Companies will benefit from rapid, inexpensive, dramatic improvements in their reward systems from practice of nine principles.

Organizational Rewards:

Practical, Cost-Neutral Alternatives That You May Know, But Don't Practice

STEPHEN KERR

This article is about organizational rewards. It will not suggest how to spend additional money you probably don't have, but it will present some principles that will help you identify cost-neutral alternatives to your organization's current reward practices.

I predict that you will agree with, and probably already know, most of what is presented. Yet, paradoxically, I also predict that if you look into the matter you'll discover that your own organization's reward practices are inconsistent with much of what is presented. Finally, I predict that if you are in a position to do something about it, and do decide to do something about it, you will benefit from rapid, inexpensive, dramatic improvements in your reward systems, and in the levels of effort and motivation of your people.

To some extent, this article is also about the future. Despite often-expressed truisms about the pace, scope, and discontinuous nature of future changes, there are still some fairly predictable things that can be said about information technology; global trade and sources of labor; organizational hiring and outsourcing practices; and demographics and other societal trends, and their likely consequences for the successful implementation of organizational rewards.

Principle 1: Rewards should be the third thing an organization works on; measurements should be the second; clear articulation of desired outcomes should be the first.

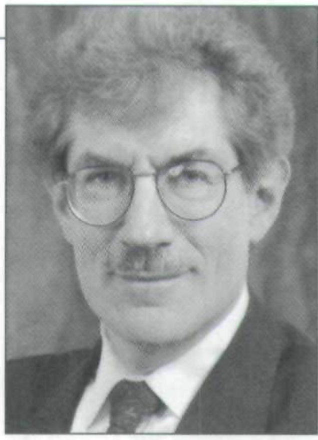
Principle 1A: If you think you have a rewards problem that can't be solved, you're wrong; the problem is with your measurements, because anything that can be measured can be rewarded.

Principle 1B: If you think you have a measurements problem that can't be solved, you're still wrong; you haven't defined and operationalized what you're trying to accomplish.

LINKING REWARDS TO MEASUREMENTS

Rewards are an easy thing to persuade organizations to care about. Reward system consultants are eager to describe any number of exciting new incentive and profit-sharing plans—none of which you have, but all of which your competitors are apparently about to install—followed by an offer to help get your reward system ready for the twenty-first century. Such consultants are usually well received.

Only the most conscientious among them



Steve Kerr is Vice President of Corporate Leadership Development and Chief Learning Officer for General Electric, including responsibility for GE's renowned leadership education center at Crotonville. He was previously on the faculties of Ohio State University, the University of Southern California and the University of Michigan, and was Dean of the Faculty of the USC business school from 1985-1989.

Kerr is a past-president of the Academy of Management, the world's largest association of academicians in management. His writings on leadership, "Substitutes for Leadership" and "On the Folly of Rewarding A, While Hoping for B" are among the most cited and reprinted in the management sciences. Among his recent publications are *The Boundaryless Organization* (Jossey-Bass, 1995; coauthor); "Risky Business: The New Pay Game" (*Fortune*, July 22, 1996), and *Ultimate Rewards* (Harvard Business School Press, 1997; editor).

Recent interviews with Kerr have been published in *Fortune* (November 13, 1995), *The New York Times* (February 4, 1996), *Forbes ASAP* (March 10, 1996), *Organizational Dynamics* (Spring 1996), *Index Review* (3rd Quarter 1996), *Investor's Business Daily* (November 19, 1996), *Human Resource Executive* (February 1997), *Organization Science* (May-June 1997), and *Intranet* (August 1997). He has also appeared on ABC, CBS, CNN, NBC, PBS, and cable and local (Los Angeles) TV.

will tell you that you shouldn't upgrade your reward system until your measurements are reliable. These consultants are usually not well received because, if your organization is typical: (a) you've already revised your performance management/ assessment/ appraisal systems more than once in recent years; (b) people seem to hate the new system about as much as they hated the ones before; so (c) nobody is interested in suffering through yet another revision of measurements. Nevertheless, it is essential that measurements be reviewed, and refined if necessary, before tinkering with the reward system.

Here's an illustration of what starting at the wrong end—with the reward system—can do. For many years, one of the world's largest insurance companies had a mediocre system of rewards and measurements, of which one element was that high performers received very small annual salary increases, and people whose performance was unsatisfactory got nearly as much. Fortunately, the poor measurements did not induce employees to behave in dysfunctional ways: The rewards were too insignificant. Unfortunately, the firm decided to improve its reward system before attending to measurements and thus succeeded in making its rewards more powerful and attractive. This hurt rather than helped the company. Many employees established suboptimal priorities and began to engage in dysfunctional competition and to play games with the numbers: It was now important to look good on the (still bad) measurements.

As another example, you may recall that early in President Jimmy Carter's term of office, he decided it would be a good idea to install a merit pay system in the Federal Civil Service. On the other hand, you're forgiven if you don't recall this bit of Americana because the idea went nowhere—not because it was a bad idea but because it immediately became apparent that no measurements existed to determine which Civil Service employees were performing meritoriously. President Carter didn't break the measurement system; they're never was one.

In general, measurements should be thought of as comprising the base of a pedestal whose job it is to support the weight

HOW TO OPERATIONALIZE A MISSION OR AN INITIATIVE

In GE's leadership center, Crotonville, we make frequent use of an exercise based on a valuable concept that has become known by many names over the years, including visualization; backward imaging; and most recently by Covey, "starting with the end in mind." We ask our students to imagine themselves at a party six months or a year from now, the purpose of which is to celebrate the achievement of some mission or corporate initiative. We ask them to describe, in very specific terms, how their leaders', peers', and subordinates' behavior has changed—what they are actually doing more of and less of—in the future compared to now. We use this process to ensure that our vision and mission statements are operational, rather than being merely sweet words or numbers. This makes it possible to determine whether we have true buy-in, and enables us to articulate roles and responsibilities for all employees in support of the mission.

We then test whether the behaviors we have identified are currently measured. For those that aren't, we devise measures, because we know that any behavior that isn't measured can't be systematically rewarded, which means there's a great chance it won't occur. Through exercises such as these, we learned in GE that even such "impossible to measure" concepts as empowerment, Work-Out, and boundarylessness could be measured and rewarded, but only after we became sufficiently clear in our own minds what we were trying to achieve. Only then could these concepts be articulated in actionable, operational terms.

of the reward system. The more attractive an organization's rewards, the more weight the measurements will be asked to bear.

LINKING MEASUREMENTS TO DEFINITION

Principle 1B posits that anything that can be defined can be measured. However, this is only true when desired outcomes are defined in operational, actionable terms rather than mere sweet words ("We want to be the best business in the whole wide world") or numbers ("We will become a billion dollar firm by the year 2001").

Although these two examples ("be the best business" and "be a billion dollar business") may seem to reflect very different approaches to articulating a mission or vision, they share three fundamental limitations. First, since it is impossible to oppose statements of this kind, no one will oppose them, making it impossible to distinguish between true and pseudo-buy in. Second, such statements fail to make clear what each employee can do to support the mission. While senior executives will probably figure it out, the real proof that a definition is operational is that supervisors and other low- and mid-level workers understand its implications for their own tasks and responsibilities. If this fails to occur, performance will prove extremely difficult to measure and, therefore, to reward. See the box entitled "How to Operationalize a Mission or an Initiative.") Third, expressed in such general terms, such statements don't differentiate the mission or vision from anybody else's.

By way of illustration, sometimes when I teach in university executive programs, I ask participants to place their organizations' vision or mission statements in a shoebox. I then say, "I'm going to read one of the mission statements. If it's yours, raise your hand." I read the first one and a good number of hands go up, including people from an airline, a pharmaceutical firm, a plumbing supplies company, and the U.S. Coast Guard. If I'm feeling sadistic that day, I also ask participants to estimate the number of senior management hours that went into the statement's preparation. These numbers are often mind boggling—175; 300; 500—yet the statements tend to be so similar that most people can't distinguish their own from others:

If you've operationally defined what you want and still have trouble measuring it, you should employ an excellent tool that is probably already in use somewhere within your organization—360-degree appraisal. This technique enables performance data to be gathered from peers, customers, suppliers, and others who will be impacted if the goal, mission or initiative is accomplished. If none of these people can tell whether you've achieved it (or are progressing toward it; sometimes lead indicators must be identified), then either you really haven't operationally defined it, or you should be asking yourself why you think you want it.

In summary, when a problem seems to be rewards-related, organizations should first ensure that they have operationally defined performance, then ascertain that their measures reflect their definition. They will then be in a position to address their reward system problem—although by then they may realize that the problem wasn't really about rewards at all, and has inadvertently been solved.

Principle 2: If a reward is unavailable, don't try to use it.

Principle 3: If you make people ineligible for a reward, you take away their motivation to strive for it.

AVAILABILITY AND ELIGIBILITY

Having examined the linkages among definition, measurement and reward, let us now consider some of the characteristics of rewards themselves. First let's look at the most basic element of any reward—availability. It should go without saying that if you don't have something, you shouldn't try to use it, but this principle is violated all the time. Organizations with virtually no money to give often spend countless hours rating, ranking, and grading their employees, thereby wasting time, raising expectations, and ultimately dispensing such meager increases that management is embarrassed and employees are disappointed. My point is not that financial rewards aren't valuable; rather, if they aren't available, it's wise to accept that fact and go on to other things—in particular, to greater use of nonfinancial rewards, about which more will be said later.

Rewards are often made unavailable by factors that are beyond anyone's control. (For example, since universities are almost never incorporated, deans normally cannot award stock options.) *Eligibility*, on the other hand, is almost always intentional. Organizations have traditionally sought to motivate newer and lower-level employees to aspire to higher office. Therefore, such attractive rewards as large salaries, profit sharing, deferred compensation, stock grants and options, executive life and liability insurance, estate planning and financial counseling, invitations to meetings in attractive locations, and permission to fly first class or use the company plane, are typically made available only to those who reach the higher organizational levels. Do such reward practices achieve the desired results? In general, yes. Residents and interns work impossible hours to become M.D.s, junior lawyers and accountants do likewise to become partners, assistant professors publish so they won't perish, and Ph.D. students perform many chores that are too depressing to recount here to obtain their doctorates.

However, as we look toward the future, the idea that large numbers of employees should be induced to lust after the top-level jobs is fast becoming counterproductive. Numerous organizations have been delayered and downsized in recent years, leaving them with fewer positions at the higher levels. Consider also the demographic influence of the "baby boomers" and those who followed them. These employees are now at the age—late forties and early fifties—when they might reasonably expect to gain access to higher-level rewards. This circumstance of increasing numbers of mid-level, middle-age employees chasing decreasing numbers of executive positions will create an unhealthy tension that, if unchecked, may produce an entire generation of what has already begun to be labeled the "POPOs"— Passed Over, and Pissed Off.

Two additional factors argue for the principle of eligibility. First, when you make people ineligible for a reward, you take away their motivation to strive for it. For example, in most state lotteries the odds against winning are huge, yet millions of people buy tickets. Now suppose it was announced that people named Smith were ineligible to win; that is, from then on if someone named Smith had the winning number, another number would be drawn. How likely is it that anyone named Smith would buy a ticket? The point is that even though offering people one chance in a million is virtually the same as offering them no chance at all, it generates entirely different mindsets and patterns of behavior. Awarding stock options to even a few previously ineligible employees, for example, or inviting a mere handful of non-executives to the executive retreat, will dramatically alter lower-level employees' perceptions of these rewards, and their motivation to try for them. (However, as mentioned previously, whether such an increase in motivation is beneficial or harmful to the organization will depend on whether desired outcomes are competently defined and measured. Offering stock options to thirty people may cause *thirty thousand* people to wonder why they didn't receive any. That's why it's so important to address definition before measurements, and measurements before rewards.)

Second, when you put people in different categories, you give them a different perspective, a different point of view. In today's increasingly diverse organizations, rallying workers around common priorities and initiatives is hard enough without further subdividing employees into exempt vs. nonexempt, union vs. nonunion, full- vs. part-time, permanent vs. adjunct, tenured vs. nontenured, and other artificial distinctions.

Looking toward the future, organizations that understand the principle of eligibility are beginning to dismantle some of the connections between rewards and hierarchy, to help their employees see that they can reap attractive rewards and have good careers without necessarily reaching the top rungs of the organization ladder. For example, General Electric has sharply expanded its eligibility criteria for stock options, has gone from narrow to wide banding (from 29 pay grades to 6), and is experimenting with such things as knowledge-based pay, dual ladders, and horizontally focused careers, in which employees progress to increasingly central positions within key organizational processes without necessarily moving upward. Some of these techniques will undoubtedly prove more effective than others, but all constitute ways of distributing rewards without relying on hierarchical advancement.

Principle 4: For rewards to be powerful, they must be visible.

VISIBILITY

First and foremost, rewards should be visible to those who receive them. Most rewards are visible to recipients but not all. For example, investigation of its high turnover by a large Detroit firm revealed that people were actually leaving for inferior packages. The problem was that the firm's benefits were described in such actuarial doubletalk that even the recipients had little appreciation of their value. The solution was to create a cartoon booklet that, for the first time, enabled employees to understand how much their benefits were worth.

As another example, some of the employee benefits at a university I once worked for were non-contributory. Since there were no deductions from salary, there used to be no entry on the pay stub to show employees what the university paid each month on employees' behalf. All it took was a simple computer change to make these payments visible.

Ideally, rewards should also be visible to other employees besides the recipient. If a special stock grant is awarded to a high performer, for example, but no one else knows about it, the number of motivated people is somewhere between 0 and 1—not an effective use of organizational resources.

Of all the principles of effective rewards, visibility, particularly where money is involved, is the one most often violated. Other than public sector organizations that are required to do so, almost no firms publicize their disbursement of financial rewards. This is true even though research has shown that when employees are asked how they're doing vis à vis their colleagues, they almost always report being worse off financially than they really are.

The principle of visibility is equally applicable to nonfinancial rewards. Many rewards that have no monetary component—for example, inviting a team to share their ideas with senior management, or recognizing an employee's contributions outside her home unit—are usually much more powerful if they are made public.

Principle 5: If you want someone to perform, you should reward them when they do perform and not when they don't.

Principle 5A: A good reward says thank you for the past, and invigorates the future.

Principle 5B: Most human beings make rotten martyrs.

Principle 5C: Never hurt your high performers.

PERFORMANCE CONTINGENCY

In simplest terms, this principle states that rewards should be based primarily on performance rather than on other factors. Results from numerous field studies and laboratory experiments suggest that, for people to be induced to do things they wouldn't do otherwise, a double-digit increase above base—typically 12-15%—is required. However, in most corporations, barely half this percentage of total compensation is based upon performance. In the not-for-profit sector the figure is usually even lower.

As a quick test of the extent to which financial rewards are performance-contingent in your organization, consider that compensation is determined primarily by three factors: *What* people do (clerk, manager, vice president; assistant professor, full professor, dean), *how long* they've done it, and *how well* they've done it. Now imagine that some outsider is allowed to ask two questions and must then guess how much various employees are earning. Which of these three questions—What job do they have? How long have they done it? How well have they done it?—is least useful in predicting people's pay? In many, many organizations the answer would be "How well," which is inconsistent with the principle of performance contingency.

Distributing rewards without regard for how well people have performed makes little sense in general, and has a particularly negative impact on high performers. Rewards are among the most powerful tools an organization has to thank high performers for past efforts; noncontingent rewards don't do this. Rewards can also play a major role in stimulating future performance; noncontingent rewards don't do this either.

Not only does such a system under-reward your best workers, so it doesn't say thank you for the past, it also fails to invigorate the future, alienating those who are most able to find employment elsewhere.

Although organizations never *intend* to hurt their high performers, the effect of many policies is to do just that. For example, across-the-board budget cuts are taken in stride by the corporate politicians (who build slack into their budgets as a hedge against such cuts) and by inefficient managers (who have so much fat in their operations that there's plenty of room to cut). The real victims are those who run their units in a highly effective manner. Similarly, poor performers usually can enroll in courses, attend seminars, and take vacations whenever they want, whereas high performers are lucky to get an occasional day off when their workloads permit. And, in your organization, who is more likely to be offered financial incentives to retire early? Your best performer, or the person you're happy is leaving?

Principle 6: A long-deferred reward loses most of its power.

TIMELINESS

Making rewards contingent upon performance is unlikely to be effective unless the recipient receives them, or at least is informed that he will receive them *soon* after the action being rewarded. If a rat in a cage pulls a lever, for example, and nine months later (on his anniversary date) a lump of sugar appears, no learning occurs. In the same vein, employees who are required to wait a long time to be rewarded are likely to conclude that they probably won't still be there, or the boss won't be there, or the money won't be there, or something bad will happen in the meantime that will prevent the reward from being received. Even in cases where receipt of the reward is not in doubt, the longer the interval between performance and reward, the less likely it is that the recipient will understand that the two are connected.

One primary cause of untimely rewards is the existence of policies that delay disbursements until an employee's anniversary or some other arbitrary calendar date. Another common cause of delay is the existence of so many sign-offs and one-over-one reviews that by the time the reward is finally approved, no one can remember what it's for. (By way of illustration, in the early days of GE's Work-Out program, a friendly rivalry emerged among the consultants as to who could find the longest trail of approvals required before a reward could be distributed. I found six in one of the businesses I consulted to, but I lost the contest to someone who found *nine*. Not surprisingly, simplifying and rationalizing the approval trails became a priority Work-Out topic in GE.)

Perhaps in the days of tall hierarchies, slow computers and large batch processing, it was cost-effective to require multiple sign-offs and to tie appraisal and reward cycles to predetermined dates, permitting data from many employees to be processed at the same time. Given today's state of information technology, and increasingly in the future, it will be possible, and highly desirable, to more closely connect organizational rewards with the behaviors being rewarded.

Principle 7: The best rewards are those you can take back if necessary.

REVERSIBILITY

One aspect of being human is that, whenever you make a decision, there's a decent chance you've made a bad decision. Consequently, a nice property of any decision is reversibility—being able to undo an outcome you don't like or at least cut your losses and prevent its repetition. In general, reversible mistakes are not overly expensive; irreversible ones can be deadly.

In terms of organizational rewards, undoing an undesired outcome means being able to reclaim a reward that's already been given; e.g., taking back a promotion or a company car. If this is impossible, the next best thing is to reverse the *decision* to give the reward so that the same individual doesn't receive it again.

Some rewards are virtually or literally irreversible. For example, although policy manuals may contain procedures for recapturing base pay, the combined weight of company tradition, endless appeals, and mountains of paperwork usually deters anyone from attempting to do so. Therefore, raising an employee's salary creates an annuity for his or her organizational lifetime. Furthermore, since future increases are normally calculated as a percentage of salary, erroneously increasing someone's pay will tend to become geometrically more expensive over time. That's why reversible compensation by whatever name—bonuses, incentive pay, compensation at risk—is such an attractive alternative. Such rewards are consistent with the principle of performance contingency and, being reversible, don't commit you to future payments unless high performance recurs. Reversible compensation also can serve as a kind of shock absorber, making it possible to reduce payroll without taking out people.

Perhaps the biggest problem with reversible rewards is their tendency to become irreversible over time, by being perceived by recipients as entitlements. Numerous companies have had to scrap or rebuild their gainsharing, profit sharing, or bonus plans because their payouts became so expected that the "bonus" or "incentive" component eventually became just another name for base pay. In one well publicized case, senior management decided to thank the workforce for an excellent year by giving every employee a Christmas turkey. They did the same thing the next year, but when the third year wasn't very good they withheld the turkey, only to encounter great outrage from employees who complained that they were being denied their "traditional" Christmas turkey. In this case, it took only 24 months for a generous gift to be perceived as an entitlement!

While some portion of this phenomenon may be attributable to human nature, organizations sometimes bring this upon themselves, either by avoiding hard decisions and labeling nearly everyone a high performer or by allowing the non-bonus compensation portion to erode to such an extent that only by adding the bonus can the total package be said to be competitive.

Principle 8: Don't underestimate the importance of non-financial rewards.

Principle 8A: Stop using the term "reward and recognition"; it implies that "rewards" refer to money, and "recognition" is all that cute other stuff that organizations do. It is far better to speak about financial and nonfinancial rewards.

Depending on if and when you went to business school, you may recall being taught that "intrinsic" rewards are more important than extrinsic ones: that money is merely a "hygiene factor," not a motivator, and that what human beings truly crave is either "self actualization" or "job enrichment" but certainly not anything as crass as money.

That isn't my message. To me the evidence is clear that money is, potentially, a wonderful reward. Nobody refuses it, nobody returns it, and people who have more than they could ever use do dreadful things to get more. When financial rewards are distributed in ways consistent with the principles we've been discussing, you purchase motivation and energy to pursue organizational objectives; that's a good investment.

The trouble with money, as noted throughout this article, is that it is so often distributed in ways that violate most of the principles. When this occurs, you haven't purchased motivation, energy, or anything else you can use. Spending money in this case is not an investment, just a foolish expense.

Viewed in this context, the most attractive aspect of nonfinancial rewards is not that they are self-actualizing or intrinsically enriching but that their distribution tends to be consistent with the principles of effective rewards. This makes them more powerful, and therefore of greater use to most organizations, than financial rewards.

To demonstrate this, let's take a fast inventory of some of the principles we've discussed, starting with availability. We noted earlier that financial rewards are necessarily limited, and sometimes are unavailable. On the other hand, nonfinancial rewards are never unavailable, because *you can literally create your own supply*. You can give recognition, or praise, or performance feedback to one individual, then give it to someone else. You can give more freedom, challenge, or responsibility to someone today, then give her more of the same next week.

You can, if you choose, make all your employees (or at least, all your nonunion employees) eligible for nonfinancial rewards. You can also make these rewards visible if you like, and performance-contingent, and you needn't wait for high level sign-offs and anniversary dates, because nonfinancial rewards don't derive from the budget or the boss, and are seldom mentioned in employment contracts and collective bargaining agreements. Furthermore, in comparison with our earlier discussion with respect to increases in pay, if you inadvertently give someone more freedom or challenge than he can handle, you can take it back. Therefore, organizations can be bold and innovative in their use of nonmonetary rewards, because they don't have to live with their mistakes.

Is all of this talk of nonfinancial rewards merely textbook stuff, or does it work in the real world? To answer this question, let me ask you one. What do the following occupations have in common: soldiers and sailors; policemen and firemen; priests and ministers; primary school teachers; registered nurses; rehab therapists; and volunteer workers who raise money for charity? My response is: The financial rewards for doing these jobs are not very high, and the work is not particularly glamorous. Yet the nonfinancial rewards—challenge, responsibility, interesting and meaningful work, etc.—tend to be high, and, not coincidentally, people in these occupations are often highly committed and motivated.

Principle 9: Get peers, subordinates and customers involved in your reward and measurement systems

Another vital aspect of successful reward systems pertains to *who* does the rewarding (and the measuring). In a traditional bureaucracy, this question is easily answered: If you are my hierarchical superior, you do my appraisal and recommend my rewards; if I outrank you, I appraise and reward you. In all organizations, however, opportunities abound for peers, subordinates, customers, and others to contribute to the reward and measurement process.

In one well-publicized example involving appraisal by *peers*, a division within Wells Fargo Corporation distributed Monopoly money to employees, telling them to "award" these funds to whichever fellow employee had been most helpful in enabling the employee making the award to achieve his or her objectives. The company then converted this make-believe currency into real money. For another example of peer-based rewards, you have to look no further than the last World Series or Super Bowl. While the total pool available to the winning and losing teams is based on television revenue and gate receipts, the amount each player receives is determined by his fellow teammates, based on whatever objective and subjective data they deem appropriate. Many other awards (e.g. Nobel Prizes, Academy Awards) are also based on judgments by peers.

Customers can also be heavily involved in the reward and measurement process. Marriott hotels, for example, rely heavily on guest satisfaction surveys when making decisions about rewards, and Northwest Airlines has distributed cash-convertible certificates to its most frequent flyers, inviting them to award these certificates to deserving Northwest employees. As another example, note that baseball's starting All-Star teams are selected by the fans—which is not only an honor, has financial consequences for many players due to incentive clauses in their contract.

Principle 10: All principles have exceptions (except this one).

EXCEPTIONS TO THE PRINCIPLES: VISIBILITY

At the risk of adding a note of confusion, I would like to note that the principles of effective rewards, like most other canons in life, are sometimes worth violating. For example, we argued that visibility adds to the power of rewards. This is always true, but it does not therefore follow that making rewards more visible is always desirable. As previously noted, one key factor ought to be the quality of your measurements. Publicizing the distribution of rewards puts pressure on an organization to say why some people received a bonus, or a promotion, or a trip to Hawaii while others did not. In theory, such pressure is desirable because it catalyzes explanation and debate. In practice, particularly if your measurements are so unreliable as to make decisions indefensible, you may prefer to operate outside the glare of publicity.

Making rewards visible may also be undesirable when the recipient wishes to avoid being singled out for attention, for fear of incurring jealousy or disrupting workgroup harmony. In some cases, recipients may wish to appear to be out of favor with management. I once saw a division vice president, following a successful negotiation, attempt to hug a union representative on the factory floor, only to have the beneficiary-victim angrily wriggle free of the intended embrace. In this case, while a private expression of gratitude by the company officer might have been welcome, public recognition most certainly was not.

TIMELINESS

I once saw a CEO give no more than a perfunctory thank you after receiving a briefing by a mid-level manager, but then telephone her the next day to say "I really appreciated your input yesterday." In this instance, the "theatrical pause" created by permitting time to elapse between the action and the recognition for that action undoubtedly enhanced its value.

PERFORMANCE-CONTINGENCY

To reward their sales force, many firms offer commissions in direct proportion to how much product is sold. Such a practice is consistent with the principle of performance-contingency, but it offers no incentive for high performers to provide assistance to low performers. To provide such an incentive, one large consumer products company dramatically changed the payout formula so that all sales people in the same branch received the same commission, with the size of the pool dependent on sales within that branch. The new system was performance-contingent at the branch level but not from the standpoint of individual high performers This change goes against most of the principles pertaining to performance-contingency. The new system hurts the high performers, and is less effective at thanking them for past performance. However, it may prove to be a *superior* way to invigorate the future because, for the first time, high performers have an incentive to assist low performers. In general, high performers have the most knowledge about how to sell, and also make the most credible role models. If the change doesn't cause the high performers to leave or become alienated, the new system may prove to be superior.

CULTURAL AND NATIONAL DIFFERENCES

Where reward practices are concerned, it is extremely important to be sensitive and pay attention to cultural and national differences. In some cultures, for example, ineligible classes are part of the fabric of society, and it is probably inevitable that reward practices will reflect these societal distinctions. In other cultures, performance-contingent rewards, at least at the individual level, encounter philosophical opposition. A Japanese manager once told me, after my lecture on performance-contingency, that he was *offended* by my remarks: "You shouldn't bribe your children to do their homework, you shouldn't bribe your wife to prepare dinner, and you shouldn't bribe your employees to work for the company."

In still other cultures, opposition to performance-contingent rewards is founded less in philosophy than in economic realities. In countries where marginal tax rates are very high, employees are generally uninterested in financial rewards, preferring leisure time, access to vacation villages, and any perks that don't come with imputed income attached. In these countries the reward principle "availability" definitely refers to after-tax availability.

This does not mean that everything we know about rewards becomes invalid in other settings. However, it does mean that, in the increasingly global business environment of the 21st Century, we must be willing to modify the principles in ways that enable them to provide useful guidelines in different countries and different cultures.

CONCLUSIONS

Let me close with a few optimistic observations. First, I've argued that your organization's reward practices are probably inconsistent with many of the principles we've discussed, so your improvement opportunities are tremendous. Second, I can assure you that your competitors' practices are at least as flawed as your own (since you obviously appreciate the importance of the topic or you wouldn't have read this far.) Therefore, upgrading your rewards can be a very effective way to gain competitive advantage.

Third, 20 years of studying reward systems has convinced me that there is virtually no relationship between the power of rewards and their cost. Throwing additional resources at this problem is not the answer. The key is to modify your present practices so that they become more consistent with the principles that have been discussed.

Fourth, I'll wager that not only do you know and agree with most of the principles discussed, you're probably already doing most of what we've been recommending — at home! When, for example:

- You tell your kids that they can't play outside until their room is clean
- You suggest to the other couple at the *start* of the meal
- that you split the check at the end
- You agree to pay the gardener $25 to do the yard, and another $20 *after* you inspect the yard
- You inform your highly competitive son, who is about to cut the cake, that his sister will select the first piece you're putting into practice many of the principles that have been discussed in this article. Organizations are larger, more heterogeneous, and infinitely more complex—but the principles are the same.