaged in their work, giving their hearts and minds to it (Norum, 1998), than have people going through the motions to collect their incentive pay? An incentive is not an incentive when it works so well that it opposes organizational change by fragmenting our efforts and cooperation, and corrupting the management effectiveness of the "bosses."

The leverage in the system (Forrester, 1961; Senge, 1990) lies in our willingness to change our assumptions about what motivates us to work (McGregor, 1985). It is the system behavior that is at fault more than the people stuck in the dysfunctional system (Deming, 1994; Jaworski, 1999). In order to give up our dysfunctional seats at that marble table, the chasm of internal competition between "bosses" and employees created by an incentive-based compensation system needs to narrow—significantly. This narrowing can occur through replacing the mental model of competition with that of cooperation. “Life
accepts only partners, not bosses” (Wheatley & Kellner-Rogers, 1996: 97).

Trust, loyalty, vigilance, integrity, courage, and faith are, ironically, the virtues of “nobility”, a word not usually associated with the day-to-day conduct of organizations. Perhaps it is time for this, too, to change.

References


